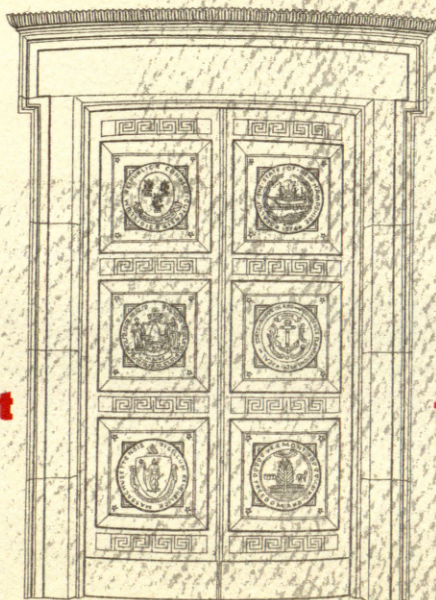




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**annual
report**



federal reserve bank of boston

1954

federal reserve bank of boston



January 5, 1955

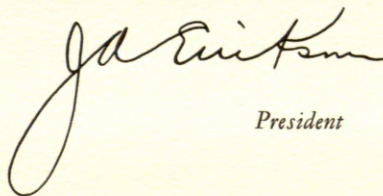
TO THE MEMBER BANKS OF THE
FEDERAL RESERVE BANK OF BOSTON:

I am pleased to transmit the 1954 annual report of the Federal Reserve Bank of Boston.

You will observe that much of this report is given to an analysis of New England's economic growth since 1920. We have chosen that year as our starting point because detailed statistics on the region have only been generally available since the end of World War I.

The heartening facts brought out in this report show that a growing population, expanding incomes, and increasing productivity provide a foundation on which New Englanders may base sound expectations for the region's continued progress and development.

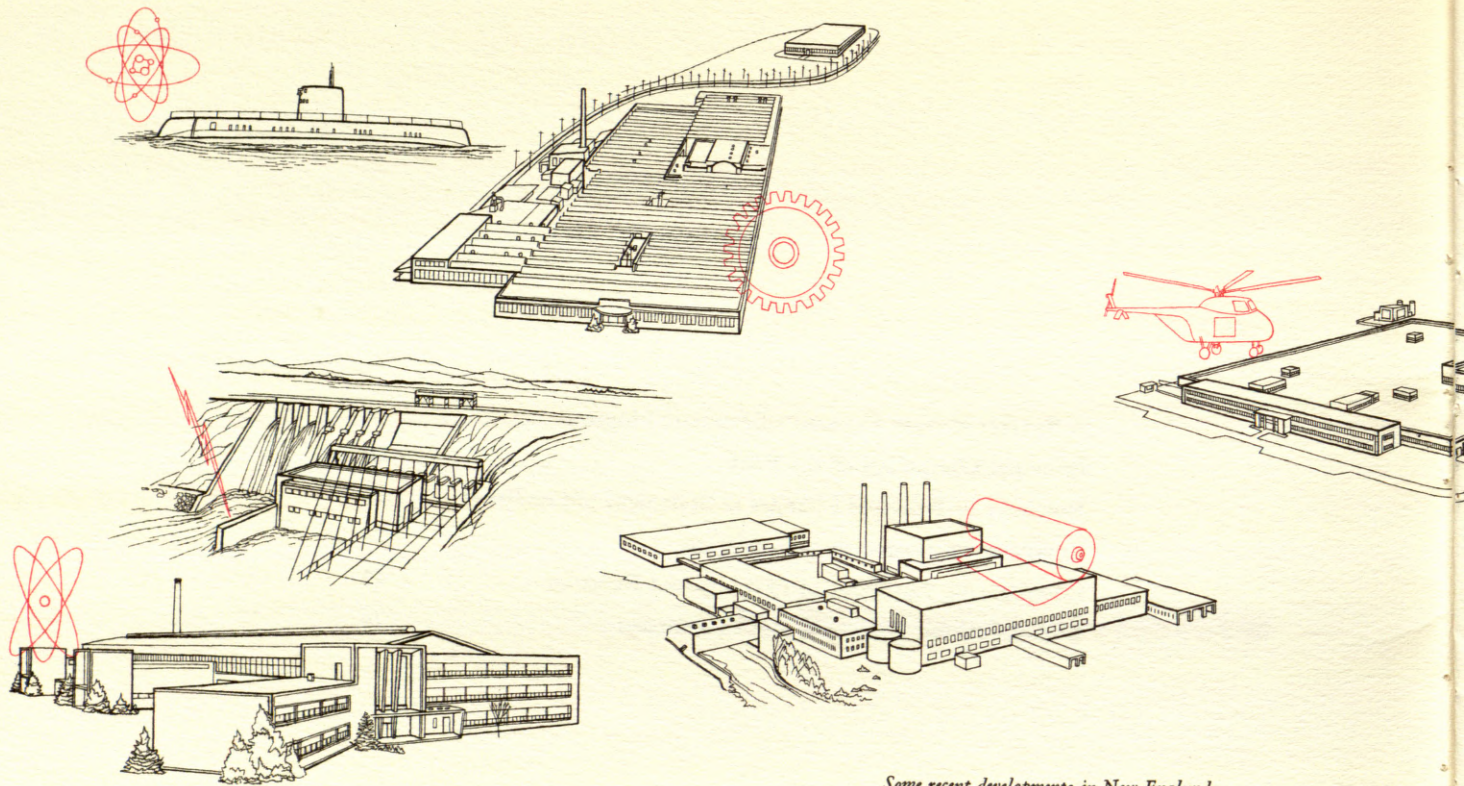
On behalf of the directors and officers, I wish to express appreciation for the cooperation received throughout the year from the staff of this institution, from bankers, and from leaders of agriculture, commerce, and industry in the First Federal Reserve District.

