OFFICE BULLETIN

Bulletin No. 25, Revised

HEAD OFFICE

April 19, 1954

SUBJECT: Functional Supervision

Mr. Eliot J. Swan has been appointed Vice President and Cashier and Mr. D. M. Davenport has been appointed an Assistant Cashier. With these changes the functions will be supervised as indicated below:

		DEPARTMENT	FUNCTION
	GENERAL COUNSEL J. A. O'Kane	LAW	Legal
PRESIDENT C.E.Earhart	VICE PRESIDENT E. R. Millard Chief Examiner E. H. Galvin	EXAMINATION	Bank Examination
	VICE PRESIDENT O. P. Wheeler	RESEARCH	Research and Statistical (including Library)
		BOND REDEMPTION	Armed Forces Leave Bonds (Paying Agents Redemptions) U. S. Savings Bonds (Issuing Agents and Statistics Paying Agents Redemptions) Withholding Tax
	VICE PRESIDENT H. F. Slade Asst. Cashier J.L.Barbonchielli	FISCAL	Armed Forces Leave Bonds (Counter Redemption & Doc.Cases) Destruction of U. S. Currency Purchase and Sale of Securities Securities (Custodies) Sec.Led.(except L and R. Coll.) Treasury Issues (Marketable) Treasury Savings Notes Treasury Tax and Loan Accounts U. S. Savings Bonds and Notes (Issue, Reissue, Replacement, Shipping and Vault Custody, Counter Redemption & Doc.Cases)
	Asst. Cashier H. E. Hemmings	DISCOUNT AND CREDIT	Foreign Assets Control Loans, Rediscounts and Accept. Security Loan Regulations Regulation V Financing
	Asst. Cashier D. M. Davenport	PERSONNEL	Provision of Personnel (including Cafeteria and Medical)
	Asst. Vice President R. H.Morrill		Special Assignments
		BUILDING MAINTENANCE	Furniture & Equipment (Maint.) Janitors Provision of Space Telephone Vault Maintenance
FIRST VICE PRESIDENT H.N.Mangels		CASH	Currency and Coin Government Coupons Insurance on Registered Mail Registered Mail and Express
	Asst. Cashier T. W. Barrett	GUARD	Automobile and Armored Car Elevator Operators Protection
		NEW BUILDING OPERATIONS	New Building Construction
		COLLECTION	Noncash Collections
	Asst. Cashier R. C. Milliken	TRANSFER AND TELEGRAPH	Telegraph, Coding Transfer of Funds
		TRANSIT	City Checks Country Checks Government Checks Postal Money Orders Return Items Treasurer's General Account
	VICE PRESIDENT AND CASHIER E. J. Swen	ADMINISTRATIVE SERVICE	Bank and Public Information
		ACCOUNTING	Planning Budgets and Expenditures Capital Stock General Books
	Asst.Cashier A. H. Price	BOOKKEEPING	Insurance(other than Reg.Mail) Member and FRB Accounts Statistical (Banking reports not prepared in Division of Research)
		MAIL AND MESSENGER	Office Boys and Pages Ordinary Mail
		PURCHASING AND FILING	Duplicating(including Stenographic) Filing and Old Records Purchasing and Stock Room
	GENERAL AUDITOR H. Armstrong Asst.Gen.Auditor G. D. Hartlin	AUDITING	Auditing

First Vice President.

12th Federal Reserve DISTRICT

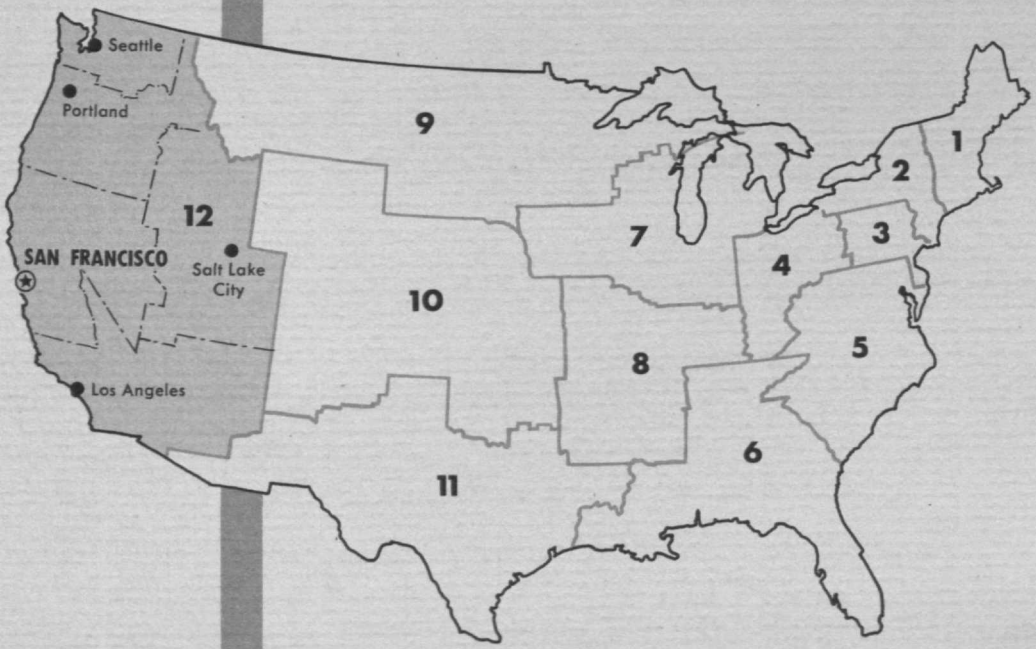
FORTY YEARS 1914–1954

FEDERAL RESERVE BANK OF SAN FRANCISCO
INC. MAY 20, 1914

REPORT AND ANNUAL STATEMENT
FEDERAL RESERVE BANK OF SAN FRANCISCO

FEDERAL RESERVE SYSTEM

BOUNDARIES OF THE FEDERAL RESERVE DISTRICTS



FORTY YEARS

OF FEDERAL RESERVE BANKING

AND THE ECONOMIC GROWTH

OF THE TWELFTH FEDERAL RESERVE DISTRICT

THE year just closed marks the end of four decades of experience with a new idea in banking—the Federal Reserve System. One of the unique features of the System was the establishment of twelve regional banks throughout the United States. This report focuses on one of those regional banks, the Federal Reserve Bank of San Francisco. A review of this experience is worthwhile because it reveals the shared experience of commercial banks which entered together into a quasi-governmental undertaking to improve the efficiency of our monetary system and to decrease those fluctuations in economic activity which result from changes in money and bank credit. Discussion in this report of the accomplishments of the Federal Reserve Bank of San Francisco, then, refers not only to the efforts of personnel of this institution but also to the contribution of the member banks in the Twelfth Federal Reserve District.

A brief report covering forty years is bound to represent a highly selective sorting of material. The number of facts about the growth of the Twelfth District and its banking system are legion; the question is which facts are most relevant as an aid to understanding that growth. It may be impressive, and more in keeping with specialized interests, to indicate that motor vehicle registrations in the District rose from 253,000 in 1915 to over 8,500,000 in 1954, or that crude petroleum output in California rose from less than 100,000 barrels per day to over 300,000 barrels per day during the same period, but there is no way to add these figures together. As a result, comprehensive measures, such as income, employment, and population, are used in this report to give a representative picture of the over-all changes in the economic structure of the District.

Mixed with the straight recounting of the facts is some descriptive and explanatory material. This was considered necessary since commercial banking is a complex business, and central banking is far from simple. The Federal Reserve System and the functions of the Reserve Banks are not perfectly understood by all the public even after forty years. While this report in no way explains the workings and contribution of the entire Federal Reserve System in the United States economy, it is hoped that it will leave the reader with a better understanding of the functioning of the Federal Reserve Bank of San Francisco and the growth of the Twelfth Federal Reserve District.

C. E. EARHART
President

February 15, 1955

THE FEDERAL RESERVE BANK OF SAN FRANCISCO AND THE ECONOMIC GROWTH OF THE TWELFTH DISTRICT

On November 16, 1914, Federal Reserve Banks in twelve major United States cities opened for business, and the Federal Reserve Board (now the Board of Governors of the Federal Reserve System) established its offices in Washington, D. C. As it turned out, these events marked the beginning of the first effective central banking system in the history of the nation. Then, as today, the purpose of the Federal Reserve System was to influence banking and credit conditions in the interest of general economic stability and prosperity. The many years of economic history spotted with bank failures and financial panics which preceded the opening of the Reserve Banks fathered an earnest discussion and debate of the defects in the country's monetary system. That debate culminated in Congressional enactment of the Federal Reserve Act of 1913. Neither debate nor banking problems themselves ended with the opening of the Reserve Banks, however. In fact, during the last decade there has been spirited discussion in business, banking, and Government circles concerning the proper role of the Reserve System in the economy. Few will deny, however, that the opening of the Reserve Banks marked the establishment of a new and important instrument for improving the nation's economic welfare.

In spite of its significance, the beginnings of the Federal Reserve Bank of San Francisco were modest indeed. The Bank's personnel numbered only 21, and they were housed in rented quarters. While the area served, which was designated the Twelfth Federal Reserve District,[1] included 23 percent of the continental United States, it contained less population and produced less income than many other Federal Reserve Districts. Only 6 percent of the nation's population and 5 percent

[1]The Twelfth District consists of California, Oregon, Washington, Idaho, Nevada, Utah, and Arizona, with the exception of five counties in southeastern Arizona. The Federal Reserve Bank of San Francisco also performs a number of services for banks in Hawaii and Alaska, and one of its member banks is located in Alaska.

of its factory workers resided in the area served by this Bank in 1914. The economic importance of the Twelfth District at that time lay mainly in its abundant natural resources—its agricultural land, its forests, its copper, lead and precious metal deposits, its petroleum, and to some degree its climate too—rather than in its manufactures or its trade. Its dependence on the older, industrialized East for investment funds and its characteristic trade of minerals, semi-finished goods, and food products for manufactures made it a "frontier" area of the nation's economy, just as Ohio and Illinois had been a frontier area 75 years earlier, and as the United States itself had been a frontier of the British economy two centuries earlier.

Credit instability prior to 1914

The banking and monetary system of the United States, and the Twelfth District as well, functioned much less smoothly in 1914 than it does today. The system of legal reserves for national banks and the supply of currency lacked responsiveness to seasonal and cyclical changes in the needs of business for credit and till money, and consequently tended to create economic instability. In the absence of a central banking system, bank reserves were concentrated in commercial banks in New York and other monetary centers, since national banks (and many state banks) were permitted to hold part of their legal reserves in national banks in designated cities. This concentration of reserves was further accentuated by the fact that banks in the agricultural areas of the nation were in the habit of sending their surplus funds for deposit to New York and other banking centers in winter, the slack season of agriculture. The effect of these two factors was to pyramid reserves in the monetary centers, since the funds received from outlying banks served not only as part of their own reserves but also as part of the reserves of the large city banks. These additions to the reserves of the banks in New York and other large cities enabled them to expand their loans for the purpose of increasing their earnings. When the country banks withdrew funds to finance the harvesting and marketing of crops, the resulting

drain of reserves from the large city banks often forced them to contract their loans drastically in the absence of well organized facilities for obtaining funds by rediscounting commercial paper. Perennial danger of a business recession was the result of this wide seasonal swing in credit availability.

The inelasticity of the currency supply also tended to accentuate some of the difficulties arising from the lack of flexibility in the bank reserve system. In 1914 and for many years before, the currency supply consisted principally of gold and silver coins, gold certificates, silver certificates, United States notes, and national bank notes. All of these except national bank notes were issued by the Treasurer of the United States, and none was particularly responsive to the fluctuating demands of the public for pocket money. National bank notes were collateralled by specific issues of United States Government securities, and the amount in circulation therefore depended largely on the amount of eligible Government bonds the banks were able to obtain and willing to hold. Over longer periods of time, the supply of bonds was largely a function of the fiscal policy of the United States Government. Periods of business expansion, when more currency was needed to transact the larger volume of business, were frequently accompanied by budget surpluses which the Treasury used to retire Government securities, thereby forcing a contraction in the volume of national bank notes. Under such circumstances, Government bonds carrying the circulation privilege often sold at substantial premiums, which was another factor discouraging the issuance of national bank notes, since it was not possible prior to 1900 to issue notes in excess of 90 percent of the par value of the bonds. To encourage the issue of national bank notes, the law was changed in 1900 authorizing their issuance in amounts equal to the par value of the bonds serving as collateral.

Problems of other types also characterized our banking system prior to 1914. Although the collection of local checks did not present difficulties in most large urban areas, this was not always the case for out-of-town checks. The procedures for the cashing and collecting of checks drawn on out-of-town banks,

together with the widespread though not universal custom of making exchange charges for this service, constituted one of the monetary problems of that period. In the larger cities, local clearing houses provided the means by which the banks within a city could collect with reasonable dispatch those checks they held which were drawn on other banks in the same city. In the absence of any national or regional clearing system, however, the presentation for payment of out-of-town checks often involved circuitous routing, largely in order to avoid exchange charges. In such cases, check collections were neither very easy nor very fast; some checks followed almost unbelievably complicated routes from the time of receipt by the first bank of deposit until presentation to the bank on which they were drawn.

Federal Reserve System established to promote economic stability

The Federal Reserve System was established to remedy these defects in our banking and monetary system and thus contribute to the maintenance of economic stability at high levels of employment and production. The Federal Reserve Act provided for the issuance of Federal Reserve notes, a form of currency that has proved to be responsive to the fluctuating needs of our economy for pocket money. It also eliminated most of the former pyramiding of bank reserves in financial centers by providing for the pooling of reserves of member banks in Reserve Banks, which are not operated for a profit and hence have no incentive to use such reserves solely for the purpose of expanding their earning capacity. The Act also established organized facilities for rediscount of commercial paper and created in the nationwide network of Reserve Banks and branches a speedier system for presenting and collecting checks without undue interference with the correspondent banking system. These contributions to the smooth functioning of our money mechanism, as well as other services performed by the Federal Reserve System, have enabled the commercial banking system to finance business generally with less

risk of periodic difficulty than before the days of the Federal Reserve.

