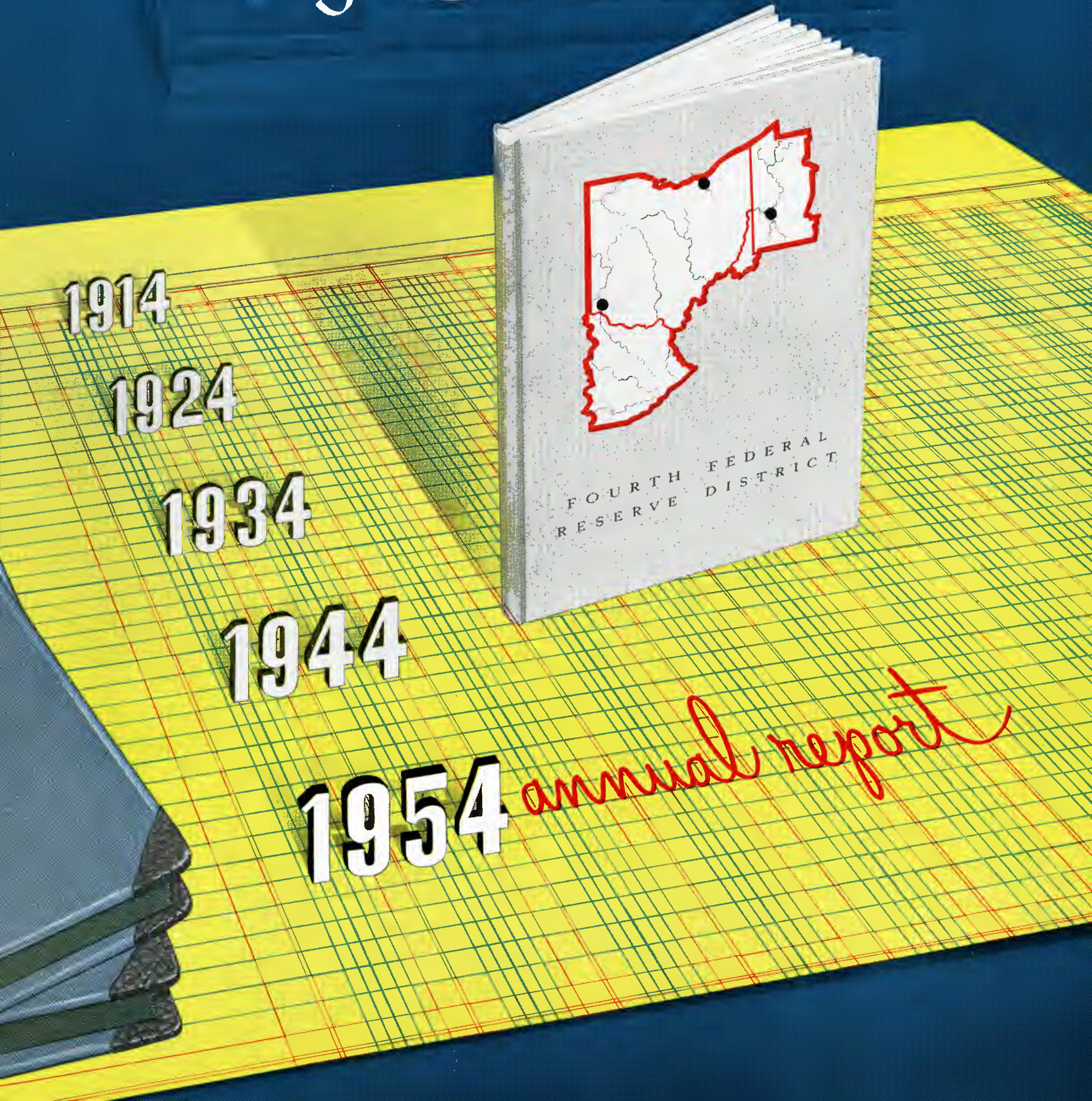
Federal Reserve Bank of Cleveland

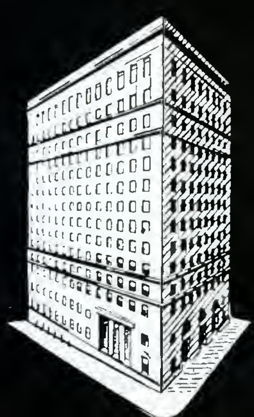


F EDERAL RESERVE BANK *of* CLEVELAND,

with branches at *Cincinnati* and *Pittsburgh*, serving the

CLEVELAND

Fourth Federal Reserve District . . .



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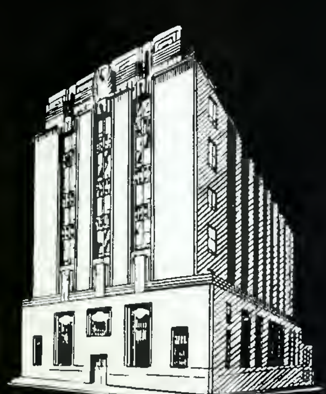

PITTSBURGH

ANNUAL REPORT

1954

FEDERAL RESERVE BANK

OF CLEVELAND

January 20, 1955

To the Banks in the
Fourth Federal Reserve District:

As 1954 ended, business showed definite signs of improvement from the level of output maintained earlier in the year. During the moderate decline which occurred from mid-1953 through early 1954, industry successfully cured some of the imbalances which at other times have led to sharp reversals of business activity and to conditions leading to depression. The ability to accomplish this adjustment in an orderly manner is a high tribute to the business and financial communities. The Federal Reserve System feels that it contributed to the adjustment by providing the basis for ample credit for both long and short-term borrowers.

To meet the changing requirements of business, the public and government, the Federal Reserve Bank of Cleveland constantly studies its operations so that it may provide efficient and prompt service to the banks in the Fourth Federal Reserve District and through them to commercial and agricultural enterprises and to the increasing population.

We are duly appreciative of the cooperation and counsel which have been given us by bankers and leaders in the fields of business and agriculture, and which have assisted us materially in discharging our duties.

John C. Virden — Chairman of the Board

W. D. Fulton — President

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Monetary Policy

for ORDERLY GROWTH

IT WILL BE recalled that 1954 opened on a somewhat inauspicious and subdued note. Industrial production and factory employment had been receding for five months. It is true that in absolute terms, business inventories had peaked out as early as September 1953. But the working-off process had been very slow. Takings of finished goods by distributors, by retailers, and to some extent by consumers, had begun to be affected by the change in trend and sentiment, with the result that by early 1954 business inventories were the largest in twelve years in relation to the concurrent volume of sales. Moreover, the rate at which new orders were being received by manufacturers had declined, in terms of physical units, to roughly the pre-Korean level.

On the other hand, commodity prices were exhibiting a high, if not an unprecedented, degree of stability in the face of diminishing demand, which suggested that the period of economic contraction and adjustment was relatively free from financial pressures. Morever, the smooth flow of disposable income into the hands of individuals scarcely had been dented, and the market for equities displayed a buoyancy which strongly belied any great anxiety regarding business prospects.