A handwritten signature in cursive script, appearing to read "J. A. Eitzen". The signature is written in dark ink and is positioned above the printed name "President".

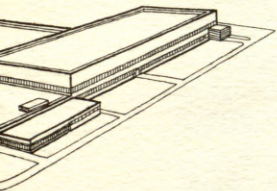
President

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Some recent developments in New England



In the smallest of the country's regions and with but meager material resources, the people of New England have built an outstanding economy — complex, resilient and dynamic. Its complexity grows in part out of its more than three centuries of development. Its resilience and dynamics stem from the New Englander's basic character and the society which he has created.

New England's six sovereign and sometimes vehemently independent states contain only six per cent of the country's population — considerably less than the New York-New Jersey metropolitan area alone.

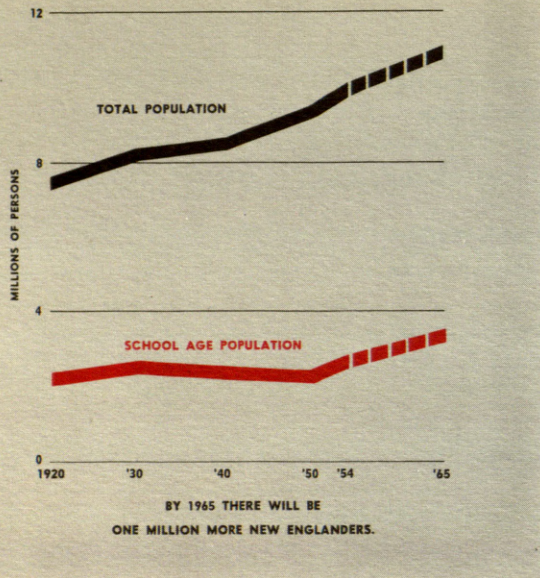
Yet, "there were probably not 10 countries in the world whose annual income equaled New England's," reported the Council of Economic Advisers to the President in 1951.

"If the country as a whole," they continued, "produced as much income per square mile as New England . . . the national income would be raised to . . . about three times the current income of the country."

a review of new england's economic progress

The Yankee's ways of earning a living are as varied as the region's landscapes. He fishes the blue Atlantic, raises everything from potatoes to wrapper tobacco, quarries granite and marble, teaches the young in internationally famous institutions, sells insurance around the globe, researches things and ideas from atoms to public opinion, bankrolls businesses throughout the world, and collects a handsome sum annually from vacation visitors to the region.

All these are important, and lend color and liveliness to the New England economic scene.



But for generations, the prime source of new money for New England has been the processing of imported raw materials into an incredible array of products sold to the nation and the world.

What keeps New England a vigorously going concern are its 24,000 manufacturing plants — up 50 per cent in number since 1939 — its million and a half industrial workers, and its \$6 billion manufacturing payroll.

New Englanders take justifiable pride in their vast recreational industry and in the products of their farms, forests, and fisheries. But manufacturing is the basic and largest source of income in *every* New England state.

New England, says the U. S. Department of Commerce, is the most mature, most highly developed industrial area in the country — which means of course in the western hemisphere.

The essence of all successful industrial economies is change, and in New England there have been major economic changes since World War I that have conspicuously improved the well-being of New Englanders. To explore New England's progress through change is the purpose of this report.

new england's progress through change

Today there are nearly 10,000,000 persons in New England, with some 2,000,000 of these added during the last 34 years. Most of these new residents were born here, though there have been periods of growth by in-migration. And this population increase is in itself a demonstration of

economic progress, for had New England been unable to compete in the markets of the world, its people would have sought opportunity elsewhere.