The growth of the Federal Reserve System since 1914 has been impressive. The Federal Reserve Bank of San Francisco has more than kept pace with the rest of the System, rising from sixth to third place among the twelve Reserve Banks in total assets held. The growth of this Bank and its branches resulted not only from the changing role of central banking in our economy, but also from the extraordinarily rapid growth of the far western states in the last four decades. The Twelfth Federal Reserve District today is far from the sparsely populated frontier area it was in 1914. Its population has more than tripled, and the growth of manufacturing industries in the area has made its economic structure somewhat more like that of the eastern states.

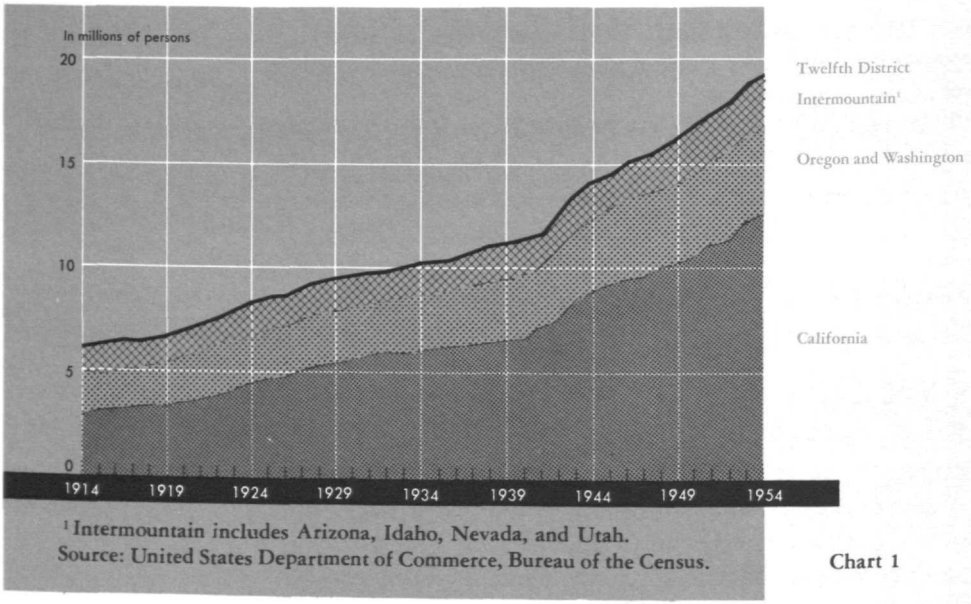
This report will examine the economic rise of the Far West in broad outline. With this outline as a background it will attempt to describe some of the trends in commercial banking in the United States and in the Twelfth District and to relate the over-all development of the District to the growth of the Federal Reserve Bank of San Francisco.

THE GROWTH OF THE TWELFTH DISTRICT ECONOMY

Two comprehensive measures of the economic growth of the Twelfth District are total population and total income. Of the two, only total population is known for as far back as 1914. In that year there were 5,941,000 persons in the Twelfth Federal Reserve District; by 1954, District population had reached 19,045,000 persons (Chart 1). The average annual rate of increase implied by these two figures is 3.0 percent per year, or in the neighborhood of 550,000 persons per year at the 1953 population level. Since substantially more than 550,000 persons were added to the District's population during the year ending July 1, 1954, the District is currently exceeding its forty-year average rate of population growth.

While the District population has been growing at an annual rate of 3.0 percent between 1914 and the present, national population has increased by only 1.2 percent per year during the same period. To find a period when the national rate was as high as 3.0 percent per year, it is necessary to go back to the

Population
Twelfth District
1914-1954



[1] Intermountain includes Arizona, Idaho, Nevada, and Utah.
Source: United States Department of Commerce, Bureau of the Census.

Chart 1

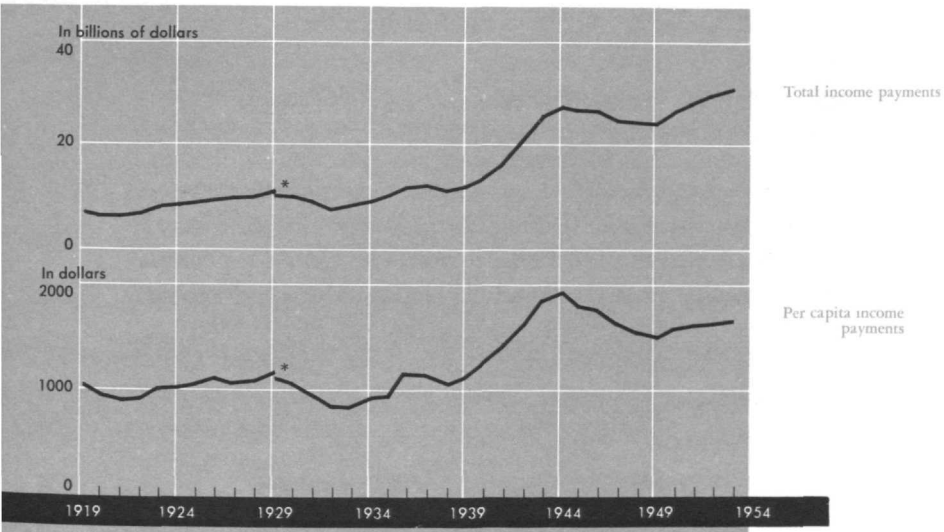
years before the Civil War. In the changing composition of manufacture and in the importance of new construction activity, as well as in the rapid upsurge of population, the District has also been growing in a way similar to that of the nation as a whole during its earlier transition to an industrial economy.

Even more rapid than the rise in population has been the rise in income payments to individuals in terms of the 1947-49

Total and Per Capita Income Payments in 1947-49 Prices[1]

Twelfth District

1919-1953



*Change in series.

[1] For each year, total income payments in 1947-49 prices are equal to the total amount of income payments divided by a consumer price index for that year. The consumer price index used is a weighted average of the Bureau of Labor Statistics Consumer Price Index for 4 large cities in the Twelfth District, with the average index number for the years 1947-49 equal to 100. Per capita income payments in 1947-49 prices are equal to total income payments in 1947-49 prices divided by the total population of the seven Twelfth District states. All of Arizona is included in the income and the population data.

Sources: National Industrial Conference Board and the United States Departments of Commerce and Labor.

Chart 2

price level (Chart 2). Income per person in terms of 1947-49 prices, in other words, has risen since 1919, as a consequence of the growth of the District and as labor-saving devices and the introduction of new products have improved over-all economic efficiency. Both total and per capita income payments (in constant prices) have risen irregularly, however, reaching high points in 1929, 1936, and 1944 and low points in 1921,

1932, 1938, and 1949. During the last decade income payments per capita (in constant prices) have risen at a slower rate in the District than in the nation as a whole. Thus, although the District has been growing much faster than the rest of the nation, there is evidence that in terms of per capita income the rest of the nation has been catching up to the District.

Agriculture holds its own while mining declines in importance

Many of the factors contributing to the District's growth are revealed by studying the industrial composition of District income. A striking feature of that composition, for example, is the fact that since the middle 1920's the value of agricultural

Value of District Farm Output as a Percent of Income Payments

TWELFTH DISTRICT	1924	1940	1950
Crops	6.7	8.8	8.9
Livestock	7.0	6.3	5.8
Total	13.6	15.1	14.7
UNITED STATES			
Crops	11.1	7.6	5.8
Livestock	7.4	12.8	7.4
Total	18.5	20.4	13.2

Sources: United States Departments of Agriculture and Commerce and National Industrial Conference Board.

Table 1

products has grown at just about the same rate as total income payments in the District, whereas in the nation the value of agricultural products has grown much more slowly than income payments, particularly since 1940[1] (Table 1). Agriculture has, in other words, been responsible for substantially more of the District's expansion than of the expansion of the rest of the country. One reason for this difference in behavior

[1] The comparison of *gross* value of farm production with all *net* incomes introduces some difficulties of interpretation, but no better comparison is readily available.

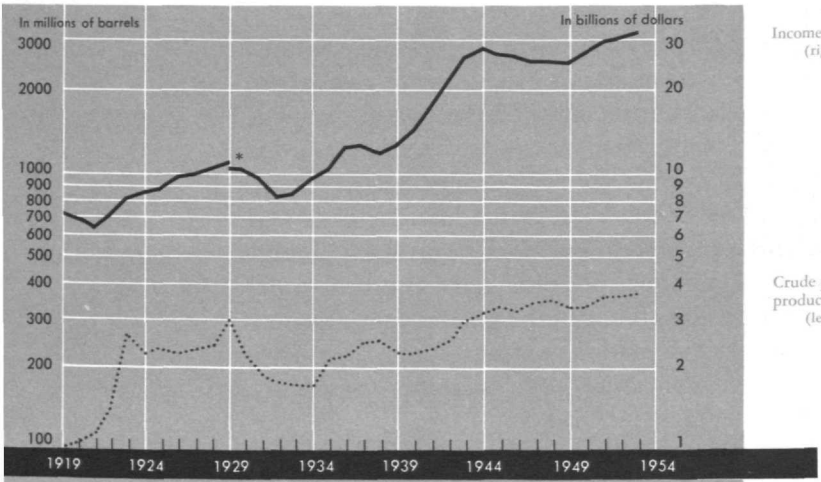
has been California's rapid growth in the raising of citrus fruits and vegetables, particularly before the second World War. Another important factor, especially in recent years, has been the rise of far western cotton farming, made possible by such factors as improved farming techniques, increased use of fertilizers, and extension of the limits of cultivation through irrigation.

The mining industries of the Twelfth District have declined in importance in the total economy. Production of gold, silver, copper, lead, and zinc was proportionately more important as a source of District income forty years ago than it is at present. In 1919 the dollar value of production of these five nonferrous metals amounted to 4.5 percent of District income payments compared with only 1.5 percent in 1953. The products of mining in the rest of the nation, however, have also been a declining fraction of total output, and the District now accounts for about three-fifths of the nation's output of these five metals (measured by value) whereas in 1919 it accounted for slightly less than one half of the nation's output.

Among the individual products of the mining industries, petroleum has contributed most to the value of District economic output since 1914. Until the middle 1920's, California was the leading petroleum producer of all the 48 states, and petroleum production was one of the factors contributing to the rapid upsurge of population and income in the southern half of the state. The value of petroleum production in 1919 amounted to 2.8 percent of income payments in the District, compared with 1.2 percent in the whole country. In California petroleum production was 5.2 percent of income payments in 1919 and rose as high as 6.3 percent in 1923.

Recent years have brought changes to the District's petroleum industry. Although the value of petroleum output from District wells has continued to grow (Chart 3), it has declined somewhat in relative importance and by 1953 represented 2.5 percent of District income payments. More significant, however, is the fact that local demand for petroleum has approached the local supply so rapidly that the level of net oil exports has dwindled from more than 30 percent to less than

Crude Petroleum Production and Income Payments in 1947-49 Prices
Twelfth District
1919-1953



*Change in series.

Note: This chart is plotted on a semi-logarithmic scale on which equal vertical distances represent equal percent changes rather than equal absolute amounts.

Sources: National Industrial Conference Board and the United States Departments of Commerce, Labor, and the Interior.

Chart 3

10 percent of crude oil produced. Natural gas demand in the District has outrun what was once an abundant local supply, and pipelines from Texas, New Mexico, Colorado, and Wyoming now bring more than a billion cubic feet of gas into the District daily.

Manufacturing has developed rapidly

Manufacturing industries of the District, taken as a group, have increased in relative importance from 1919 to the present. "Value added by manufacture" (that is, the total value of

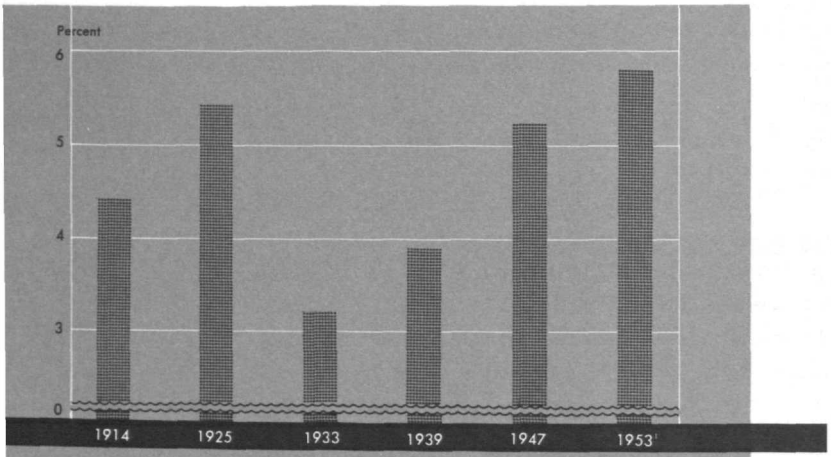
manufactured output minus the cost of raw materials and semi-finished goods purchased from other industries) was 27 percent of District income payments in 1919, and 29 percent in 1952. The year 1919, however, was one of extreme boom for District manufacturing as the shipbuilding industry had swollen the value of output far above the subsequent average for the 1920's. A comparison of the number of wage earners in manufacturing industries with the total population will give a better idea of the magnitude of the growth of manufacturing, since it can be carried back to the years before World War I. In 1914, 4 percent of the population were wage earners in manufacturing industries. By 1919 the percentage had jumped to 7 percent, but it quickly fell back to 5 percent in 1925. In 1939, manufacturing wage earners were again 4 percent of District population, the depression having reduced manufacturing employment especially sharply. Another manufacturing boom during the second World War raised the figure to a very high temporary level in 1943 and 1944 and had enough permanent effect to raise the figure to 5 percent by 1947. Since 1947, the figure has climbed still farther, reaching 6 percent in 1951 (Chart 4).

While manufacturing industries as a group were gaining in importance in the District, the metals and machinery industries were gaining within the manufacturing sector at the expense of the lumber and the food industries. In 1914, the lumber and the furniture industries employed nearly a third of all manufacturing wage earners, but by 1947 less than a fifth of manufacturing wage earners were in those two industries. Among the factors contributing to this change is the sharp decline in the volume of saw timber in the District. In 1913 there were roughly 1,450 billion board feet of saw timber standing in the four states of California, Oregon, Washington, and Idaho. In 1945 only 920 billion board feet remained—a drop of over 30 percent. Other areas of the United States also show large declines in the volume of saw timber, and the percent of manufacturing wage earners in the lumber industry of the nation as a whole has also fallen sharply. In spite of the decline in importance of lumber manufacturing in the Far

Manufacturing Wage Earners as a Percent of District Population

Twelfth District

1914-1953



[1] Estimated.