All in all, it was generally believed, or at least hoped, that the boom of late 1952 through early 1953 had been sufficiently brief and restrained as to minimize the probability of a deep and protracted economic readjustment. Yet there always remained the possibility that the inventory contraction might prove cumulative in momentum and might induce a downward spiral of some magnitude.

Policy of Ease

In the very early stages of the 1953 recession —which set in soon after the Korean truce— open market purchases and sales of U. S. Government securities were being conducted by the Federal Reserve System with the view of "avoiding deflationary tendencies." By the end of that year, open market policy had become the more aggressive one of promoting growth and stability in the economy by "actively maintaining a condition of ease in the money market." Ease in the money market *per se* could not cause excessive stocks to shrink over night to normal and workable proportions; but the ready availability of credit tended to reduce the risk of disorderly or disruptive liquidation.

The slowly but steadily growing ease in the money market was achieved by a monetary policy which was designed to increase the liquidity of member banks. As a foreseen consequence, by January 1954 the excess reserves of member banks were the highest in more than a year, and, of greater importance, free reserves (excess reserves less borrowings) stood at the highest level in three years. This condition of credit ease was effectuated through open market operations in short-term government securities and through associated reductions in member bank indebtedness at Federal Reserve banks. The post-holiday return flow of currency was only partly absorbed by open market sales, while at the same time, the gradual shrinkage in demand deposits (typical of any first quarter) was steadily reducing the quantity of legal reserves which banks were required to carry.

In view of the abundance of reserves and the reduction in member bank indebtedness to the reserve banks, System-wide action was taken to reduce discount rates applicable to such borrowing. In February, and again in April, the twelve Federal Reserve banks cut the discount rate, first from 2% to 1¾%, and then to 1½%—the lowest rate since 1950. These steps were taken to bring the central bank rate into closer alignment with the lower market rates of interest, and to make less expensive to member banks the cost of borrowing from the Federal Reserve banks for making temporary reserve adjustments.

Industry Level

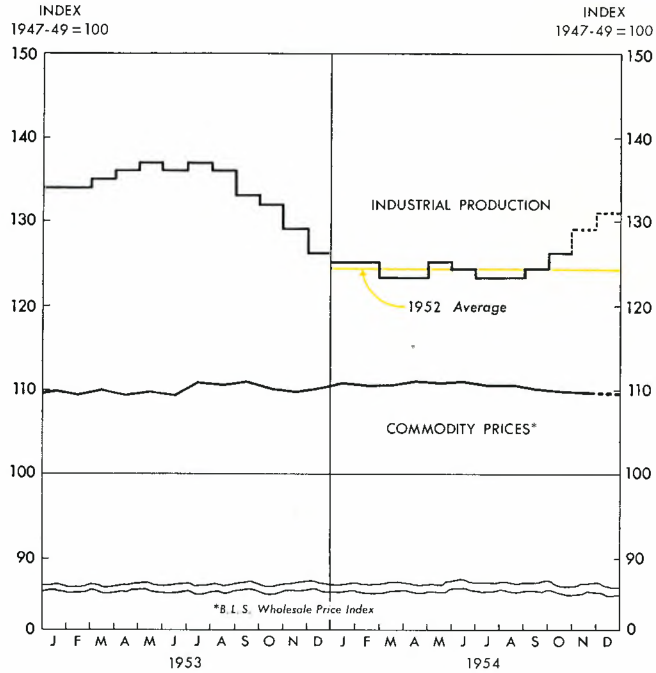
It was in this environment of readily available credit that industrial production seemed to find a sustainable level—an equilibrium at which (for nine successive months, as it turned out) factory output fluctuated narrowly around the 1952 average—a volume of output of material goods which had been considered quite satisfactory at the time. But in the meanwhile, the nation's population (and needs) had increased by at least another three percent, and some increase in potential productive capacity also had occurred. Therefore, a level of economic activity, which had represented nearly capacity production and high level employment in 1952, constituted something less than maximum utilization of the nation's human and material resources in 1954.

During the period of somewhat slackened—but not depressed—economic activity, Federal expenditures for defense, and especially the placing of new contracts, were tapering off. Inventories in most lines were still being whittled down to bring them more nearly into line with prevailing foreshortened sales. The demand for new commercial loans was sluggish, and new instalment credits were being extended at a rate only equal to repayments (after allowing for seasonal influences). The current demand for new capital by municipalities and corporations, as well as the demand for mortgage money, was readily accommodated by the high rate of savings flowing into life insurance companies, mutual savings banks, savings and loan associations, and pension funds.

Meanwhile, however, some of the traditional signs of economic distress and retrenchment scarcely made their appearance. The flow of personal incomes to individuals was adhering close to record levels. In fact, by virtue of a reduction in Federal tax rates, disposable personal income gradually edged into new high ground during 1954. Furthermore, despite some shortening of the work week in the first half of the year, average weekly gross earnings in industry were running only one percent short of the income received during the most active months of 1953.

In essence, stability as such seemed to be maintainable indefinitely under prevailing conditions. Yet the fact remained that the nation's productive facilities were not fully engaged. Out of a total labor force of nearly 68,000,000, roughly two percent were not gainfully occupied (over and above transient unemployment) in the production of useful goods and services; another and somewhat larger fraction was on less than a full workweek schedule. The steel industry, perhaps one of the more extreme examples, was operating at less than 70% of rated capacity. Under the circumstances, the banking system and other lending institutions were sufficiently liquid to handle all current requirements for credit and at rates more attractive to borrowers than for some months—or years—past. Such was the situation by late spring. The economy was not listing badly, but neither was it cruising at top speed.

PRICES HOLD STEADY, WHILE PRODUCTION GRAVITATES TO A FIRMER BASE AND THEN RECOVERS



The downward adjustment in industrial production which began in 1953 proved to be short and moderate. Factory output leveled out around the 1952 (near-record) average, and from that base it moved forward briskly during the final quarter.

The stability of commodity prices suggests that the period of decline and readjustment was relatively free from financial pressure.

Problem at Mid-Year

It was gradually becoming more evident, however, that somewhat different winds would be encountered during the second half of 1954. The flow of currency, for instance, would be the reverse of the first half. On that count alone, member bank reserves would be subjected to a drain of more than $1 billion. Also, it was hopefully expected that there would be a seasonal expansion in commercial loans, especially to distributive enterprises, and in agricultural loans for crop-moving purposes.