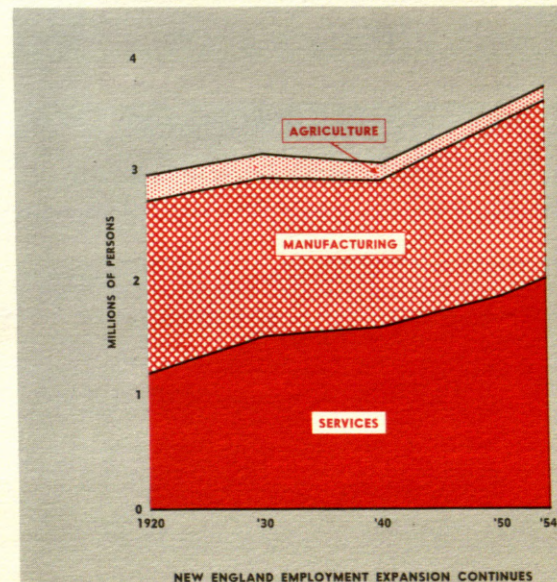
The decade ahead is likely to add still another million to the number of persons living in the six states. Probably no other single economic fact will be of more importance to the region. This growing population will demand still further expansion of public and private facilities, and will provide new markets for many of the region's producers. In this fact lie both the need and the opportunity for a continuing expansion of economic activity. Another million people by 1965 will necessitate New England's finding 400,000 new jobs, and of almost every imaginable variety.

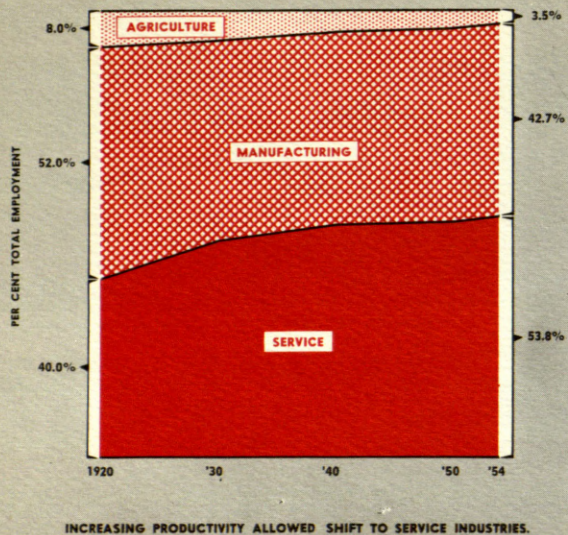
The region's labor force is made up of the 4,000,000 persons who work outside their homes. It is the productivity of this work force which largely determines how much the people of New England can buy and save.

By anticipating and meeting the changing requirements of their highly developed economy — and in this they have shown commendable foresight and agility — New Englanders have constantly put more people to work and increased their productivity. Since 1920, some 780,000 workers have been added to the region's total employment roll. And this growth in productive manpower has, in turn, enabled New England to maintain its income growth.

But the simple statistics of employment gains hide vital changes which have taken place since 1920 in the ways by which New Englanders earn a living.

Over the last 34 years, about 830,000 workers have joined the ranks of the region's service industries. This 70 per cent increase grew primarily





INCREASING PRODUCTIVITY ALLOWED SHIFT TO SERVICE INDUSTRIES.

out of two factors. Of first importance were the demands of industry and the swelling population for additional facilities and service by agencies of transportation, communication, utilities, finance, insurance and government. The second factor was further demand for doctors, lawyers, teachers and other personal services resulting from higher personal incomes. These two factors combined to absorb New England's increased labor force into the service industries.

There is nothing unique to New England in this greatly enlarged relative importance of service employment. It is part of a process going on in most economies where income is steadily rising. In fact, the proportion of New England workers presently engaged in these occupations is slightly smaller than that of the country as a whole.

The unusual feature in the growth of the service industries in New England was the way it came about. While the nation's service industries could draw from the farm labor force, this was not possible in New England.