Sources: United States Department of Commerce, Bureau of the Census and state agencies.

Chart 4

West, therefore, the Twelfth District continues to be one of the centers of the nation's lumber industry.

Food processing has declined in relative importance as a District industry in the last few years, but as late as 1947 it accounted for about the same percent of manufacturing wage earners as in 1914. The District's food processing industry is largely a consequence of the development of modern food preserving methods—the introduction of the machine-made can about 1885, progress in the control of food bacteria in the 1890's, and other innovations. In 1914 it was still a relatively new industry in the West but, nevertheless, was one of the main economic supports for the District's growing population. Employment in the industry relative to total manufacturing

employment continued to grow after 1914, but its proportion has declined markedly since 1939. In 1939, 22.9 percent of manufacturing wage earners were employed by food processors, but by 1953 the figure was less than 15 percent (Table 2).

Composition of Manufacturing

Twelfth District

Selected Years

(Percent of total wage-earners)

INDUSTRY	1914	1939	1947	1953[1]
Food and kindred products	17	23	18	13
Lumber and furniture	32	29	20	19
Metals and machinery	9	13	21	21
Aircraft	0	4	8	16
Other	42	31	33	31

[1] Estimated.

Sources: United States Department of Commerce, Bureau of the Census and state agencies.

Table 2

Among the more rapidly growing District manufacturing industries since 1914 have been the metals and machinery industries. Several factors have hampered the growth of these industries in the Far West, among them the relative scarcity of iron and coal in the Twelfth District, high transportation costs, and a relatively small market. In recent years, however, the growth of the western market, the boost given to capacity in the Far West by wartime needs for greatly increased supplies of metal products, and the development of the District's great hydroelectric power resources, among other factors, have brought about expansion of District metals and machinery industries both in comparison with other District industries and in comparison with the metals and machinery industries of the rest of the nation. Primary metals production is still considerably less important in this District than in national manufacturing, and nonelectrical machinery is also less important in the District; but fabricated metals account for about the same percent of total manufacturing wage earners in the District as in the nation. Electrical machinery output is still rela-

tively less important in the District than in the rest of the nation, but the District has been catching up to the nation very rapidly since 1950.

A unique feature of the District economy in the period since 1914 has been the growth of its aircraft industry. About 40 percent of the value of the nation's aircraft production is concentrated in the District, and aircraft currently accounts for more than 17 percent of the District's manufacturing employment. The industry was nonexistent in 1914; its growth since that time, especially in the last two decades, has been a major factor in drawing population to the District. Originally, the dry, warm weather of southern California, being well suited to test flights at almost any time of the year, was a major factor in attracting the aircraft industry to the West. The southern California climate has also made the construction of airframe assembly plants cheaper than it is in harsher and more variable climates. Aircraft were first produced at Seattle in 1916 and the Pacific Northwest aircraft industry has grown to major proportions since that time. Aircraft production has held fairly steady during the current recession in the nation's economy and has been a major contributor to the greater economic stability during the last year and a half in the District than in the rest of the nation. Aircraft production, like shipbuilding, however, is subject to instability of a different kind. Both are to a large extent war and defense industries and have experienced great expansion and contraction in the District as national military expenditures have risen and fallen.

Trade and service industries continue important

The trade, service, and construction industries have been more important in the District's economy than they have been in the national economy for a number of reasons. Higher per capita income and greater distances between centers of population and industry have stimulated personal and transportation services. The improvement in transportation technology since 1914, in turn, has been very important in making possible the westward movement of industry. The rapid population

growth has kept construction at a higher level here than elsewhere in the nation. Several of the nation's major ports—San Francisco, Los Angeles, Seattle, and Portland—are within the Twelfth District. The import and export trade passing through these coastal cities has made necessary extensive harbor and storage facilities and has attracted wholesale and brokerage firms and other special kinds of service activities. The attraction of a mild climate and of an enormous range of landscapes and scenic wonders have drawn the nation's motion picture industry and a sizable portion of its tourist industry to the District. Finally, District government employment has expanded markedly in recent years. Regional offices of many Federal Government agencies are located on the West Coast, and the large number of military installations in the District require many civilian Government employees.

California has grown most rapidly

Examination of the geographic distribution of economic growth within the District shows that during the last forty years as a whole population has been growing much faster, both absolutely and relatively, in California than in the Pacific Northwest (Oregon and Washington) or in the Intermountain states (Arizona, Idaho, Nevada, and Utah). The latter two regions, with population growing at averages of 1.9 percent and 2.0 percent per year, respectively, are significantly ahead of the national average of 1.2 percent; and since 1945 the populations of Arizona and Nevada have shot up at rates in excess of 4 percent per year. California's rate of growth for the forty-year period has averaged 3.7 percent, more than three times the national average. In no decade since 1790 has the population of the nation as a whole grown at 3.7 percent per year. The locational advantages of the Twelfth District—the existence of large ocean ports, the climate favorable to such diverse pursuits as aircraft manufacturing, fruit and nut raising, and motion picture production, and the other factors mentioned above—draw people and industry to all of the District, but especially to California.

THE GROWTH OF TWELFTH DISTRICT BANKING

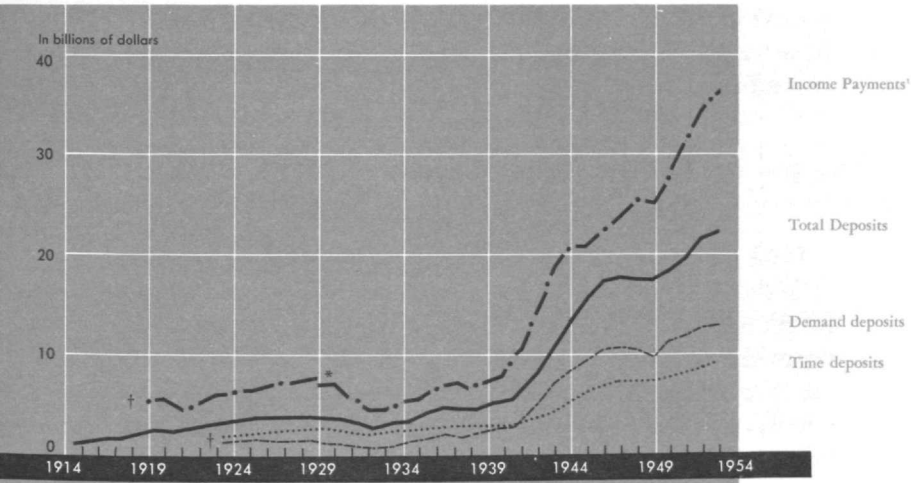
Accompanying the growth of income and population in the Twelfth Federal Reserve District has been the growth of the District's banking system. There has been, in fact, a very close relation between the changes in income payments and changes in bank deposits (Chart 5). This relation is not surprising, since it has been found to exist in many other geographic areas and over intervals of time longer than forty years. Its explanation is relatively simple and lies in the fact that the spending behavior and economic interrelations of individuals and business are fairly stable over the years. Consequently, the proportion of its income the public chooses to hold in the form of deposits and the volume of deposits needed to generate a particular amount of income probably change little from one year to another.

The relation between deposits and income is not, however, completely unchanging, and what change has taken place has been of great importance to the banking system. For both the Twelfth District and the nation, time deposits (savings deposits) have proved more stable than income payments during the last forty years. District time deposits fell less rapidly than income during the Great Depression of 1929-33 (they actually continued to increase from 1929 to 1931) and rose less rapidly during the years of recovery and during World War II. On the average since the 1920's, they have increased at just about the same rate as income payments although, as Chart 5 shows, the dollar amount of increase in income payments has been greater than the increase in either time deposits, demand deposits, or total deposits. District demand deposits (checking accounts), in contrast, have increased at a significantly faster rate than income payments since 1924 and have been less stable than income. During the early 1930's demand deposits fell more than income, as the public lost confidence in the solvency of many banks and demanded cash in place of deposits. As the recovery from the depression began, an easy money policy and a restoration of confidence in the banking system caused a faster increase in demand deposits than in income. During

Deposits of All Banks and Income Payments

Twelfth District

1915-1953



*Change in series.

†No data prior to this time.

[1] Income payments in current prices, not deflated by any price index.

Sources: United States Treasury Department, Office of the Comptroller of the Currency; Federal Deposit Insurance Corporation; National Industrial Conference Board; and United States Department of Commerce.

Chart 5

the second World War, the Federal Government's need for funds to carry on the war created an enormous increase in demand deposits, compared both to the growth of income and to the growth of deposits themselves in previous periods. Since the war, the increase in demand deposits has been somewhat slower than the increase in income; the income-deposit ratio in 1953 was about the same as it had been in 1942.

On balance, there has been a net increase in the ratio of District deposits to District income since the 1920's. This trend has also been observed for the United States as a whole not only since the 1920's, but since as far back as 1800. Many factors have

contributed to the trend. Among them are the increasing proportion of people who use bank deposits as well as other banking facilities, the increasing proportion of total output which is exchanged for money rather than consumed at home or bartered, and the increase in per capita income (in constant prices) which has enabled the average person to hold a larger bank balance in reserve for emergency or other unforeseen expenditures.

Banks have not grown so fast as other credit institutions

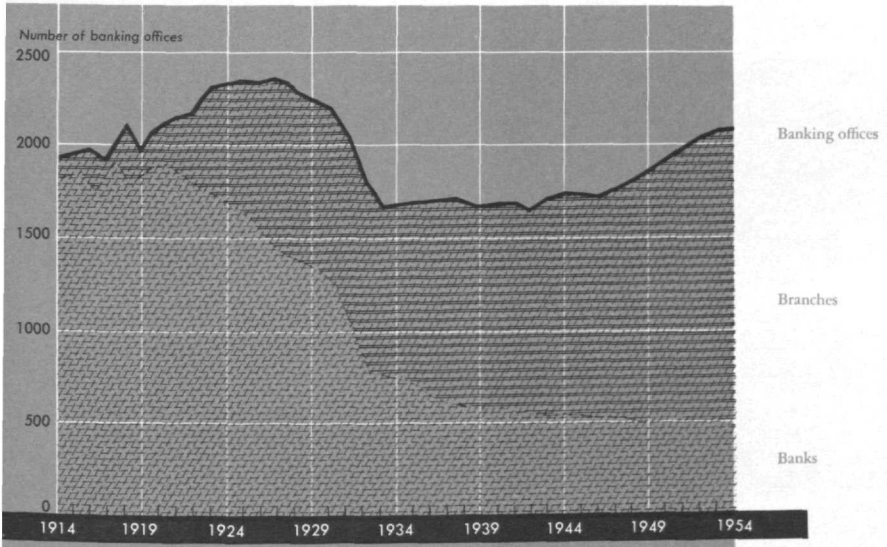
Bank deposits have thus grown at a faster rate than income in both the District and the nation. But it also has been true for the nation that the assets of financial institutions other than commercial banks have grown at a rate even faster than deposits and the other sources of bank assets. Particularly important has been the growth of insurance companies, savings and loan associations, sales finance companies, and public financial agencies such as the Commodity Credit Corporation, the Federal Old-Age and Survivors Insurance Trust Fund, and the various other Government trust funds. Higher per capita incomes have enabled individuals not only to hold increased bank balances as emergency funds, but even more to invest in insurance and in savings and loan associations in order to increase their economic security. And public lending and welfare agencies in the United States as in other countries have risen from insignificance to play an important role in the creation and distribution of income. In the United States and probably in the District as well, banks have declined in importance compared to other lending institutions, even though they have kept pace with the growth in total income.

Growth of branch banking

Within the Twelfth District banking system, there has been a major structural change. The extent of branch banking has increased greatly during the last four decades. Although the

number of banks has declined markedly since the early 1920's, the growth of branch banking has resulted in much less change in the number of banking offices (Chart 6). In 1920, 11 percent of all District banking offices were branches. By 1934, the figure had risen to 55 percent, and 70 percent of all bank assets

The Growth of Branch Banking
Twelfth District
1914-1954



Sources: Board of Governors of the Federal Reserve System and United States Treasury Department, Office of the Comptroller of the Currency.

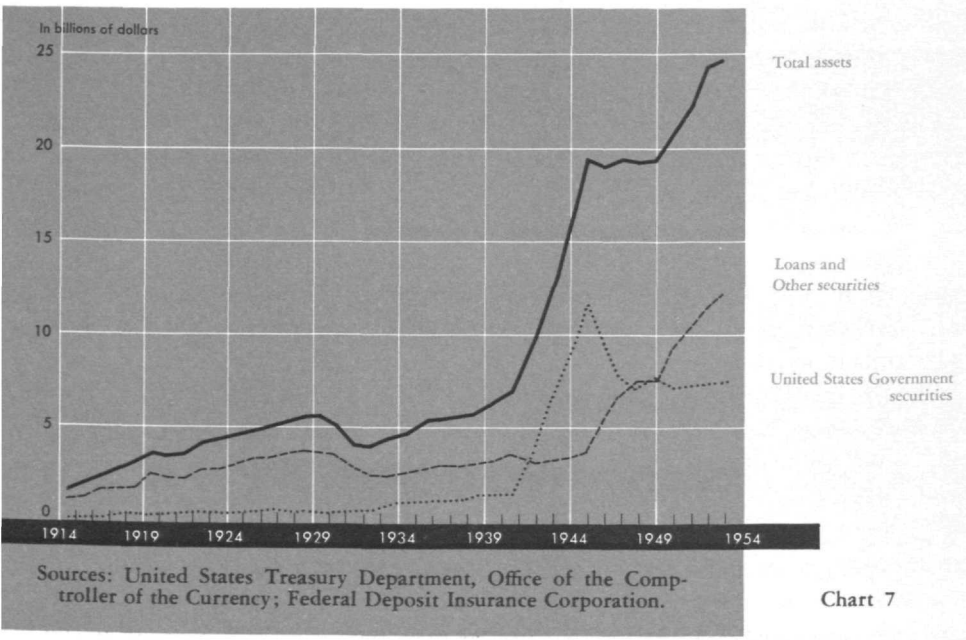
Chart 6

were held by banks which operated one or more branches. By 1953, branches as a percent of all District banking offices had risen still more, to 75 percent; and 88 percent of all bank assets were held by branch banking systems. The nation as a whole, in contrast, has seen no comparable rise of branch banking, reflecting in large part the fact that banking laws of all Twelfth District states are much more permissive than branch banking laws in most of the other states of the Union.