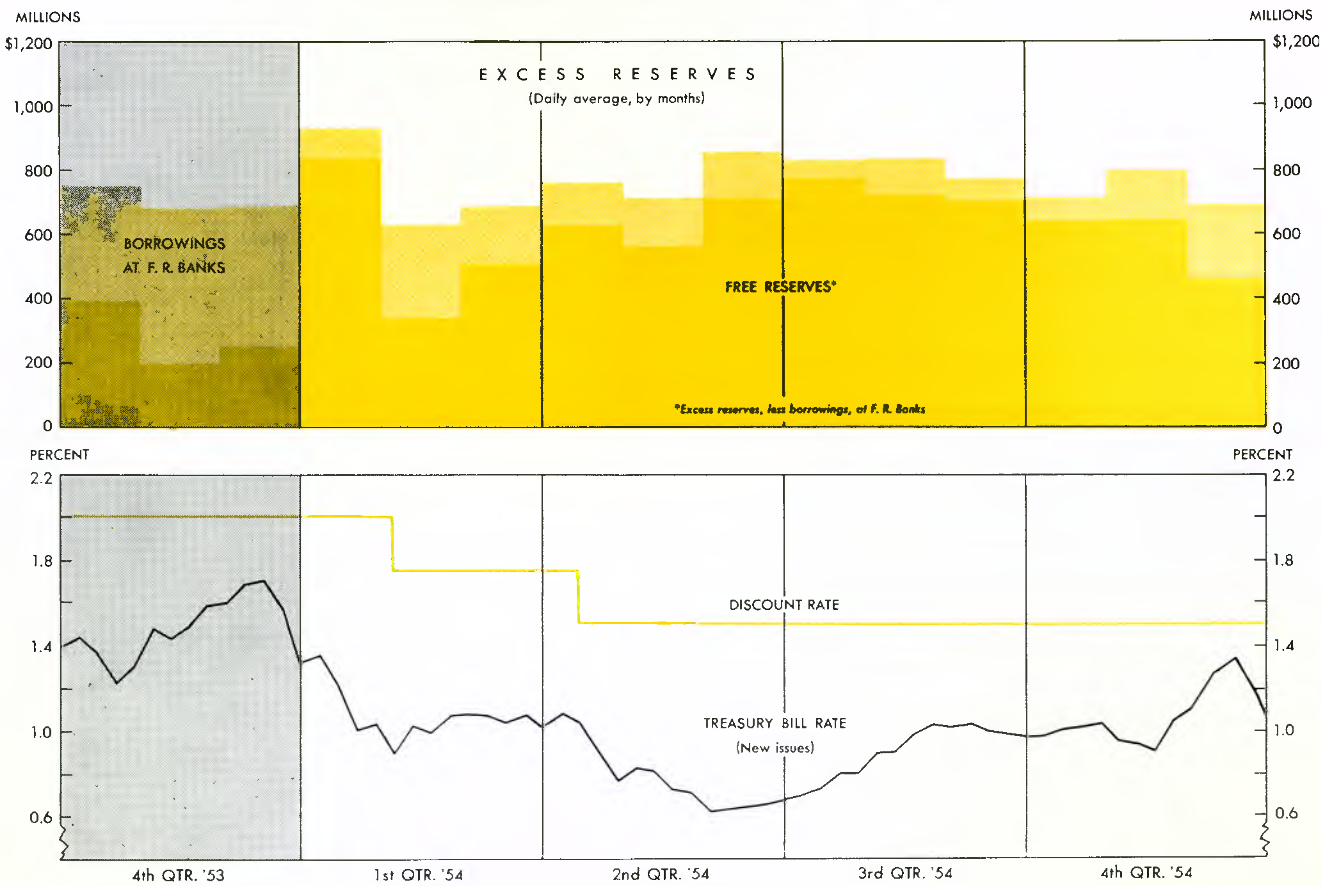
Moreover, new housing legislation by Congress promised to unearth new strata of demand for mortgage money. (Housing starts during the twelve months ended May 31 had been the smallest, by a slight margin, of any calendar year since 1949.) And finally, the U. S. Treasury was about to enter the much leaner half of the fiscal year. Corporations had already paid 90 percent of their 1953 income taxes, leaving only 10 percent to be paid during the July-December period. The Treasury obviously would be in need of funds, at least for short-term if not for intermediate or longer-term use.

In view of the mild indisposition with which the economy was still being affected, there arose the problem as to the manner in which the various prospective demands for funds could, and should, be accommodated. In the absence of any off-setting action by the Federal Reserve System, the consequence of these accumulated demands would necessitate substantial borrowing by member banks, with possibly higher interest rates which might discourage some new undertakings. There was the possibility, too, that borrowers might be turned down mainly because of the lenders' reluctance to encroach upon the legal minimum reserve requirements.

Steps Taken at Mid-Year

Meanwhile, during May and June, the policy of actively maintaining a condition of ease in the money market was being implemented by open market purchases of U. S. Government securities