In 1920, New England had only seven per cent of its workers in farming, forestry and fishing, in contrast to the national proportion of

growth patterns of service industries

28 per cent. The growth of the region's service industries had to come, therefore, at the expense of manufacturing growth. Indeed, between 1920 and 1954, the proportion of New England's work force employed in manufacturing dropped from 53 per cent to 42. But the latter figure is

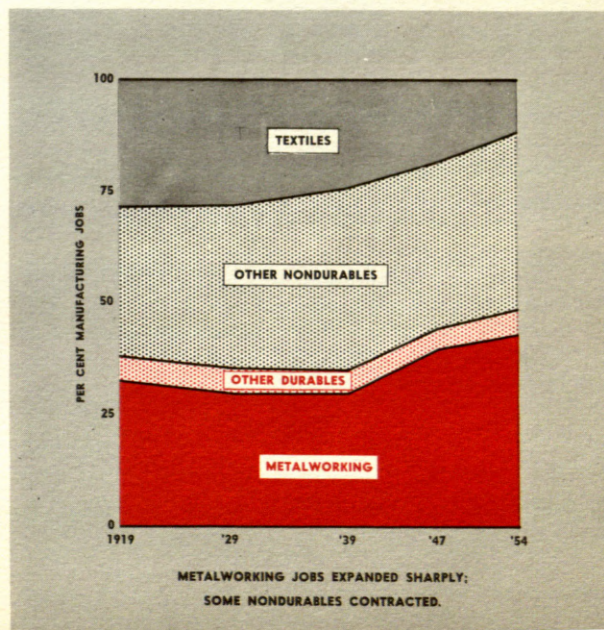
still one-third greater than the national average. And it is not only confirmation of New England's dependence on manufacturing, but also evidence of the region's manufacturing strength in generating higher incomes to support expanding service employment.

By the sale of New England manufactured articles to the rest of the nation and the world, the region is able to pay for the foodstuffs and raw materials which it must import. And it is the incomes earned in manufacturing operations which provide the basic market for a large portion of New England's service industries. Unless there is discovered within the region some tremendously valuable raw material, New England must look to its manufacturing skills for maintenance of its income.

The average level of manufacturing employment in New England in 1953 was about the same as the 1920 level. Yet during these years, individual incomes of an expanding population increased by one-half, even after adjustment for changes in price levels. Obviously a fundamental change in the character of New England's manufacturing activity took place during that period to enable the same number of workers to support more people at higher income levels.

This change, the most striking development in the region's manufacturing history, has been the shift in labor force to higher-paying, more productive industries — to industries in which New England's manufacturers hold a better position in relation to their competitors in other areas.

The transition in manufacturing activities has been marked by the significant increase in the relative importance of metalworking activities — up from 30 per cent of the total manufacturing employment in 1919 to



DOLLARS OF NET OUTPUT PER MAN-HOUR — 1952

0 2 4 6

EXPANDED 1919-53

ELECTRICAL
MACHINERYNON ELECTRICAL
MACHINERY

13 OTHER

CONTRACTED 1919-53

TEXTILES

SHOES &
LEATHER

3 OTHER

WORKERS SHIFTED INTO INDUSTRIES WITH HIGHER LABOR PRODUCTIVITY.

41 per cent of the total in 1954. Other durable-goods manufacturing also increased slightly, so that the proportion of total manufacturing accounted for by nondurable-goods industries decreased from 63 to 51 per cent of the total.

The slow, steady contraction of New England's textile industry has been the most publicized, and certainly the dominant factor, in the diminishing importance of nondurable-goods industries in the region. The loss in 34 years of 275,000 textile manufacturing jobs was especially difficult for the region because of its reliance on the industry, and the degree of dependence on textiles by many communities.

Despite this long record of contraction, the textile industry is still New England's largest single employer group. And those firms which remain have demonstrated their ability to produce effectively in New England. New England's employment gains in the years ahead will be facilitated if jobs lost in the textile industry do not have to be replaced.

The impact of the nation's defense program helped speed the transition in New England's manufacturing activity. Military needs are predominantly of the hard-goods variety. Their procurement, together with the construction of productive capacity for defense, further stimulated the expansion of durable-goods manufacturing in New England.

Between 1947 and 1953, 63 per cent of all new manufacturing jobs added to the region's economy were in just two product categories — electrical machinery and transportation equipment. The demand for electronic parts, radar, aircraft instruments, fire control devices, aircraft and naval ships all energized expansion of the metalworking branch of

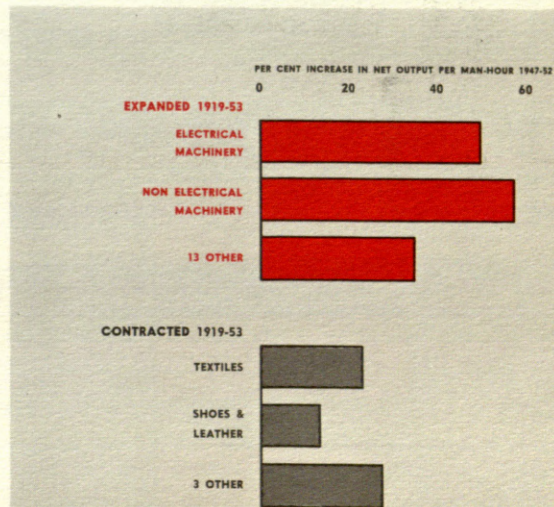
New England manufacturing.