Composition of bank assets has changed

The uses to which bank assets have been put have changed considerably since 1914 (Chart 7). Until 1930, there was no major change in asset composition; but from 1930 until the end of World War II loans and investments in corporate and municipal securities accounted for a sharply declining propor-

Assets of All Banks
Twelfth District
1915-1953



Sources: United States Treasury Department, Office of the Comptroller of the Currency; Federal Deposit Insurance Corporation.

Chart 7

tion of total bank assets. During the depression and the second World War, the declining proportion was counterbalanced by increases in both reserves and United States Government securities. Since 1945, loans and investments in corporate and municipal securities have regained some of their lost ground, while United States Government securities have declined both relatively and in absolute amount. Nevertheless, loans and in-

vestments in other than United States Government securities still comprise a much smaller proportion of total bank assets than in 1915.

Quality of bank services has improved

These trends in the broad aggregates of bank balance sheets are not the only changes of significance in the country's banking and monetary system since 1914. Another type of change, the improvement in the quality of banking services, has also been of great significance. One major change has been in the extent of bank examination provided for by Federal law. Until 1914, the Office of the Comptroller of the Currency was the only Federal agency which included bank examination as an important part of its responsibilities, and it was empowered to examine only national banks. At present, public agencies exercise much more supervision over commercial banks. In addition to the Comptroller's examination of national banks, the Federal Reserve Banks regularly examine state banks which are members of the Federal Reserve System; the Federal Deposit Insurance Corporation examines banks which are not members of the Federal Reserve System but which carry deposit insurance; and all state banks are examined by their respective state banking departments.

The Federal Deposit Insurance Corporation, created in 1934, added still another important feature to our commercial banking system. Its provision for insurance of up to $10,000 of any depositor's account in an insured bank now covers 96 percent of the nation's commercial banks. Owing in part, at least, to improved bank supervision and deposit insurance, the number of bank failures has dropped sharply in recent years. The average number of bank suspensions per year in the United States was 214 from 1897 to 1929, and 2,203 from 1930 to 1933. Since 1934, the average has been a mere 18 per year with practically no suspensions in the last ten years, and the losses to depositors have been negligible.

Still another change in our banking system since the advent of the Federal Reserve System has been the establishment of

nation-wide facilities for the collection of checks. Correspondent banks provide extensive facilities for collecting checks, but the national system established by the twelve Federal Reserve Banks has become a major operation. The twelve banks, for example, handled nearly 3 billion checks in 1953.

THE ROLE OF THE FEDERAL RESERVE BANK OF SAN FRANCISCO

The Federal Reserve Banks have contributed in numerous ways to smoothing out and improving the quality of banking services during the past forty years. Among these contributions have been their facilitation of the rapid transfer of funds among banks throughout the United States, their convenient currency shipping services supplied without charge to member banks, their many aids to both the banks and the United States Treasury in connection with their fiscal agency operations, and their provision of reserves to member banks. The Reserve Banks have also played an important role in the implementation of national monetary policy with its underlying objective of maintaining economic stability at a high level of employment. Many of the Federal Reserve System's policies are decided upon centrally by the Board of Governors of the Federal Reserve System or by the Federal Open Market Committee, which determines System policies for the purchase and sale of Government securities by the System in the open market. Each of the Reserve Banks contributes directly or indirectly to these policy decisions.

The presidents of eleven Reserve Banks alternate in serving as members of the Federal Open Market Committee, which is composed of the Board of Governors and the presidents of five Reserve Banks, with the Federal Reserve Bank of New York always being represented on the Committee. Questions of policy and operations are also discussed several times a year by the Reserve Bank presidents meeting as the Presidents' Conference and jointly with the Board of Governors. Other officers and personnel of the Reserve Banks serve on various System

committees contributing directly to the study of the diverse problems faced by the System. The directors of the Federal Reserve Banks contribute to the formulation of monetary policy through their advice and counsel. They also are authorized by the Federal Reserve Act to initiate changes in the discount rate subject to the approval of the Board of Governors and have the responsibility for administration of the discount and lending operations of the Reserve Bank. The discount rate is the rate at which a Reserve Bank will lend to member banks. Both directly and indirectly, therefore, the Federal Reserve Bank of San Francisco helps frame System monetary policy and assumes responsibility, within the limits of its power and jurisdiction, to work toward the maintenance of economic stability.

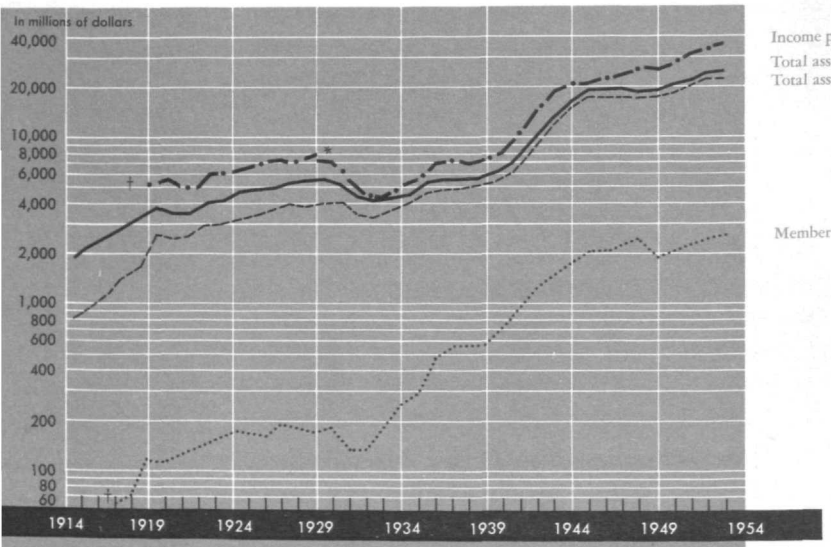
These responsibilities added to the important service functions make the work performed by the individual Reserve Banks sizable—in the case of the Federal Reserve Bank of San Francisco the task required somewhat more than 1,800 employees and entailed total expenditures of 13 million dollars in 1954. A sketch of some of the activities and the growth of the San Francisco Federal Reserve Bank, then, will illustrate many of the contributions of the Federal Reserve System to the Twelfth District economy. It will also reflect the way in which the rapid growth of the District has influenced the size and activities of the Bank.

The Bank has grown along with the economy

The relation of the Federal Reserve Bank of San Francisco to the total economy of the Twelfth District can be traced by using the following train of associations: member bank reserves on deposit with the Federal Reserve Bank to member bank assets, member bank assets to all bank assets, and all bank assets to District income payments. These series are shown in Chart 8.

The first relation to be discussed, that between income payments and all bank assets, is a very close one, both series reflecting changes in District economic activity. This relation is es-

The Growth of Member Banks
Twelfth District
1915-1953



*Change in series.

†No data prior to this time.

[1] Income payments in current prices, not deflated by any price index.

Note: This chart is plotted on a semi-logarithmic scale on which equal vertical distances represent equal percent changes rather than equal absolute amounts.

Sources: United States Treasury Department, Office of the Comptroller of the Currency; the Federal Deposit Insurance Corporation; Board of Governors of the Federal Reserve System; National Industrial Conference Board; the United States Department of Commerce.

Chart 8

sentially similar to the relation between income payments and total deposits, which has already been described. In that case, however, the ratio of total deposits to total income rose somewhat over the years, whereas total assets have not increased relative to income payments since 1919. This reflects the fact that total assets have not grown relatively quite so fast as total deposits.

In the Twelfth District the assets of member banks have grown faster than the assets of all banks. The average rate of growth between 1915 and 1953 has been 9.1 percent per year for member bank assets compared with 7.0 percent per year for all bank assets. Contributing heavily to this difference has been the increasing proportion of all banks which are members of the Federal Reserve System. In 1915, the assets of member banks were less than 45 percent of all bank assets in the District. A large number of District banks joined the Federal Reserve System between 1915 and 1920, pushing member bank assets up to 67 percent of all bank assets. After 1920, the relative growth of the number and size of member banks was not so rapid; but by 1953, the assets of member banks were more than 90 percent of all bank assets in the District.

Even more rapid than the growth of total member bank assets has been the growth of member bank reserve accounts on deposit with the Federal Reserve Bank of San Francisco. In large part these two series reflect the same economic pressures; the influence of the over-all economic growth, the depression of the 1930's, and World War II are apparent in both. Member bank reserves, however, have been more responsive to changes in monetary policy than member bank assets. In the 1930's, an easy money policy, a large inflow of gold from abroad, and a dearth of lending opportunities led to an increase in member bank reserves which was much more rapid than the increase in other assets of member banks. Since 1936, changes in the percentage of reserves which member banks are required to keep on deposit have been made from time to time by the Board of Governors of the Federal Reserve System and have been partly responsible for changes in member bank reserves, such as the sharp drop in 1948-49. These two factors of an easier money policy during the greater part of the period since the depression of the early 1930's than before it, and changes in reserve requirements (which have, on the whole, increased considerably since 1917) account for the more rapid rise in member bank reserves than in member bank assets.

Economic crises influence the Bank's functions and the number of its employees

A yearly record of total employment in the Federal Reserve Bank of San Francisco and its branches is another illustration of some characteristics of the Federal Reserve System in relation to the total economy (Chart 9). After the first few years of rapid growth, the work in the Bank has risen most sharply

Number of Employees
Federal Reserve Bank of San Francisco
1915-1954

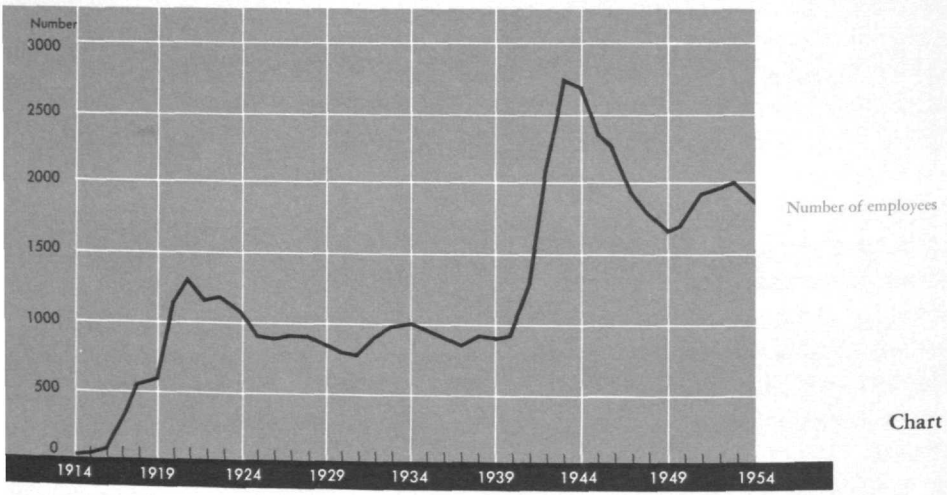


Chart 9

during periods of major depression and especially during periods of war, and has tapered off slowly at other times. Thus, employment at the Reserve Bank fell after 1921 and began to rise only in 1931, during the downswing of the Great Depression. After 1934, when recovery began, employment showed no definite trend until 1940, when the additional work incident to World War II began. With the end of World War II came another downturn in employment; but a change in direction took place a few years later, when the Korean war started.

The explanation of this pattern of employment is not hard to find. The Federal Reserve Banks were created to help promote stable banking and credit conditions in our economy and they also act as fiscal agents of the Federal Government. There naturally has been more to do when monetary and Treasury activities have required the largest volume of operations—namely, during the downswing of a major depression or during war and wartime inflation. In the absence of marked credit instability, the influence of a gradual increase in efficiency, resulting in significant part from greater mechanization, and a gradual decrease in "emergency" activities have been responsible for some year-to-year decrease in employment at this Federal Reserve Bank. The growth of the economy, on the other hand, has been accompanied by increased use of Reserve Bank services and has therefore exerted a secular upward pressure on Bank employment; but the pressure was evidently not strong enough to overcome the downward pressures during 1921-29 or 1934-39. Employment since World War II has been at a much higher average level than before, but this difference is due, at least in part, not to the District's economic growth but to the large number of employees needed in connection with the handling of the Federal debt which expanded so greatly during the war. The growth of the economy has had a very clear influence on the size of most bank operations if size is measured in terms of number of Federal Reserve notes outstanding, number of checks cleared, number of transfers of funds, number of cash shipments, and so forth; but Bank employment has also responded to forces other than over-all economic growth.

Branch offices established to provide better service

As the commercial banks increased their use of the facilities of the Federal Reserve System and of the Federal Reserve Bank of San Francisco, and with the entrance of this country into World War I, the desirability of establishing branches at a number of points in the Twelfth Federal Reserve District was recognized. Mail schedules and other communication facilities

were such that effective service for member banks in the Pacific Northwest and Intermountain states required the establishment of the first four of this Bank's branches in 1917 and 1918, and the branch in southern California was established in 1920. The objective in establishing and maintaining branches has always been to equalize so far as feasible the value and convenience of Federal Reserve services to member banks throughout the entire District. Figures of employment at the Bank's different offices as of selected dates are shown in Chart 10. They reflect in some degree at least the growth and relative importance of banking services in different parts of the District.