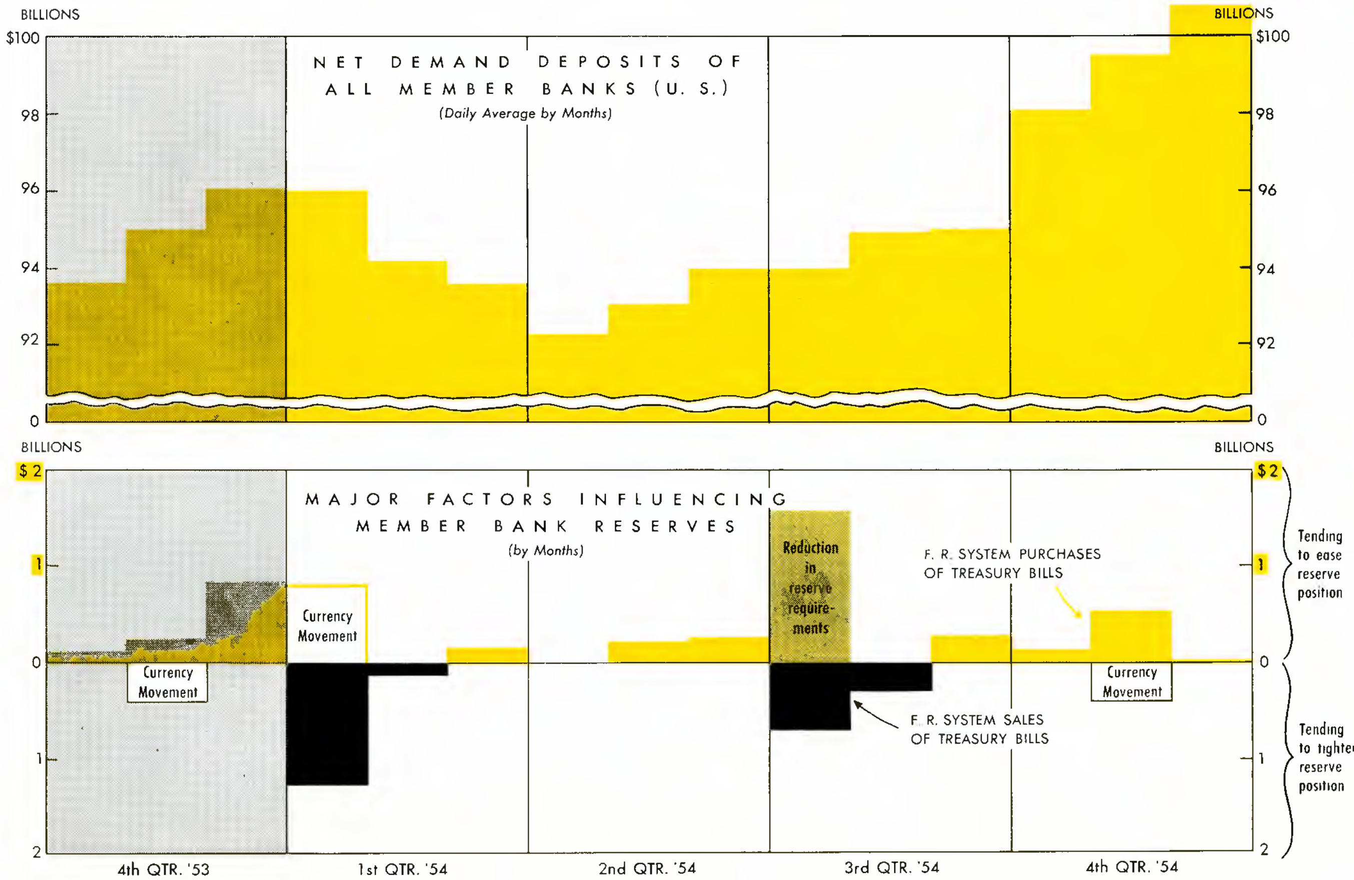
FREE RESERVES—AND THE POINT OF LOWEST RETURN



Briefly during June, the Treasury was able to borrow short-term money at the lowest interest cost in seven years. Money rates, however, fluctuated more widely throughout the year than did the volume either of excess or of free reserves.

The discount rate reductions in February and April brought the cost of member-bank borrowing more nearly into line with prevailing market rates.

ACTIVELY MAINTAINING A CONDITION OF EASE



The bank reserves which were in existence at the beginning of the year would not have been adequate to support the $8 billion expansion of net demand deposits which occurred between April and December. The more-than-seasonal growth in the money supply was made possible by (1) a series of reductions in reserve requirements in June-July-August, and (2) open market purchases of Treasury bills at various times throughout the year.

(as shown by bars on above chart). It was during this interval in late spring that the yield on Treasury bills, reflecting an abundance of reserves, reached the year's low at about 5/8% as against better than 2 3/8% a year earlier—one of the sharpest declines on record. It was also in June that a further step was taken to ensure that member banks would be able to handle the prospective demand for credit and currency without impinging upon their reserve position. A reduction in percentage reserve requirements was ordered on June 21, to take effect serially between then and August 1. The purpose of this action was described as follows at the time the reductions were announced:

> "This action was taken in conformity with the Federal Reserve System's policy of making available the reserve funds required for the essential needs of the economy and of facilitating economic growth . . . It was made in anticipation of estimated demands on bank reserves during the summer and fall, taking account of probable private financing requirements, including the marketing of crops and replenishment of retail stocks in advance of the fall and Christmas sale seasons, as well as the Treasury's financing needs . . . For more flexible and frequent adjustments to the credit needs of the economy the System relies chiefly upon open market operations to release or absorb reserve funds."

The amount of reserves released by the action of June 21 was estimated at $1,555,000,000—a sum which assumes modest proportions when measured against such facets of the economy as total bank deposits, total personal consumption

Continued from preceding page

expenditures, the annual flow of national security disbursements, or the gross national product. But in terms of the nation's credit base, the change in required reserves meant that bank credit, over a period of time, theoretically could be expanded by around $10 billion and, if so, that the money supply—the working capital of the nation—would be supplemented by the same amount. Subsequently, the expansion in net demand deposits from April onward was, in fact, more than seasonal; it could not have been supported by the member bank reserves in existence when the reductions were announced.

In order to prevent this release of potential credit from suddenly creating disorderly conditions in the money market on the *upside*, a considerable quantity of Treasury bills was sold in the open market during July and August (see previous chart) so as temporarily to absorb a substantial part of the newly-released reserves. By late September, this short-run process was reversed. By a sequence of timely purchases of Treasury bills, especially during November as the currency outflow reached the seasonal peak, the reserves which had been withheld, so to speak, were being made available to the banking system.

Question of Turning Points

In review, it is difficult, if not impossible, to select a specific week or even a particular month in 1954 and to identify it as the turning point from which industrial recovery ensued. The market prices of common stocks were in a strong upward trend all year, whereas sentiment in industrial and commercial circles swung very slowly from caution to conservative optimism.

But the point of greatest ease—the point of lowest return to the lender, and conversely the lowest cost to the borrower—varied among the several segments of the money market.

The rate at which the Treasury could borrow 91-day money began to turn upward in June; by the end of the third quarter the rate began to stabilize around the 1% level, except for the largely seasonal fluctuations in December. The return on intermediate-term Government securities reached the year's low somewhat later. The yield on Triple A corporate and municipal bond prices reached the year's low in August. The yearlong decline in the prime commercial paper rate ended in September, with a yield approximately one-half that of a year earlier. These various individual turning points in money rates are entered here solely as memoranda, and not in the sense that they necessarily conform to any established pattern or preconceived level.

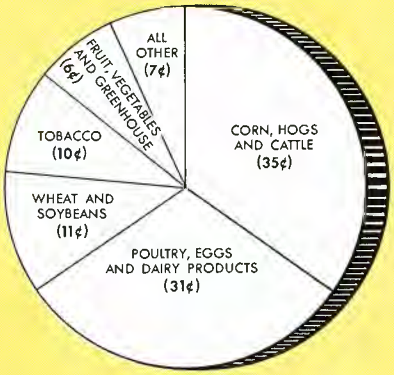
Neither the formulation nor interpretation of monetary policy is amenable to a precise arithmetical or mechanical formula. Conceivably, the industrial recovery which featured the closing quarter of 1954 might have emerged without any encouragement from monetary policy; by the same token, however, its timely appearance was consistent with the potentialities inherent in the measures adopted by the Federal Reserve System, and it was compatible with the basic longer-run objectives of Federal Reserve policy. And by yearend, the recovery had become vigorous enough to emphasize anew the fact that the System must at all times be free to maneuver—to have flexibility in its program—to meet any contingency.

Cross Currents in Agriculture

AVERAGE FARM PRICES and farm income declined during 1954 for the third successive year. The income drop was moderate and the average price decline was substantially less than in the preceding year. The *levels* of both prices and income were high by any broad standard, whether postwar or prewar.

In spite of drought and other weather adversities, total agricultural output was third highest in the nation's history. Agricultural exports picked up moderately, after a decline of 24 percent during the prior two years. Domestic demand for food and fiber products in general held firm, in spite of the business recession during a considerable part of the year. Where price weakness occurred, it was largely due to the cumulative effect of current production added to existing stocks.