The transition in manufacturing activity means that New England is making improved use of its most important resource — manpower. The New England labor force is being steadily “up-graded.” Output from an hour of labor in the durable-goods industries now exceeds output from a comparable hour in the nondurables by 10 per cent. The average net product per man-hour in New England’s expanding industries in 1952 was \$3.94 as against \$2.86 in the industries which have contracted since 1919.

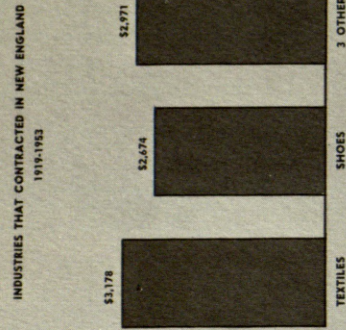
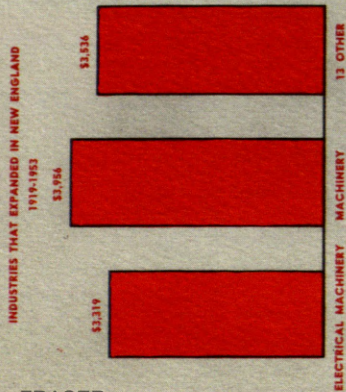
There is encouraging evidence, too, that New England is improving its competitive position in the national manufacturing economy. In those industries where New England is growing the fastest, the net product per man-hour is also advancing the most rapidly.

Gains in net output per worker in the region exceed those of the nation in six of the eight industries which are increasing net output per worker most rapidly in the United States. Those six industries — primarily metals — account for 41 per cent of all New England’s manufacturing employment. This record is partially explained by the fact that New England manufacturers, except those in the textile industry, generally enjoy competitive wage advantages over manufacturers in other areas.

For the region as a whole, the transition to durable-goods manufacturing has also raised the annual income of the workers. The average wage and salary income per worker for the years 1950 through 1952, in the industries which have shown long-term employment increases in New England, was about \$3,500. In the industries which have been declining it was only \$3,000.



PRODUCTIVITY GAINS ARE HIGHEST IN THE EXPANDING INDUSTRIES.



AVERAGE ANNUAL WAGES ARE HIGHER IN NEW ENGLAND'S EXPANDING INDUSTRIES.

Unfortunately individual workers' skills are not generally or easily transferable between industries. The social costs of the transition, as measured in unemployment, loss of skills, forced retirement, and forced worker migration, have been great. These social costs will be reduced by strengthening New England's remaining textile firms, by retraining displaced employees, and by other measures now being taken to relieve the stress of the transition.

The rise in individual incomes in New England, in dollars of constant buying power, has continued throughout the transition period and has consistently exceeded the United States average. The region's per capita income is now \$1,824, seven per cent higher than the national average of \$1,709. In terms of 1954 dollars, per capita income in New England has grown by one-half since 1929, reflecting the expanded output from each man-hour of labor.

New Englanders still practice their traditional thrift. Individual holdings of U. S. savings bonds, savings deposits and life insurance equities continue to expand. These liquid savings in the region now total about \$2,033 per person, a level some 43 per cent above that for the country.

And the Yankee's steadily rising income has enabled him not only to save more, but to spend more as well. After adjustment for price increases, the record shows that retail expenditures per person in New England have climbed by about 57 per cent since 1929, and have been constantly above the national average since then. It is the combination of a concentrated area and a large manufacturing population, with both high incomes and high savings, that makes the area so rich a market for both consumer and industrial products.

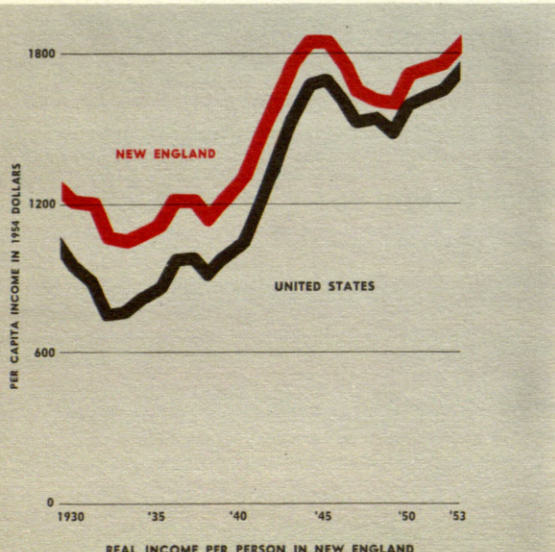
New Englanders have displayed self-reliance and organizational ability in attacking the trouble spots which inevitably appear in a rapidly changing economy.