Distribution of Employment by Branches

Federal Reserve Bank of San Francisco

Selected years

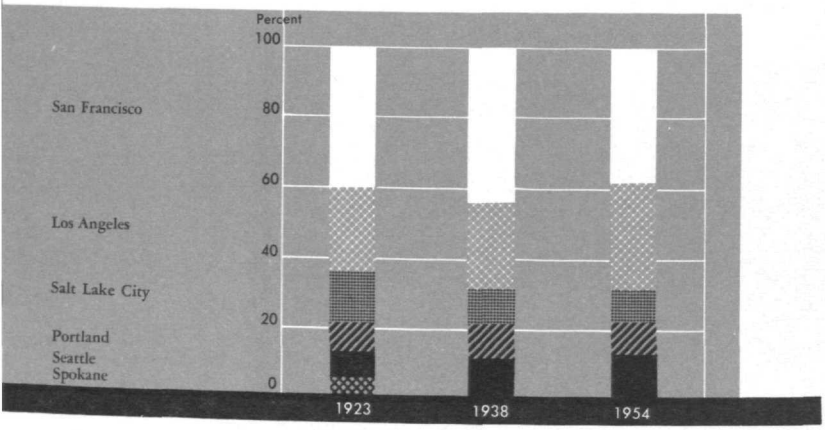


Chart 10

The San Francisco office of this Bank has more employees than the population or income of its territory would suggest. The principal reason is that practically all of certain of the entire Bank's functions such as internal auditing, research, and bank examination are conducted by Head Office personnel. Historically the Los Angeles branch has shown a steady

growth relative to the others, just as southern California has grown in population and income relative to the rest of the District.

Checks cleared for member banks

A brief description of some of the specific services and functions of the Federal Reserve Bank of San Francisco will indicate more clearly the manner in which it participates in the Twelfth District's economic life. Mention has already been made of the participation of each Federal Reserve Bank in the formulation of national monetary policy. Decisions to change reserve requirements, to engage in open market operations, and to use other policy instruments have important consequences for member banks and the business community at large, but this aspect of Federal Reserve System activity involves relatively few personnel at each of the Reserve Banks.

It is the service functions of the Reserve Banks that require the greatest number of personnel. At this Bank and its branches about one-third of the employees are in the Transit Departments which handle the collection of checks. This function of the Federal Reserve Banks has contributed much over the years to reducing the time and expense required to collect out-of-town checks. Settlement for out-of-district checks sent to the nearest Federal Reserve Bank or branch is made through the Interdistrict Settlement Fund. The use of the Fund and improved methods of communication and transportation have made it possible to reduce the lapse of time between receipt of a check at a Reserve Bank and the crediting of the member bank account for the amount of the check to no more than two business days.

The Federal Reserve check collection system has not displaced the earlier clearings system, which continues to operate through the network of correspondent accounts and clearing houses in the nation. Available data do not permit an estimate as to how important the Federal Reserve check collection system is compared to the total amount of all collections or whether Federal Reserve collections are currently increasing

or decreasing as a percent of all collections. It is beyond doubt, however, that collections through the Federal Reserve System have grown very rapidly. The value of checks collected by the Federal Reserve Bank of San Francisco has risen by an average of 11.9 percent per year since 1917 (Table 3).

Operations

Federal Reserve Bank of San Francisco

Selected Years

(in millions of dollars)

	1919	1929	1939	1949	1954
Discounts and advances	79	4,089	3	387	1,588
United States securities, issues, redemptions, and exchanges	262[1]	454	600	14,873	20,109
Checks handled	6,263	15,469	13,584	62,711	94,258
Coin and currency received and counted	225	935	790	2,585	3,415
Shipments of coin and currency to banks	216	849	808	2,403	3,246

[1] 1920.

Table 3

Bank supplies coin and currency

The coin and currency operations of the Federal Reserve Bank of San Francisco currently account for about one-eighth of the Bank's labor force. The Bank receives excess currency from member banks and ships currency to member banks, examines currency for genuineness and fitness, and destroys unfit currency. Currency and coin are shipped without charge to member banks located outside a city in which there is a Federal Reserve Bank office and the cost of shipments from member banks is also absorbed. This policy serves to equalize somewhat the value of Reserve Bank service as between member banks which are located in a city where there is a Reserve Bank office and those which are not so located.

The coin and currency operation was recently simplified, with substantial savings in cost, by permitting Federal Reserve

Banks, after supplemental verification, to destroy unfit Treasury currency instead of sending it to Washington, D. C. to be destroyed, and by permitting Reserve Banks to reissue the notes of any other Federal Reserve Bank, which formerly was prohibited under penalty of a tax.

The largest part of the currency which this Bank ships to member banks consists of Federal Reserve notes, which constitute the bulk of currency in circulation. The value of notes outstanding issued by the Federal Reserve Bank of San Francisco has grown at a rapid but uneven pace (Chart 11); the average annual increase has been 7.5 percent per year since 1918. Since 1924 the average has been 9.0 percent, slightly higher than the 8.0 percent per year at which demand deposits have grown. During the first World War this Bank, like the other Federal Reserve Banks, followed a policy of accumulating gold and gold certificates and issuing Federal Reserve notes in order to build up gold assets. After that war the policy was reversed, and the reversal accounts for the steady decrease of Federal Reserve note circulation during the 1920's. During the early 1930's, many individuals attempted to exchange their demand deposits for currency, and the volume of Federal Reserve

Federal Reserve Notes Outstanding

Federal Reserve Bank of San Francisco

1915-1954

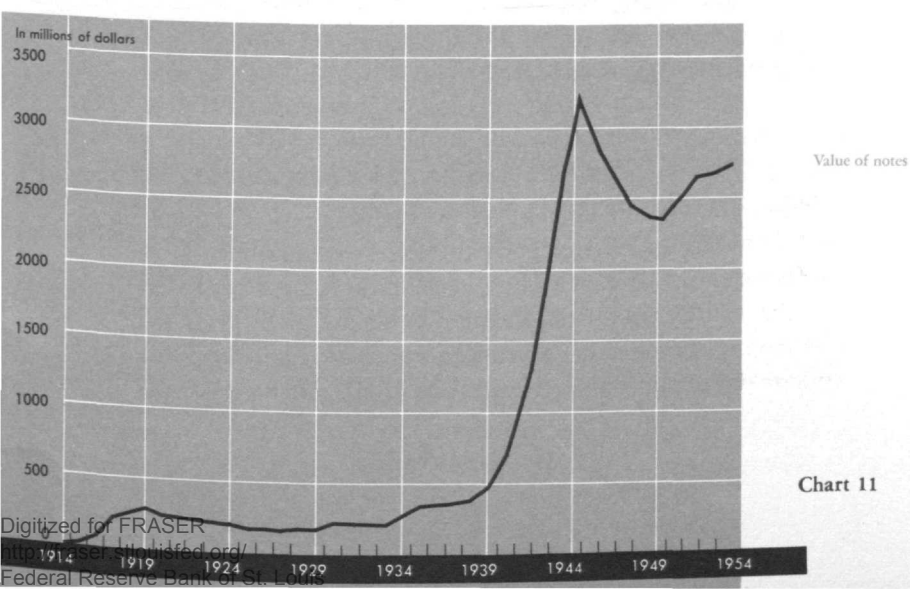


Chart 11

notes in circulation, like the volume of other kinds of currency, grew for several years. Eventually, the over-all contraction of the money supply outweighed the effect of this substitution, and changes in the volume of Federal Reserve notes were similar in degree to changes in other parts of the Twelfth District money supply. One exception was during the years of the second World War, when Federal Reserve notes printed for use in the Pacific war area were charged as liabilities of this Bank, increasing its total note volume appreciably.

Wire transfers

Another important service provided by Reserve Banks to their members is the telegraphic transfer of funds and of United States Government securities. All 36 Federal Reserve Bank offices, the Board of Governors, and the United States Treasury are connected by a telegraphic system. The wire transfer of funds and Government securities has made it possible for banks to use their funds much more efficiently and effectively than in the days before the Federal Reserve System. At that time the flow of funds back and forth across the nation often involved the shipment of substantial amounts of coin and currency to settle net balances, an operation requiring considerable time and expense as well as risk. The importance of transfer facilities to Twelfth District member banks is indicated by the fact that the Federal Reserve Bank of San Francisco handled telegraphic transfers of funds amounting to $103 billion and transferred $9 billion of Government securities by telegraph during 1954.

Volume of discounts and loans fluctuates

When the Federal Reserve Act was passed, it was expected that discounts and advances by the Reserve Banks would be the major means of providing needed credit to member banks and that changes in the rediscount rate would be the principal instrument of monetary control. Except in 1952 and 1953, the volume of discounts and advances has usually been very small

since the early 1930's, and open market operations have become a relatively more important instrument affecting bank reserves and bank credit. Nevertheless, the lending operations of this Bank have at times during the years occupied many employees and involved large sums.

The principal reason for this limited use by member banks of their borrowing privileges under the Federal Reserve Act has been in some measure a result of custom. Since the early days of the System, member banks have traditionally been reluctant to be heavily and continuously in debt to Reserve Banks. In the 1920's and early 1930's there were also occasions when the supply of eligible commercial paper was not widely enough distributed among banks to provide some individual banks with quantities sufficient to meet their rediscounting needs. Under the stress of the early 1930's, however, a moderate expansion in discounting took place. Banks needed funds, the eligibility requirements for rediscounting were broadened, and provision was made for member banks to borrow by offering Government securities as collateral. During the recovery period, lending by this Bank again sank to insignificance. In the last four years, there has been some tendency by banks to increase their borrowing from the Federal Reserve System; but when the size of member bank liabilities and their growth since 1929 is taken into account, it is evident that this tendency has not yet become a major change in banking practice (Table 3). Nevertheless, the availability of Reserve Bank credit through the discount window in time of need has been a stabilizing influence in our banking system.

This Bank through its industrial loan program has from time to time attempted to augment the supply of credit available to established commercial and industrial enterprises unable to obtain financial assistance from usual sources. For the most part such loans have been made by member and nonmember banks with commitments on the part of the Reserve Bank to discount or purchase the paper on demand without recourse. The financing institution participating in such loans, however, must obligate itself for at least one-fifth of any loss sustained. A large number of such loans were made in 1934

and 1935, with an intermittent few since 1950. An Executive Order issued under the First War Powers Act of 1941 authorized the Federal Government to guarantee certain defense-connected loans made by banks, and the Federal Reserve Banks act as agent for the guaranteeing departments of the Government in connection with these "Regulation V" loans. A number of the loans were made with the participation of this Bank between 1941 and 1945. In 1950, the Defense Production Act re-established authorization for "Regulation V" loans, and this Bank has again participated as agent for the various guaranteeing agencies since 1950.

Administration of selective credit controls

In addition to using general credit controls involving the rediscount rate, changes in reserve requirements, and open market operations, the Federal Reserve System also has used selective credit controls governing the terms of specific types of credit. Authority for the control of consumer and real estate loans has lapsed, but control over loans for purchasing or carrying securities has been in existence for many years. The Federal Reserve Banks assist in the administration of these selective controls.

The oldest of these controls dates back to 1934 and regulates the minimum margin or down payment that must be made in connection with loans obtained for purchasing or carrying securities. It has been in effect continuously since 1934. The terms of this control are embodied in the provisions of Regulations T and U of the Board of Governors of the Federal Reserve System.

During most of the period since the early 1940's some Reserve Bank personnel have been engaged in administering the provisions of Regulation W of the Board of Governors of the Federal Reserve System controlling the terms of consumer credit. Regulation W first went into effect in September 1941 and continued until Congress terminated the authority for such controls in November 1947. Consumer credit controls were reinstated under temporary authority from September

1948 to June 1949. Regulation W was renewed again in September 1950 under the provisions of the Defense Production Act of 1950, which also authorized for the first time controls over real estate credit, embodied in the provisions of Regulation X issued by the Board of Governors of the Federal Reserve System. These two regulations were used to aid in the restriction of inflationary pressures arising from the Korean war and continued in effect for approximately two years.

Bank acts as agent for Governmental organizations

In addition to handling the deposits of member banks, the Federal Reserve Banks handle the general account of the United States Treasurer and act as fiscal agent for the Treasury. In connection with the Treasurer's general account, the Reserve Banks receive deposits from Government agencies and others and process millions of Government checks a year. Various special tasks are also performed which relate to Treasury receipts and expenditures, such as processing tax payments received from employers and processing postal money orders. Their functions as fiscal agent include handling new issues, exchanges, redemptions, and transfers of Treasury securities as well as handling Treasury tax and loan accounts. At present, one-eighth of the total employment of this Federal Reserve Bank is engaged in fiscal agency activities for the Treasury. A record of the total volume of issues, redemptions, and exchanges handled by this Bank shows a slight rise during the depression, but an enormous rise during World War II to $16.9 billion in 1944. Since 1944, the transactions involved in processing the debt have kept the volume of United States securities handled at more than 20 times the 1934 level, and the increase during the last six years has been such that by 1954 the volume of securities handled was substantially higher than the 1944 peak (Table 3).

The Bank has occasionally during its history acted as agent for Governmental organizations other than the Treasury, such as the Reconstruction Finance Corporation, the Federal Deposit Insurance Corporation, the Federal Intermediate Credit

Banks, and the United States Post Office. During World War II, the Bank was licensing agent and property custodian as an agent for divisions of the United States Treasury in connection with the relocation of Japanese-Americans.

Examination of state member banks

The Examination Department of the Bank regularly examines those state banks in the Twelfth District which are members of the Federal Reserve System. The average size of the individual banks to be examined has grown enormously since the early days of the Federal Reserve System, increasing the examination load substantially and making the task more complex. Branch banking, as we have already seen, has grown at a rapid pace in the Twelfth District. In 1954, there were 92 examinations, excluding trust examinations and special investigations, involving 224 banking offices. The examination staff also has the responsibility for examining certain bank holding companies. Another important function of the examiners is to make recommendations, based upon an analysis of the ability of a community to support an additional banking office, concerning the applications of state member banks for permission to establish new branch offices and of new state banks seeking membership in the Federal Reserve System. If nonmember banks apply for System membership, they are also examined at that time. The recommendations in these various types of cases assist the Board of Governors of the Federal Reserve System in making their final determination as to whether or not such applications should be approved.

Economic analysis and educational functions

The officers and directors of the Bank participate in the formulation of national monetary policy in ways that have already been indicated. To do this job well they must keep thoroughly informed about economic developments not only in the Twelfth District and in the nation but also to some extent abroad. To help them in this endeavor the Bank main-

tains a Research Department which collects original data concerning banking and retail trade in the Twelfth District and uses a wide variety of other sources to analyze underlying economic trends in the District and the nation, and to a limited degree in foreign lands. The results of this analysis are furnished to the directors and officers of the Bank and, in many instances, directly to the Board of Governors of the Federal Reserve System. Much of this economic analysis and statistical information is also published by the Bank in statistical releases and in its *Monthly Review* for the use of member banks, retail stores cooperating in the various reports, universities and schools, and the public in general. In this manner the Bank endeavors to contribute to general economic education and thereby helps to promote a better understanding of the nature of and the need for sound monetary policy.