THE FARM INCOME DOLLAR IN THE FOURTH DISTRICT



According to Type of Products Sold

Much variation occurred according to commodity lines. Surpluses plagued dairymen and poultrymen, for example, while at the other extreme, soybean growers and hog producers (at least through much of the year) enjoyed a market of shortages relative to demand.

Use of credit to finance farm operations continued to rise in 1954; the total has been considered to be reasonably in line with farm income. Funds, either from banks or other sources, were generally adequate to meet worthy credit needs throughout the year.

Fourth District

Farming in the Fourth District is distributed over a considerable range of crop and livestock products. Of outstanding importance to the District, however, are the corn-hog-cattle group, which is characteristic of western Ohio, and the poultry-dairy group, which is well scattered throughout the District although western Pennsylvania and northeastern Ohio are noteworthy for this type of farming.

The relative importance of such products to the farmers of the District is shown by the accompanying chart; the shares of farm income represented by burley tobacco, wheat and other leading products or product groups are also indicated. (The chart is based on latest available Census data.)

Those types of farming which fared well in the 1954 agricultural year, as well as those where the going was rough, are included in the Fourth District panorama.

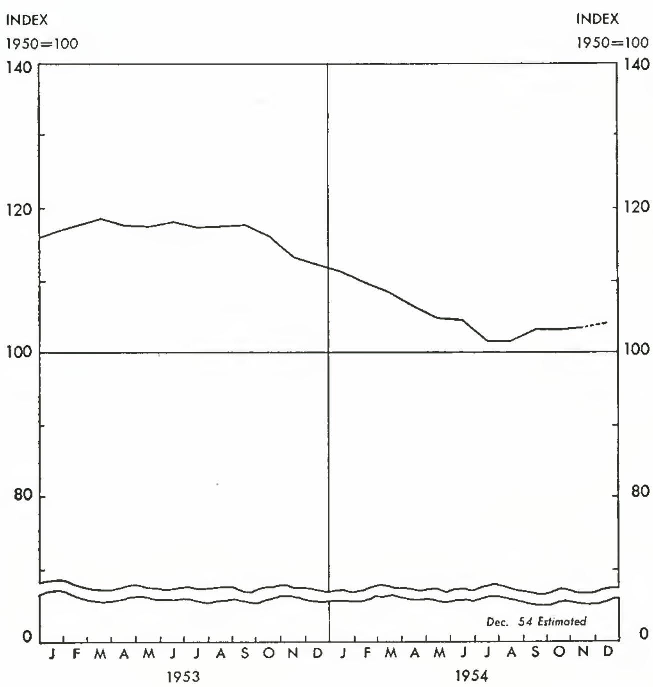
Downs and Ups

THE PATTERN of business events during 1954 was quite different from that of 1953. In most lines of business and industry, the second half of the year was much stronger than the first half; during the previous year it had been the other way around. For some industries, such as steel, the downward movement in activity which began in mid-'53 persisted almost without interruption through the first half of 1954.

In many lines, a short-lived recovery appeared in the spring, followed by a further moderate slackening during the summer months, and by a firm recovery in the autumn. (The curve which plots such a course exhibits broadly a "W"-effect as contrasted with the more nearly "U"-shaped pattern of the steel curve.) In any case, the recession of 1953-54 was mild, and was clearly over before the year was out. The entire year 1954, as is well known, goes down in the record as the second largest of the nation's history in respect to most significant business indicators.

Manufacturing industry of the Fourth Federal Reserve District is generally outstanding in respect to steel, machinery, auto parts and other fabricated metal products, and rubber tires. These are industries which are sensitive to the type of industrial slackening which occurred between mid-'53 and mid-'54; the industry of this District therefore felt its full share of the earlier unfavorable news as well as the more recent favorable news.

MANUFACTURING EMPLOYMENT
Fourth District



An accompanying chart shows the course of employment in manufacturing industries in this District during the past two years. The decline from the peak of mid-'53 to the trough in July and August of 1954 amounted to 14 percent and temporarily brought District employment nearly back to 1950 levels, which are used here as the base period for the index. A sharp decline in steel output and a strike at the rubber-tire plants in July and August were major factors in the summer dullness. The slowness of the recovery in manufacturing employment during the final months of the year is largely a reflection of continued slight declines in the District's machinery and nondurable goods industries.

The long-run gains in employment within the District since 1950 are mainly attributable to expansion in the automotive parts and machinery industries. Such gains have not been forfeited by the course of events of early 1954.

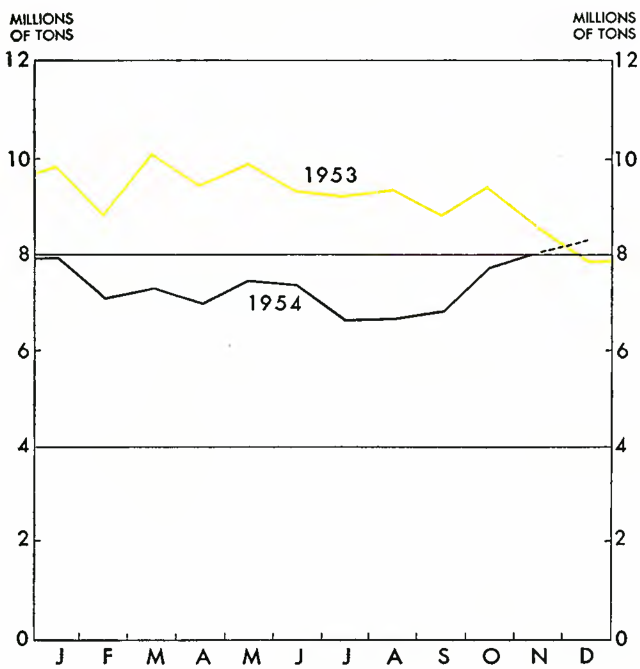
Steel

From the record high levels of the first half of 1953, production of steel drifted downward until the national monthly total reached about 6.6 million ingot tons. The subsequent steady advance, as shown in the chart, lifted steel production to 8.1 million tons in November and close to an estimated 8.3 million tons in December. The latter represented an operating rate of nearly 80 percent of capacity. Thus in the final four months of the year, steel ingot production rose by nearly 25 percent.

The abrupt turnabout in the steel industry can be traced to two main factors. The first was the general completion, reached by the beginning of the fourth quarter, of the wave of steel inventory liquidation that had been under way since early

in Industry

STEEL INGOT PRODUCTION
United States



in the year, and the resumption of purchasing in line with current consumption requirements. The second was the unprecedented year-end surge of production by the automobile industry which, in recent years, has consumed close to 20 percent of total steel shipments. For the entire year, steel ingot production in the United States is estimated at close to 88.3 million tons, or about 21 percent below the record 1953 output, and about equal to the outturn in the boom year of 1948.