As employment opportunities in certain areas diminished, primarily because of displacement in the textile industry and shifts within the region in the shoe industry, many communities devised economic re-development programs. Through the commendable ingenuity of local committees, they have appraised community resources, effectively sized up their problems, and moved energetically to secure newer and more diversified employment opportunities. In many instances the community industrial base has been reconstructed on a firmer footing, frequently through the activity of a local industrial foundation. By using locally contributed funds, these foundations have often been able to erect new buildings and lease them to enterprises requiring expanded quarters.

A pioneering effort in New England is represented by the formation of development credit corporations. The establishment of new firms and the growth of small enterprises has long been recognized as important

a new tool - development credit

in the region's economic development. Faced with the fact that equity capital and long-term loans were needed by small enterprises to expand their activities, New Englanders moved with forthrightness to establish organizations to meet those financial needs.



Five of the New England states have active development credit corporations and the sixth has such a corporation in the formative stage. By buying stock totaling \$1,000,000, originators of the development credit corporations have been able to secure pledges of loans from financial institutions totaling \$15,000,000. These organizations, still in their infancy, have only begun to tap the \$61,000,000 fund which is potentially available. The \$5,000,000 of loans and commitments which they have already made represents a revolving fund which will be loaned again as repayments build up. The effectiveness of credit corporation activities is magnified by the additional loans often granted by commercial banks after the credit corporation has investigated a loan application and made a favorable report.

Successful establishment and operation of these development credit corporations is a striking testimonial to the alertness of the New England business and financial communities in meeting their responsibilities to promote the growth of small enterprises.

Still another example of action to assist industrial and technological growth is New England's development of venture-capital organizations. These corporations, designed to aid the financing of new companies based on new products with technological promise, supply either equity funds or credit as required. Usually they work closely with the companies in which they invest to help assure their success.

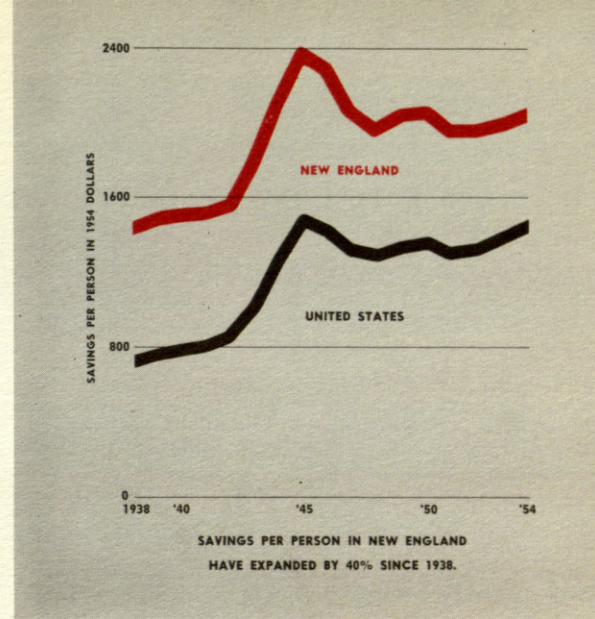
The forces which brought about the economic changes in New England described in these pages have not yet spent their energy. Indeed,

change is inevitable in the ways in which New England people work, and in the goods and services they offer in domestic and world markets.

Over the last generation the region has been able to expand its income by shifting its manufacturing operations to more productive industries. At the same time, many of the area's traditional industries have survived the transition by means of improved management techniques, by the installation of new equipment in new or modernized plants, and by the development of new methods and new products.

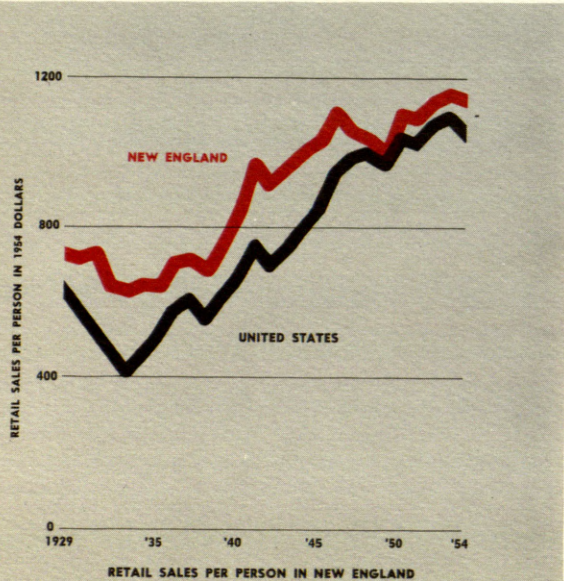
One may expect the New Englander to continue indefinitely the adaptability he has demonstrated for three centuries. As new economic problems arise — and problems are inherent in change — he is certain to find new devices and processes for solving them. And in many cases the rigors of the present transition have whetted his foresight and brought him to the point of deliberately forcing "the shape of things to come."