Other functions

A Federal Reserve Bank handles and stores large amounts of currency and Government securities in its everyday activities. In addition to these and other services discussed throughout this report there are numerous other miscellaneous activities ranging from the collection of noncash items for member banks to a certain amount of safekeeping of United States Government securities and including a network of internal service and "housekeeping" activities similar to those found in many other organizations. One of these additional activities—the work of the Guard Department—is worthy of special mention. The guards cover the entire institution, and their alert watchfulness affords unceasing protection to the huge dollar amounts of coin, currency, and Government securities which pass through the doors of the Bank or are stored in its vaults each day.

The future

During the forty years of its existence the Federal Reserve Bank of San Francisco has become increasingly important in

the economic life of the western states comprising the Twelfth Federal Reserve District. In addition to its role in the implementation of national monetary policy, the Bank, as a part of the Federal Reserve System, has contributed substantially to the improvement of banking services which its member banks have provided for the District and for the benefit of the nation as well. And ever in the background is the contribution which the individual Reserve Bank and the Federal Reserve System together make toward the advancement of economic knowledge.

As indicated in earlier pages, the economy of the Twelfth District has grown much more rapidly than that of the nation as a whole since 1914, when this Bank was established. It is now more highly industrialized and diversified. A glance at the future suggests that the Twelfth District is likely to continue for some time to grow at a more rapid pace than the country as a whole. World War II initiated many important changes in the economy of the District which have continued to unfold during the postwar period. These changes have been combined with an ample agricultural base and considerable supplies of raw materials. Thus the basis has been provided for supporting the large influx of population that has occurred since 1940 and which, in turn, provides a market potential that continues to attract industry. Furthermore, as technology improves and industry finds it possible to operate somewhat more remotely from its supplies of raw materials, the extensive land area and favorable climate of the District will continue to be factors encouraging the further expansion of industry. Improvements in technology have made it possible to harness more efficiently the water resources of the District and to make economical the development of some of its other resources that were previously idle, thereby also contributing to an expanded industrial base.

The growth of the Twelfth District economy may, from time to time, rise above or fall below the projections which many students of economic growth have developed for the Far West. The impact of wars, if more should come, and of periods of recession or rapid expansion will tend to cause year-

to-year fluctuations in the rate of growth. Nevertheless, the over-all outlook for the future is one of continued economic expansion in the Twelfth District. The Federal Reserve Bank of San Francisco will strive to keep pace with this development. It will endeavor, as it has throughout its first forty years, to make its proper contribution to further improvement in banking and fiscal services. In this way and through constant efforts to promote the spread of unbiased economic information and to encourage a growing public understanding of economic facts, this Bank will continue to work toward the goal of over-all economic stability.

COMPARATIVE STATEMENT OF CONDITION

ASSETS	Dec. 31,1954	Dec. 31, 1953
Gold certificates	$2,381,860,332	$2,413,597,258
Redemption fund for F. R. notes	80,409,345	84,574,810
Total gold certificate reserves	$2,462,269,677	$2,498,172,068
F. R. notes of other F. R. banks	16,308,475	20,939,250
Other cash	33,190,775	37,312,081
Discounts and advances:		
Secured by U. S. Gov't. obligations	—o—	500,000
Other discounts and advances	13,600,000	1,515,000
Total discounts and advances	$ 13,600,000	$ 2,015,000
United States Government securities:		
Bills	236,936,000	283,065,000
Certificates	1,517,867,000	634,154,000
Notes	660,103,000	1,446,085,000
Bonds	306,338,000	396,981,000
Total U. S. Gov't. securities	$2,721,244,000	$2,760,285,000
Total loans and securities	$2,734,844,000	$2,762,300,000
Due from foreign banks	2,280	2,291
Uncollected cash items	329,968,758	354,867,230
Bank premises	9,095,652	7,262,962
Other assets	14,724,941	16,567,462
Total assets	$5,600,404,558	$5,697,423,344
LIABILITIES		
Federal Reserve notes	$2,583,779,165	$2,639,876,970
Deposits:		
Member bank—reserve accounts	2,504,750,423	2,550,756,377
U. S. Treasurer—general account	46,086,566	39,022,647
Foreign	49,182,666	41,347,866
Other deposits	41,704,414	42,369,163
Total deposits	$2,641,724,069	$2,673,496,053
Deferred availability cash items	263,435,034	279,224,876
Other liabilities	995,202	1,396,106
Total liabilities	$5,489,933,470	$5,593,994,005
CAPITAL ACCOUNTS		
Capital paid in	31,668,000	29,210,550
Surplus (Section 7)	66,723,686	62,182,485
Surplus (Section 13b)	2,139,706	2,139,706
Other capital accounts	9,939,696	9,896,598
Total liabilities and capital accts.	$5,600,404,558	$5,697,423,344
Contingent liability on acceptances purchased for foreign correspondents	$ 1,958,400	$ 2,417,143
Commitments to make industrial loans	—0—	—0—

EARNINGS AND EXPENSES

CURRENT EARNINGS	1954	1953
Discounts and advances	$ 237,295	$ 1,481,482
Industrial loans	—0—	—0—
Commitments to make industrial loans	—0—	195
United States Government securities	47,450,053	50,389,485
All other	4,877	11,520
Total current earnings	$ 47,692,225	$ 51,882,682
CURRENT EXPENSES		
Total current expenses[1]	$ 13,035,670	$ 13,627,072
Less Reimbursement for certain fiscal agency and other expenses	2,199,963	2,306,505
Net expenses	$ 10,835,707	$ 11,320,567
PROFIT AND LOSS		
Current net earnings	$ 36,856,518	$ 40,562,115
Additions to current net earnings:		
Profits on sales of U. S. Gov't. securities (net)	46,035	184,658
All other	339	626
Total additions	$ 46,374	$ 185,284
Deductions from current net earnings:		
Retirement System	—0—	273,223
Reserves for contingencies	43,097	58,377
All other	7,145	3,103
Total deductions	$ 50,242	$ 334,703
Net deductions	$ 3,868	$ 149,419
Net earnings before payments to U. S. Treasury	$ 36,852,650	$ 40,412,696
Paid United States Treasury (interest on F. R. notes)	30,487,823	33,849,577
Dividends	1,823,626	1,706,034
Transferred to Surplus (Section 7)	$ 4,541,201	$ 4,857,085
Surplus (Section 7) January 1	62,182,485	57,325,400
Surplus (Section 7) December 31	$ 66,723,686	$ 62,182,485

[1]Includes normal depreciation on bank premises, assessment for expenses of Board of Governors, and cost of Federal Reserve currency.

DIRECTORS

January 1, 1955

Chairman of the Board and Federal Reserve Agent
A. H. Brawner
San Francisco, California

Deputy Chairman
Y. Frank Freeman
Hollywood, California

Carroll F. Byrd Willows, California	Walter S. Johnson San Francisco, California	John A. Schoonover Boise, Idaho
M. Vilas Hubbard Pasadena, California	Alden G. Roach San Francisco, California	Reese H. Taylor Los Angeles, California

(Vacancy)

LOS ANGELES BRANCH

Bryant Essick, Chairman

Anderson Borthwick Hugh C. Gruwell Paul H. Helms James E. Shelton

PORTLAND BRANCH

Philip I. Welk, Chairman

J. H. McNally John B. Rogers E. C. Sammons William H. Steiwer, Sr.

SALT LAKE CITY BRANCH

Joseph Rosenblatt, Chairman

Harry Eaton George S. Eccles Russell S. Hanson Geo. W. Watkins

SEATTLE BRANCH

D. K. MacDonald, Chairman

James Brennan Charles F. Frankland S. B. Lafromboise Ralph Sundquist

MEMBER FEDERAL ADVISORY COUNCIL

John M. Wallace, Salt Lake City, Utah

INDUSTRIAL ADVISORY COMMITTEE

Walter A. Starr, Chairman Wakefield Baker, Vice Chairman

E. S. Dulin Keith G. Fisken J. A. Folger

OFFICERS

January 1, 1955

C. E. Earhart, President

H. N. Mangels, First Vice President

E. R. Millard, Vice President
H. F. Slade, Vice President
Eliot J. Swan, Vice President and Cashier
O. P. Wheeler, Vice President

R. H. Morrill, Assistant Vice President
J. L. Barbonchielli, Assistant Cashier
T. W. Barrett, Assistant Cashier
D. M. Davenport, Assistant Cashier
H. E. Hemmings, Assistant Cashier
R. C. Milliken, Assistant Cashier
A. H. Price, Assistant Cashier

H. Armstrong, General Auditor
E. H. Galvin, Chief Examiner
John A. O'Kane, General Counsel

LOS ANGELES BRANCH

W. F. Volberg, Vice President and Manager

C. H. Watkins, Assistant Manager
M. J. Davies, Assistant Manager
G. D. Parker, Assistant Manager
J. R. Robinson, Assistant Manager
W. J. Thomas, Assistant Manager

PORTLAND BRANCH

J. A. Randall, Vice President and Manager

D. E. Bent, Assistant Manager
C. H. Mercer, Assistant Manager
A. B. Merritt, Assistant Manager

SALT LAKE CITY BRANCH

W. L. Partner, Vice President and Manager

E. R. Barglebaugh, Assistant Manager
A. L. Price, Assistant Manager
T. M. Simmons, Assistant Manager

SEATTLE BRANCH

J. M. Leisner, Vice President and Manager

R. E. Everson, Assistant Manager
W. R. Sandstrom, Assistant Manager
D. E. Simms, Assistant Manager

To the Member Banks of the

Twelfth Federal Reserve District.

DEAR SIRS:

There is presented herewith a condensed comparative statement of condition of the Federal Reserve Bank of San Francisco, including branches, at the close of business December 31, 1954, and December 31, 1953, together with a comparison of earnings and expenses for 1954 and 1953.

Yours very truly,

C. Elmhart

President.

COMPARATIVE STATEMENT OF CONDITION

ASSETS	Dec. 31, 1954	Dec. 31, 1953
Gold certificates	$2,381,860,331.97	$2,413,597,258.01
Redemption fund for Federal Reserve notes	80,409,344.57	84,574,809.57
Total gold certificate reserves	$2,462,269,676.54	$2,498,172,067.58
Federal Reserve notes of other Federal Reserve banks	16,308,475.00	20,939,250.00
Other cash	33,190,774.83	37,312,080.95
Discounts and advances:		
Secured by United States Government obligations	—0—	500,000.00
Other discounts and advances	13,600,000.00	1,515,000.00
Total discounts and advances	$ 13,600,000.00	$ 2,015,000.00
United States Government securities:		
Bills	236,936,000.00	283,065,000.00
Certificates	1,517,867,000.00	634,154,000.00
Notes	660,103,000.00	1,446,085,000.00
Bonds	306,338,000.00	396,981,000.00
Total United States Government securities	$2,721,244,000.00	$2,760,285,000.00
Total loans and securities	$2,734,844,000.00	$2,762,300,000.00
Due from foreign banks	2,280.19	2,291.45
Uncollected cash items	329,968,757.88	354,867,230.23
Bank premises	9,095,651.86	7,262,962.04
Other assets	14,724,941.41	16,567,461.81
Total assets	$5,600,404,557.71	$5,697,423,344.06
LIABILITIES		
Federal Reserve notes	$2,583,779,165.00	$2,639,876,970.00
Deposits:		
Member bank—reserve accounts	2,504,750,423.47	2,550,756,376.76
United States Treasurer—general account	46,086,566.08	39,022,647.32
Foreign	49,182,665.98	41,347,865.98
Other deposits	41,704,413.87	42,369,162.70
Total deposits	$2,641,724,069.40	$2,673,496,052.76
Deferred availability cash items	263,435,033.76	279,224,875.69
Other liabilities	995,202.38	1,396,106.21
Total liabilities	$5,489,933,470.54	$5,593,994,004.66
CAPITAL ACCOUNTS		
Capital paid in	31,668,000.00	29,210,550.00
Surplus (Section 7)	66,723,685.68	62,182,484.88
Surplus (Section 13b)	2,139,706.03	2,139,706.03
Other capital accounts	9,939,695.46	9,896,598.49
Total liabilities and capital accounts	$5,600,404,557.71	$5,697,423,344.06
Contingent liability on acceptances purchased for foreign correspondents	$ 1,958,400.00	$ 2,417,142.58
Commitments to make industrial loans	—0—	—0—

EARNINGS AND EXPENSES

	1954	1953
CURRENT EARNINGS		
Discounts and advances	$ 237,295.11	$ 1,481,481.65
Industrial loans	—0—	—0—
Commitments to make industrial loans	—0—	194.86
United States Government securities	47,450,053.37	50,389,485.23
All other	4,876.84	11,520.15
Total current earnings	$ 47,692,225.32	$ 51,882,681.89
CURRENT EXPENSES		
Total current expenses (including normal depreciation on bank premises, assessment for expenses of Board of Governors, and cost of Federal Reserve currency)	$ 13,035,669.98	$ 13,627,071.45
Less Reimbursement for certain fiscal agency and other expenses	2,199,963.03	2,306,504.74
Net expenses	$ 10,835,706.95	$ 11,320,566.71
PROFIT AND LOSS		
Current net earnings	$ 36,856,518.37	$ 40,562,115.18
Additions to current net earnings:		
Profits on sales of United States Government securities (net)	46,034.51	184,658.28
All other	339.31	625.41
Total additions	$ 46,373.82	$ 185,283.69
Deductions from current net earnings:		
Retirement System (adjustment for revised benefits)	—0—	273,223.10
Reserves for contingencies	43,096.97	58,376.66
All other	7,144.89	3,103.64
Total deductions	$ 50,241.86	$ 334,703.40
Net deductions	$ 3,868.04	$ 149,419.71
Net earnings before payments to United States Treasury	$ 36,852,650.33	$ 40,412,695.47
Paid United States Treasury (interest on Federal Reserve notes)	30,487,823.13	33,849,576.96
Dividends	1,823,626.40	1,706,033.61
Transferred to Surplus (Section 7)	$ 4,541,200.80	$ 4,857,084.90
Surplus (Section 7) January 1	62,182,484.88	57,325,399.98
Surplus (Section 7) December 31	$ 66,723,685.68	$ 62,182,484.88