Autos and Parts

The 1954 pattern of automobile production had a decided effect upon District employment in the motor vehicle and parts industry. Production was progressively cut by the industry in a successful attempt to reduce new car stocks in the hands of dealers before the launching of the new 1955 models. By the end of October, dealer stocks were at the lowest level since production had been cut by the 1952 labor dispute in the steel industry.

Beginning in October, activity in the automotive industries began to expand, as suppliers stepped up the production of parts and components for the new models. The uptrend continued through the end of the year, as auto schedules were progressively raised to record levels. For the entire year, passenger car assembly is estimated at 5.5 million units, or about 10 percent below the high 1953 total.

Machinery

The earlier phases of the recession of 1953-54 had relatively small effect upon the District's machinery producers when measured by changes in employment. However, the downturn persisted all through the first 11 months of 1954 so that by November, employment in the machinery industries of the District was 15 percent below the peak of March 1953. Employment declines were a little more pronounced in the electrical machinery industries than in the larger nonelectrical group. Changes within these large District industries were varied, however, with year-end activity in the metalworking machinery subgroup registering the largest drop from March 1953 levels, while employment in the production of household appliances ended the year slightly above the March 1953 position.

Rubber Tires

The slowdown in the passenger-car industry was almost a direct measure of the drop in the rubber industry's shipments of passenger-car casings. Through the first ten months of 1954 sales of replacement tires were on a par with the previous year, but sales of original-equipment tires were down 5.4 million units. This may be compared with a drop in production of about 1,020,000 passenger cars for the same period. Production of all types of pneumatic casings during 1954 is estimated to be about 9 percent below the large 1953 total.

The outstanding development in the rubber industry in 1954 was the general introduction of the tubeless tire. At year end, the rubber-tire factories were working overtime to supply the auto industry with the new-type tires.

The Year in Fourth District Banking

TOTAL loans and investments of Fourth District member banks rose by nearly 5 percent in 1954. With the exception of 1952, the growth was the largest in the past six years. The trend of earning assets in recent years is shown in an accompanying chart.

Investments

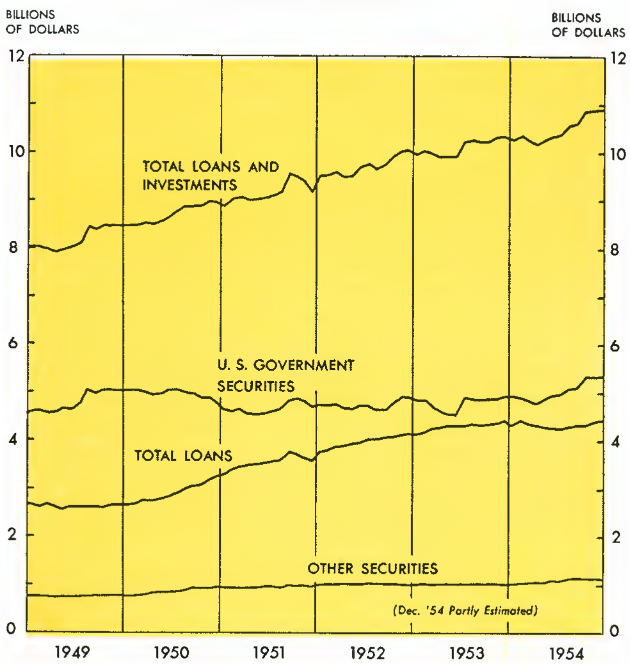
To a large extent, the rise in total loans and investments of District banks in the past year was the result of expanded holdings of U. S. Government securities. Despite a moderate drop through April, these holdings rose by about $400 million for the year as a whole.

Experience in the Fourth District conforms to an important national pattern that has emerged in recent years. There is a tendency for the Federal debt to move in an opposite direction to the business cycle and for bank loans and holdings of U. S. securities to move in a partially offsetting manner, both in periods of economic expansion and contraction. As a result, total earning assets show a more stable rate of growth than in earlier periods, and consequently bank deposits (the principal part of the money supply) display the same tendency.

Holdings of municipal and corporate securities by Fourth District member banks also rose, moderately, during 1954, in contrast to their virtual stability during the previous three years. Expenditures by state and local governments on schools, roads, and other public works continued to expand during 1954, with member banks supplying a part of the funds, both in the District and nationally. In this District, however, almost all of the increase in municipal as well as corporate securities occurred in the holdings of member banks in large cities.

LOANS AND INVESTMENTS

Fourth District Member Banks



Figures are for last Wednesday of month

Loans

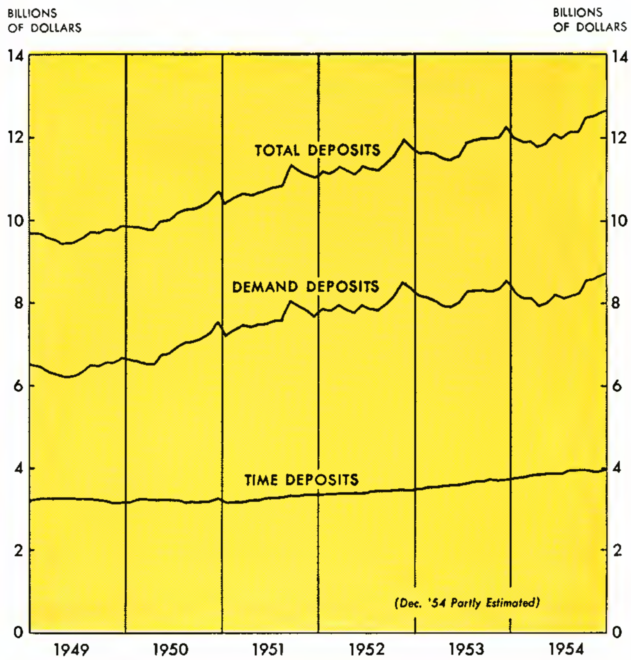
The growth of earning assets of Fourth District banks occurred despite the failure of loans to show any net expansion for the year. The last previous period in which that had been the case was the recession year of 1949. However, the relative stability of total loans in 1954 was the result of widely divergent patterns in various types of loans.

The decline in *business loans* of Fourth District banks started earlier, lasted longer, and went further than in the nation as a whole. The District decline began in mid-1953 and lasted through October of 1954. In contrast, the drop in business loans of member banks nationally began early in 1954 but was reversed by August. To a large extent, the weakness in loan activity in the Fourth District stemmed from the importance in the District economy of manufacturing and mining—especially the metals and metal products lines. It was in such types of business that inventory liquidation and the decline of Federal defense spending had the greatest impact during the year.

It was not until November that an upturn occurred in business loans of District banks, and even then, much of the rise came from purchases of certificates of interest sold by the Commodity Credit Corporation, representing a pool of price-support loans on farm commodities. Because of the relatively greater importance of business loans to large city banks in the District than to country banks, total loans of the former registered a decline for the year, despite partially offsetting gains in all other types of loans. On the other hand, total loans of country banks rose for the year, mainly because of an increase in agricultural loans.