New England is singularly fortunate in its facilities for breeding ideas for new things and for new ways of making old things. While the region has only six per cent of the country's population, it has eight per



adaptability plus new ideas

cent of the nation's institutions of higher learning, and 13 per cent of those awarding higher degrees. These establishments are now training some 14 per cent of the nation's scientists. Though not all specially



RETAIL SALES PER PERSON IN NEW ENGLAND

HAVE INCREASED 57% SINCE 1929.

qualified graduates of New England institutions can remain here, the area's cultural background provides a powerful stimulus to scientists to seek employment opportunities within the region.

New England is recognized as an outstanding center of advanced research. And research-based industries offer expanding employment and investment opportunities as well as important new market developments.

The region has more than 11 per cent of the nation's industrial research laboratories, and more than 13 per cent of the laboratories in the instruments, electrical equipment and machinery industries. These facilities ably serve the New Englander in building new ideas.

The scientist-businessman is pointing the pathway to the region's industrial growth. As an illustration, the plastics industry was born here. And from small beginnings, it has expanded to the point where the region now produces about one-third of the national output of fabricated plastics and provides about one-quarter of the national employment in plastics fabrication.

Another industry with exceptional promise for New England is electronics. Between 1939 and 1953 the industry provided about one-fifth of the total growth in the region's manufacturing employment. At present an estimated 15 per cent of the nation's electronic firms are located in New England.

A field with a vast potential for New England is that of applied nuclear science. The region is already actively engaged in exploring this potential, but to maximize the possibilities New Englanders must be constantly alert to development patterns which are changing rapidly.

Within the area is a sizeable reservoir of nuclear experts who have gained experience in regional and national laboratories. New England has received 12 per cent of the domestic shipments of radioactive isotopes and 15 per cent of the concentrated stable isotopes during the first five years of AEC's distribution program. These radioactive materials are being used in the fields of medicine, instruments and industrial applications of many types.

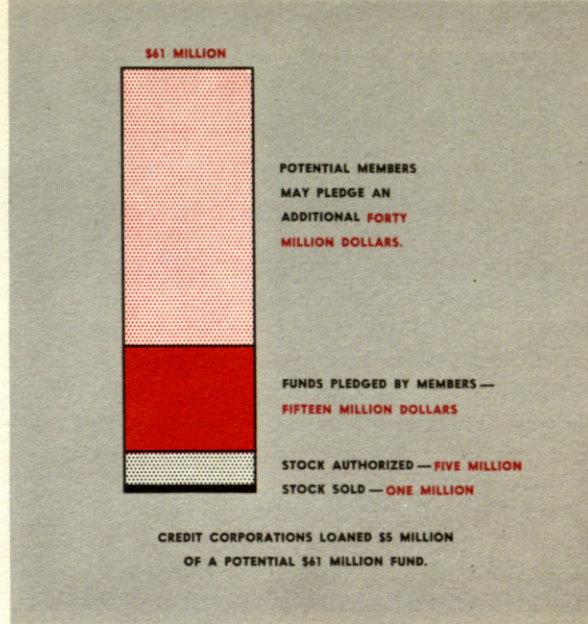
New England has gained experience, too, through constructing the world's first atomic submarines, and a broadening of the application of atomic propulsion to other vessels would certainly insure expanded activity in the region's shipyards.

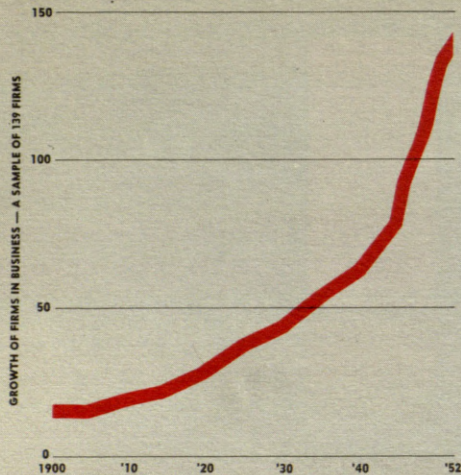
Even as this report is written, New England is deep in the design of an atomic power plant for aircraft. When construction of atomic motors for land vehicles becomes economically feasible, the region should thus have secured a substantial head start.