DIRECTORS AND OFFICERS

December 31, 1954

DIRECTORS

A. H. Brawner, San Francisco, California, Chairman and Federal Reserve Agent

Y. Frank Freeman, Hollywood, California, Deputy Chairman
Carroll F. Byrd, Willows, California
M. Vilas Hubbard, Pasadena, California
Walter S. Johnson, San Francisco, California
Alden G. Roach, San Francisco, California
John A. Schoonover, Boise, Idaho
Reese H. Taylor, Los Angeles, California
Harry R. Wellman, Berkeley, California

MEMBER OF FEDERAL ADVISORY COUNCIL

John M. Wallace, Salt Lake City, Utah

OFFICERS

C. E. Earhart, President
H. N. Mangels, First Vice President
J. M. Leisner, Vice President, and Manager of Seattle Branch
E. R. Millard, Vice President
W. L. Partner, Vice President, and Manager of Salt Lake City Branch
J. A. Randall, Vice President, and Manager of Portland Branch
H. F. Slade, Vice President
Eliot J. Swan, Vice President and Cashier
W. F. Volberg, Vice President, and Manager of Los Angeles Branch
O. P. Wheeler, Vice President

R. H. Morrill, Assistant Vice President
J. L. Barbonchielli, Assistant Cashier
T. W. Barrett, Assistant Cashier
D. M. Davenport, Assistant Cashier
H. E. Hemmings, Assistant Cashier
R. C. Milliken, Assistant Cashier
A. H. Price, Assistant Cashier

H. Armstrong, General Auditor
John A. O'Kane, General Counsel
E. H. Galvin, Chief Examiner

INDUSTRIAL ADVISORY COMMITTEE

Walter A. Starr, Chairman
Wakefield Baker, Vice Chairman
E. S. Dulin
Keith G. Fisken
J. A. Folger

LOS ANGELES BRANCH

DIRECTORS

Bryant Essick, Chairman

Anderson Borthwick
Hugh C. Gruwell
Paul H. Helms
James E. Shelton

OFFICERS

W. F. Volberg, Vice President, and Manager
C. H. Watkins, Assistant Manager
M. J. Davies, Assistant Manager
G. D. Parker, Assistant Manager
J. R. Robinson, Assistant Manager
W. J. Thomas, Assistant Manager

PORTLAND BRANCH

DIRECTORS

William H. Steiwer, Sr., Chairman

John B. Rogers
E. C. Sammons
Philip I. Welk
Frank Wortman

OFFICERS

J. A. Randall, Vice President, and Manager
D. E. Bent, Assistant Manager
C. H. Mercer, Assistant Manager
A. B. Merritt, Assistant Manager

SALT LAKE CITY BRANCH

DIRECTORS

Joseph Rosenblatt, Chairman

Harry Eaton
George S. Eccles
Russell S. Hanson
Geo. W. Watkins

OFFICERS

W. L. Partner, Vice President, and Manager
E. R. Barglebaugh, Assistant Manager
A. L. Price, Assistant Manager
T. M. Simmons, Assistant Manager

SEATTLE BRANCH

DIRECTORS

D. K. MacDonald, Chairman

James Brennan
Charles F. Frankland
S. B. Lafromboise
Ralph Sundquist

OFFICERS

J. M. Leisner, Vice President, and Manager
R. E. Everson, Assistant Manager
W. R. Sandstrom, Assistant Manager
D. E. Simms, Assistant Manager

Author(s): Federal Reserve Bank of San Francisco

Title: 12-L News: Federal Reserve Banks Celebrate Their Fortieth Anniversary

Date: November 1954

Page Numbers:

OFFICE BULLETIN

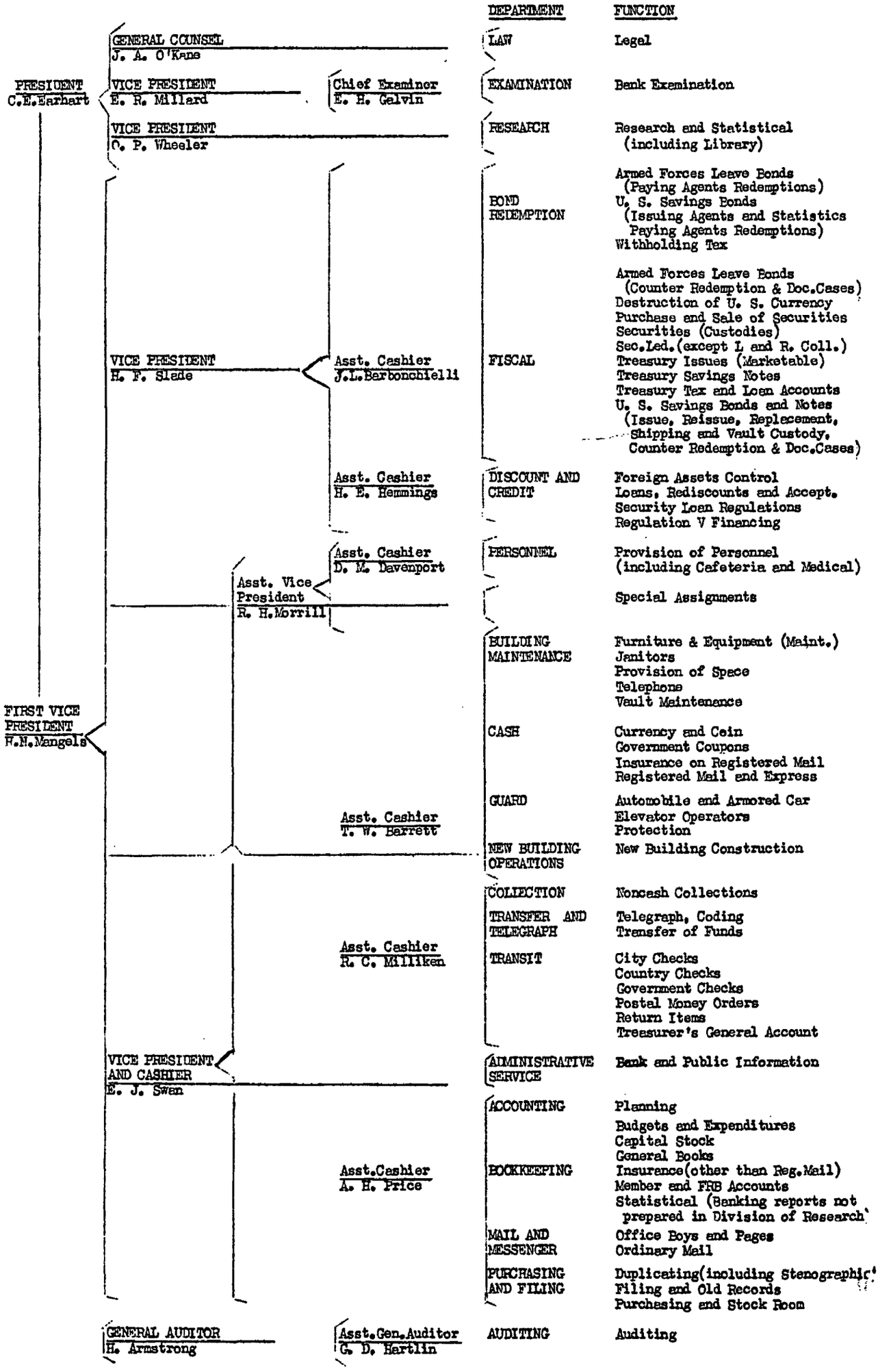
HEAD OFFICE San Francisco

Bulletin No. 25, Revised

April 19, 1954

SUBJECT: Functional Supervision

Mr. Eliot J. Swan has been appointed Vice President and Cashier and Mr. D. M. Davenport has been appointed an Assistant Cashier. With these changes the functions will be supervised as indicated below:

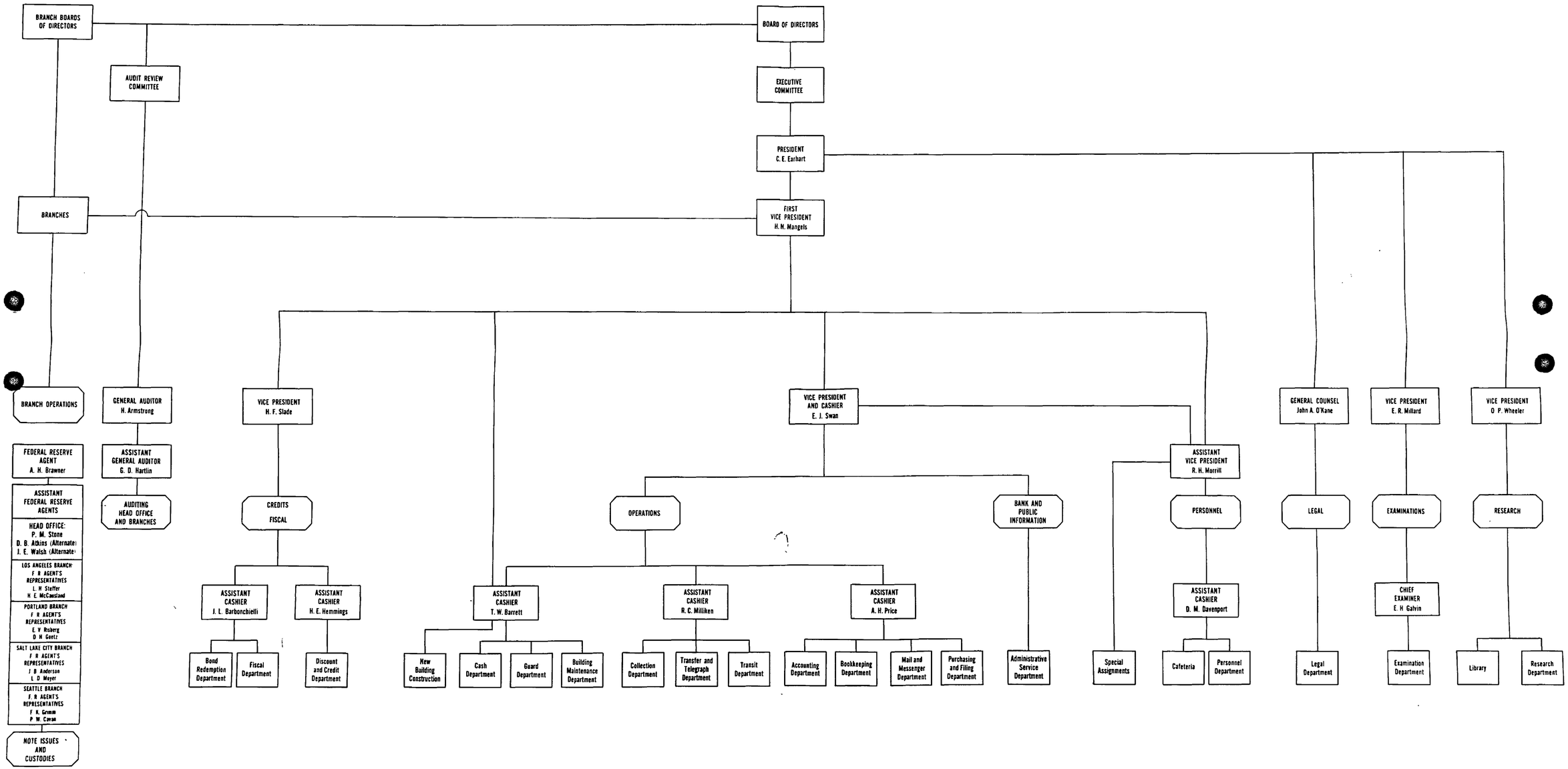


First Vice President.