DEPOSITS

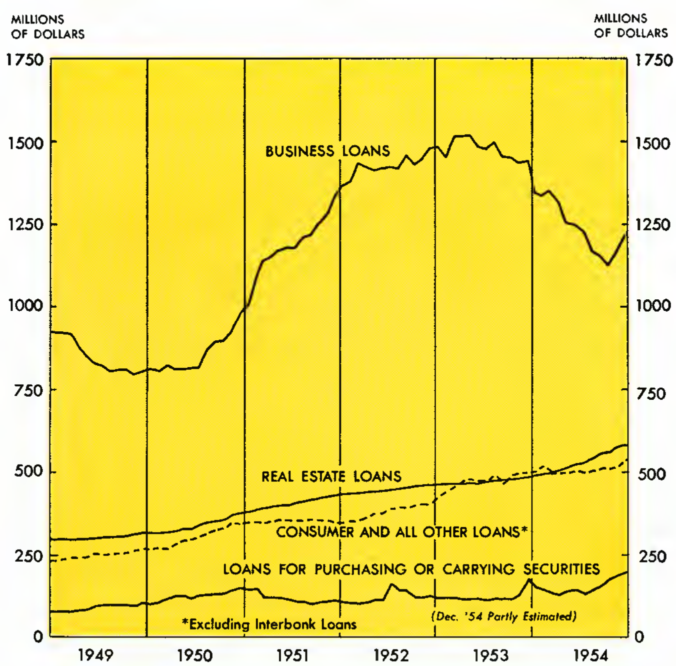
Fourth District Member Banks



Figures are for last Wednesday of month

LOANS

Fourth District, Weekly Reporting Member Banks



Figures are for last Wednesday of month

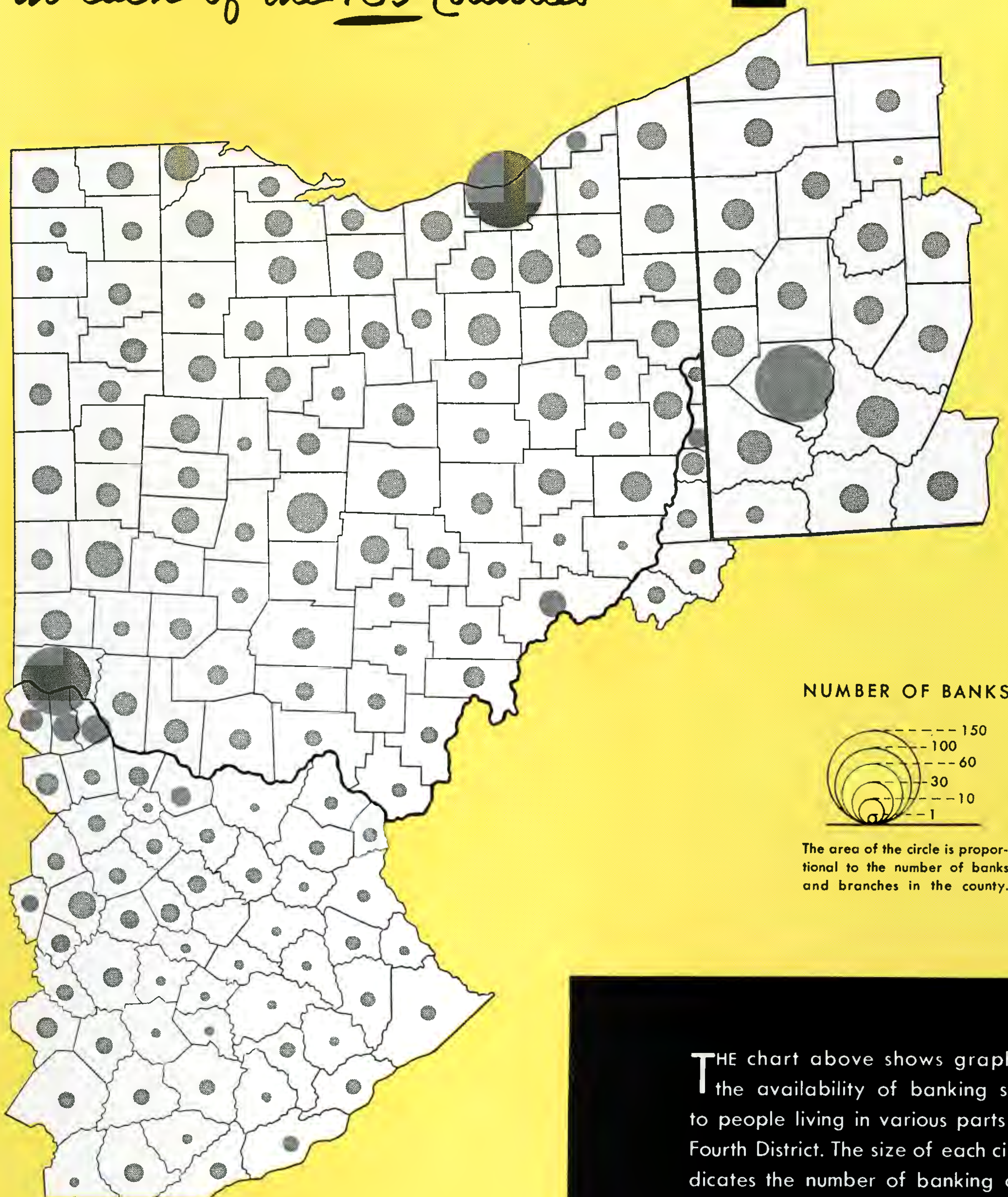
Chief among the other categories of loans registering increases which served to offset the decline in business loans was *real estate loans*. Construction, particularly residential, was one of the most active sectors of the economy in 1954. Member banks in the Fourth District participated in the financing of this activity with one of the largest increases in real estate loans in recent years.

Deposits

Throughout the first four months of 1954, the seasonal decline in demand deposits roughly paralleled that of 1953. A gain in demand deposits during the balance of the year, reflecting both seasonal forces and an expansive monetary policy, produced a modest increase for the year as a whole. The increase, however, was smaller than in any year since 1949. By way of contrast, the growth of time deposits at Fourth District member banks during 1954 was larger than in any recent year except 1953.