Two New England universities are now building research reactors and nuclear science laboratories, and are insuring the area's continued participation in the fruits of atomic research. And finally, a company

atomic possibilities for the region

formed by several New England utilities has associated with a major chemical producer to exploit atomic energy for electric power and other purposes as soon as it becomes commercially feasible.





ELECTRONICS FIRMS HAVE INCREASED RAPIDLY IN NEW ENGLAND.

It is obviously too early to foresee all the new production that will be required to support the harnessing of atomic energy for peacetime uses. But certainly the region's instrument industry will play a critical role in developing devices for use in treatment, measurement, control, and safety in medicine and in the laboratories and industrial plants related to nuclear development.

New England's economic strength is perpetually self-renewing — based on the vitality and resourcefulness of its people. New England's vitality is evidenced by new procedures and organizations which have strengthened its industrial activities and promoted the establishment and growth of new enterprises. New England's resourcefulness is demonstrated in shifts of its manufacturing activities into industries with higher productivity which, in turn, generate higher incomes for the region's growing population.

The New England story is a dynamic demonstration that a mature industrial civilization can contain the seeds of rebirth and revitalization. And it confirms those words written more than 100 years ago by John Lowell, founder of the Lowell Institute:

"The prosperity of my native land, New England . . . must depend hereafter, as it has heretofore depended, first on the moral qualities, and secondly on the intelligence and information of its inhabitants."

principal operations

Transaction	Volume in Pieces or Units (Daily Average)		Volume in Dollars (Annual Total)	
	1954	1953	1954	1953
Discounts and Advances	5	6	\$ 834,305,220	\$ 1,926,457,250
Currency Sorted and Counted	1,056,935	1,057,553	1,703,123,671	1,778,727,854
Coin Counted and Wrapped	3,280,546	3,344,290	74,989,550	73,115,150
Check Collections	1,016,110	995,002	57,643,213,535	58,105,459,486
Noncash Collections:				
Notes, Drafts, and Corporate Coupons	3,866	3,527	318,975,982	296,276,805
Safekeeping of Securities:				
Pieces Received and Delivered	1,214	1,166	9,992,654,000	12,342,150,000
Coupons Detached for Collection	1,303	1,304	29,772,054	27,094,151
Transfers of Funds	281	268	40,816,881,124	29,517,680,170
Issues, Redemptions and Exchanges:				
U. S. Securities (Direct Obligations)	931	953	12,690,282,822	10,117,570,851
U. S. Savings Bonds	41,637	38,678	875,591,079	786,123,549
All Other	11	5	18,589,000	12,307,325
U. S. Government Coupons Paid	2,051	2,161	112,360,033	106,864,142
Federal Taxes: Depository Receipts and Direct Remittances	1,885	1,806	1,173,206,132	1,124,427,612

The decrease of \$6.5 million in our *gold certificates* reflects the net of transactions with other Federal Reserve Banks and of member banks with the other districts. A favorable balance on private account by member banks was more than offset by losses on inter-Reserve bank transactions and on Treasury transactions.

Because we may now hold and pay out *Federal Reserve Notes of other Federal Reserve Banks*, as authorized by Congress in July, our holdings of notes of other Federal Reserve Banks increased about \$11 million.

Loans and Advances at year-end were almost entirely loans on gold to foreign central banks. Our member banks borrowed relatively little during this year because ample reserves were made available through open market purchases by the System in the first half of 1954 and later through a reduction in required reserves.

U. S. Government Securities represent our allocation of the holdings of the System Open Market Account.

summary of principal changes

Uncollected Cash Items decreased \$29 million. Aside from the usual seasonal forces affecting this account the decline reflected greater efficiency in operations and improved transportation facilities.

With regard to our liabilities, *Federal Reserve Notes* declined \$24 million, due in part to the new provision regarding Federal Reserve Notes, as mentioned previously, and to a moderate decline in issue since the record peaks in 1953.

Member Bank Reserve Accounts dropped \$53 million, reflecting largely reduction in reserve requirements, as well as the Treasury's call in late December on Member Bank Tax and Loan Accounts. The latter accounts for the increase in the *U. S. Treasurer's Account*.

Our ratio of gold certificates to note and deposit liabilities combined, improved slightly, to 43.5 per cent.

Net Earnings of \$16.2 million were \$7.8 million less than in 1953, the result primarily of a lower average earning rate on our holdings of U. S. Securities, and of lower average holdings of securities during the year.

Net Expenses were \$800,000 less than in 1953.

After dividend payments of \$883,000 to our member banks, 90 per

in statement of condition

cent, or \$13.8 million, was transferred to the U. S. Treasurer in payment of interest charge on Federal Reserve Notes levied under Section 16 of the Federal Reserve Act. The remaining \$1.5 million was added to surplus (Section 7).