Organization Chart

FEDERAL RESERVE BANK OF SAN FRANCISCO—HEAD OFFICE

October 5, 1954

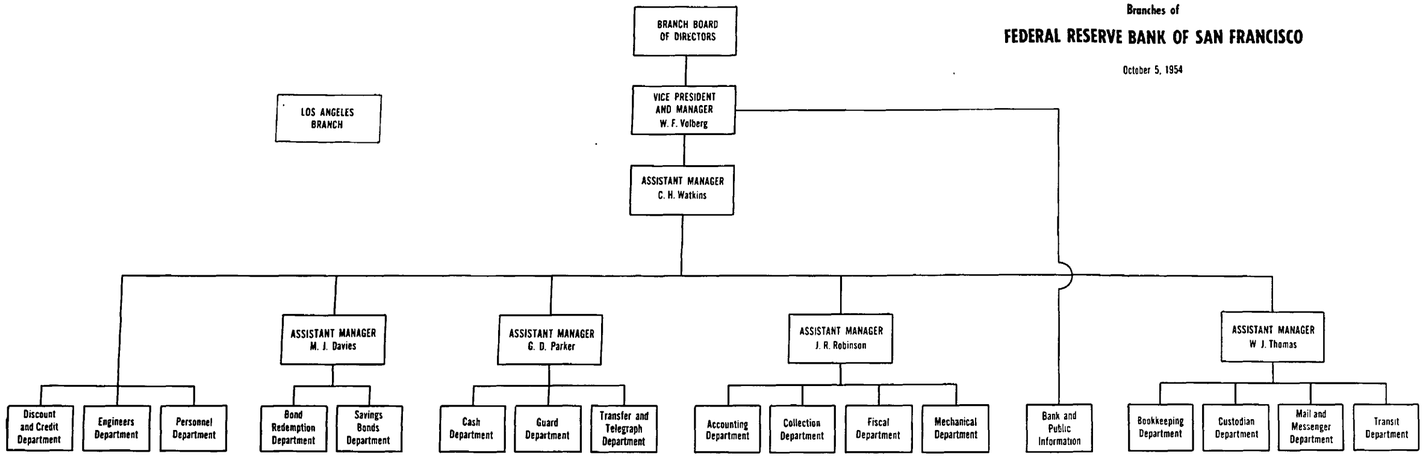


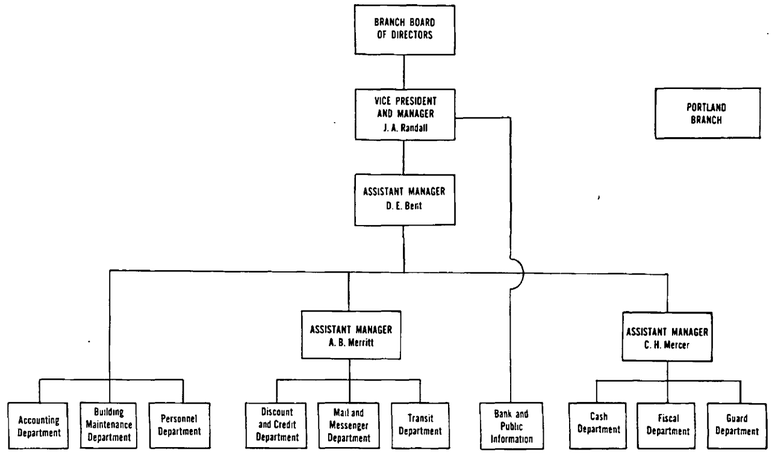
Organization Chart

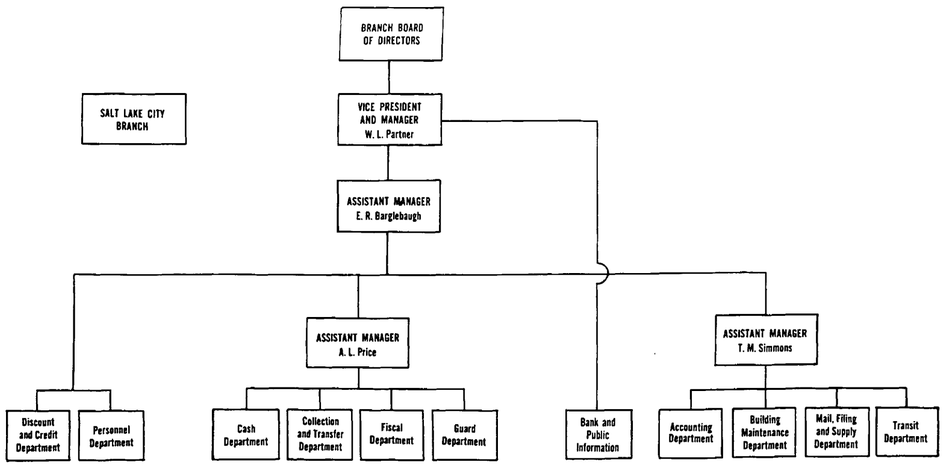
Branches of

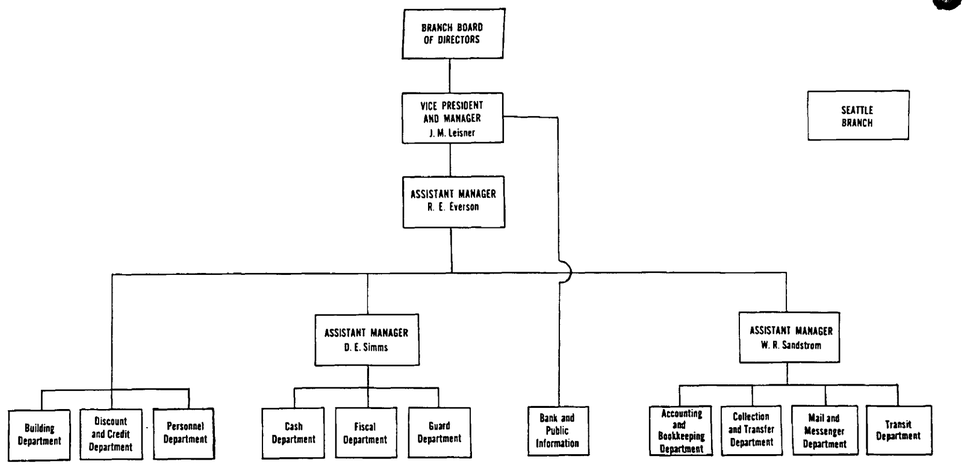
FEDERAL RESERVE BANK OF SAN FRANCISCO

October 5, 1954





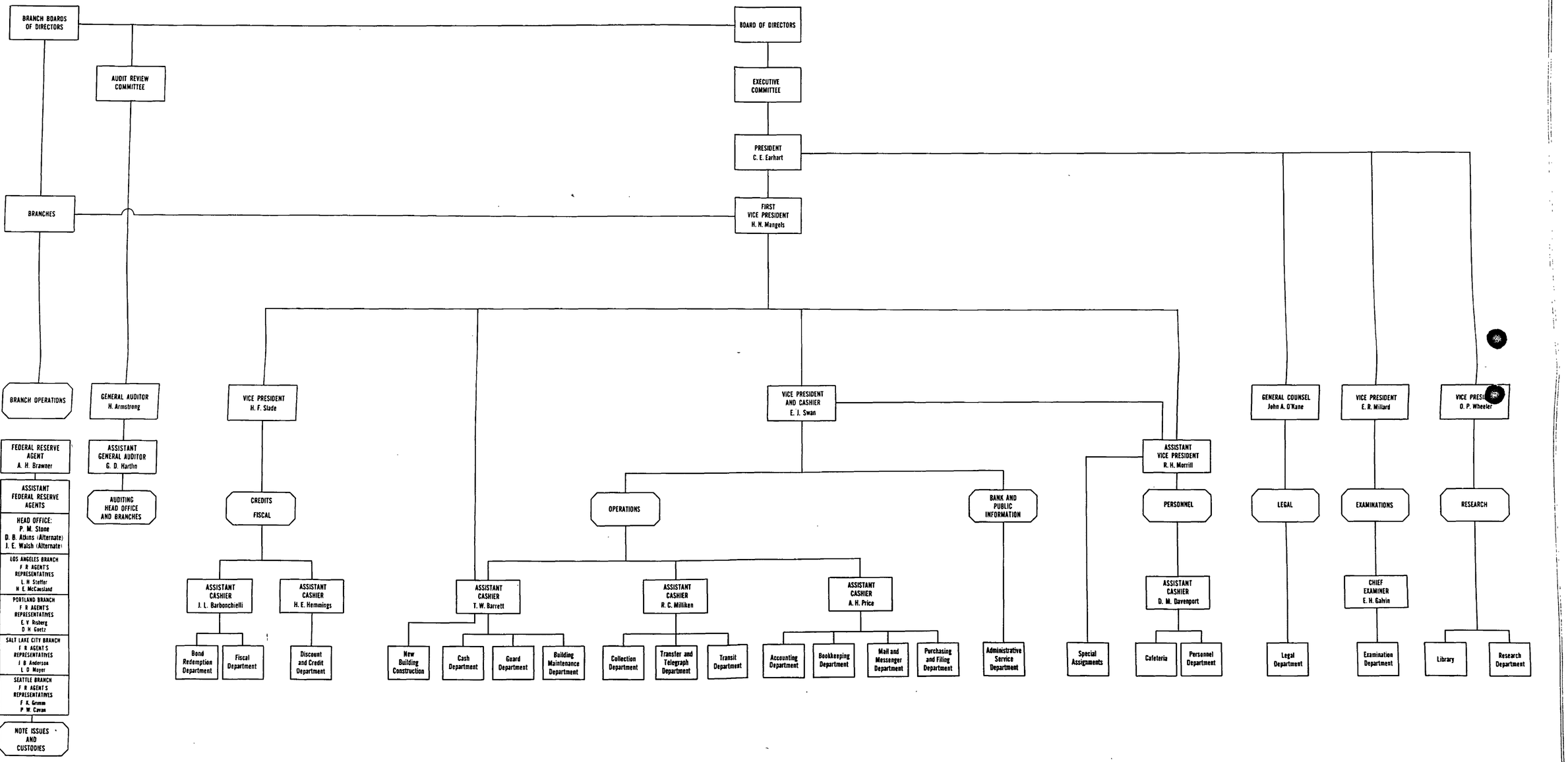




Organization Chart

FEDERAL RESERVE BANK OF SAN FRANCISCO—HEAD OFFICE

January 1, 1955

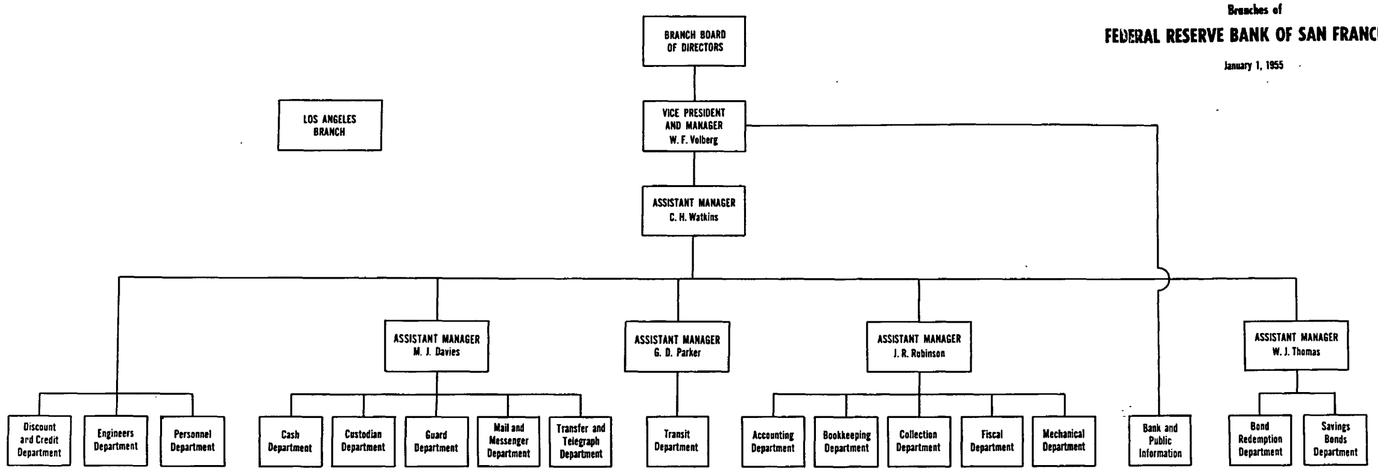


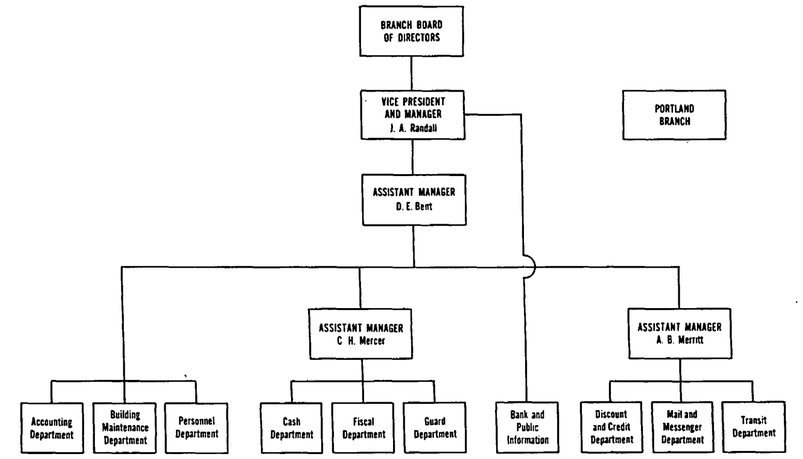
Organization Chart

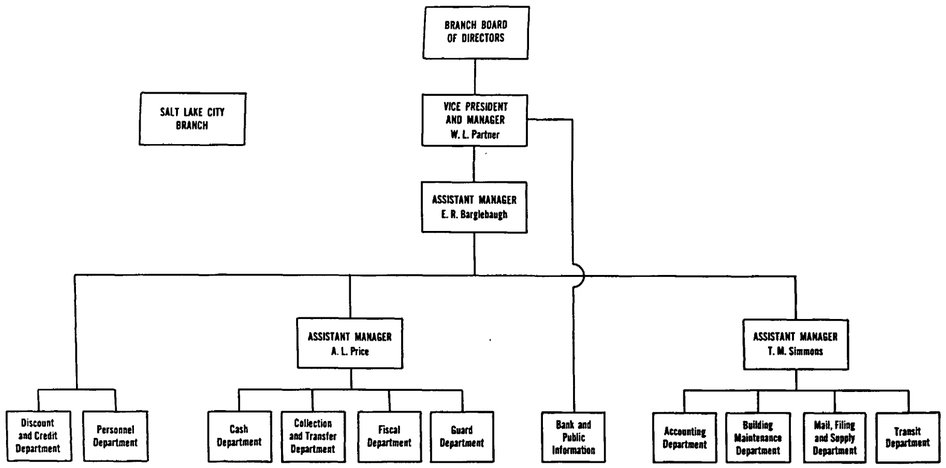
Branches of

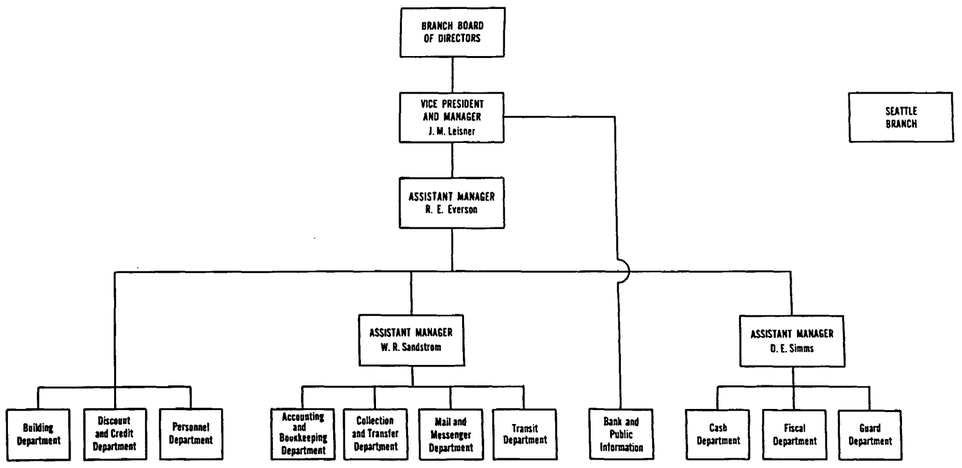
FEDERAL RESERVE BANK OF SAN FRANCISCO

January 1, 1955









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Title: Head Office News

Date: November 1928

Page Numbers: 1-4

Author(s): Federal Reserve Bank of San Francisco

Title: Head Office News

Date: April 1945

Page Numbers: 1-6