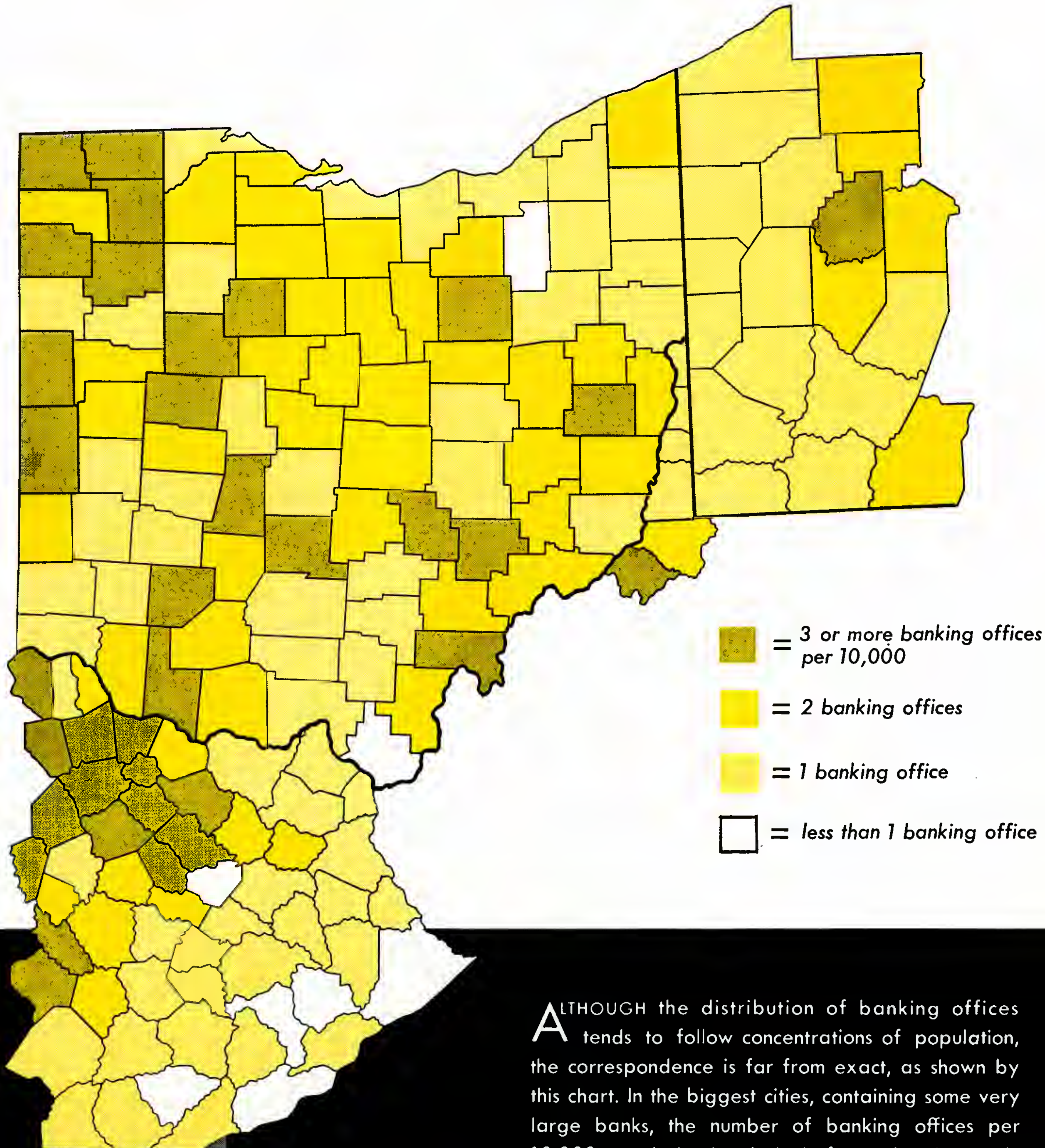
NUMBER OF BANKING OFFICES

in each of the 169 Counties



THE chart above shows graphically the availability of banking services to people living in various parts of the Fourth District. The size of each circle indicates the number of banking offices, including branches of any bank, located in each county. Reference is to commercial banks, whether members or nonmembers of the Federal Reserve System. The information was compiled as of Nov. 15, 1954.

NUMBER OF BANKING OFFICES
per 10,000 population



ALTHOUGH the distribution of banking offices tends to follow concentrations of population, the correspondence is far from exact, as shown by this chart. In the biggest cities, containing some very large banks, the number of banking offices per 10,000 population is relatively fewer than in certain other areas, such as Northwestern Ohio, where the number of banking offices in proportion to the population is quite large. By contrast, some of the southern counties of the District have relatively few banking offices, even in proportion to population.

VOLUME OF OPERATIONS

at the three offices combined

A total of 303 million *checks* was handled during the year—the equivalent of more than one million checks per working day. This set a new record and exceeded by 8 percent the large number handled during the previous year. (See chart on adjoining page.) Such a comparison indicates the enlargement of work-load at the three offices, but it should not be taken as a reflection of change in business conditions in the District, since the figures were also affected by shifts in banking practices in the clearing of checks.

The dollar total of *currency* paid out by the three offices was below the year-ago figure for every month except November. (See chart.) For the entire year, currency payments totaled $1.8 billion, or 7 percent below the previous year's figure. Reduced demands for payroll currency accounted in some part for this outcome.

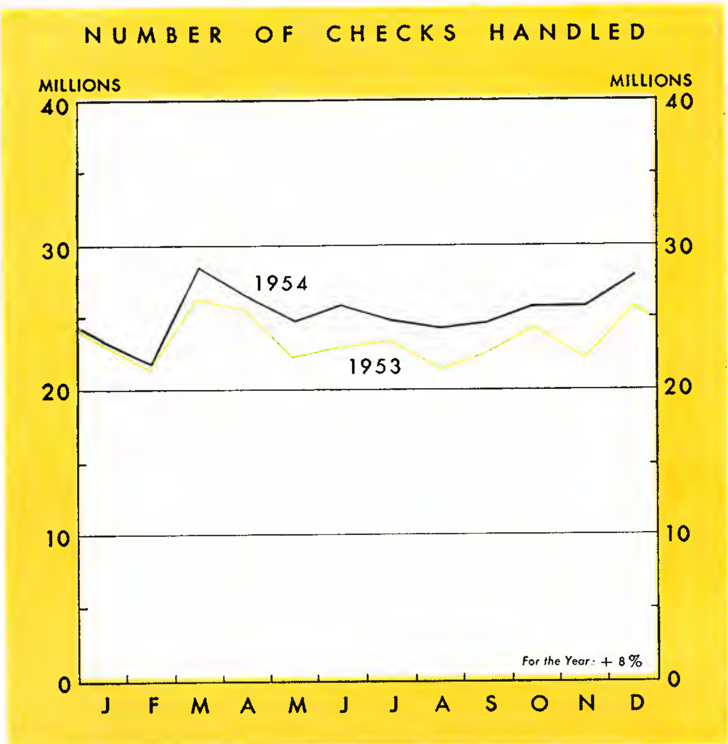
The number of *savings bond sales* handled for the U. S. Treasury during the year amounted to 13.3 million pieces, or 2 percent more than in the previous year. As shown in the chart, the gain occurred during the first half of the year, whereas, during the second half, sales in terms of number of pieces tended to be below the previous year's figures.

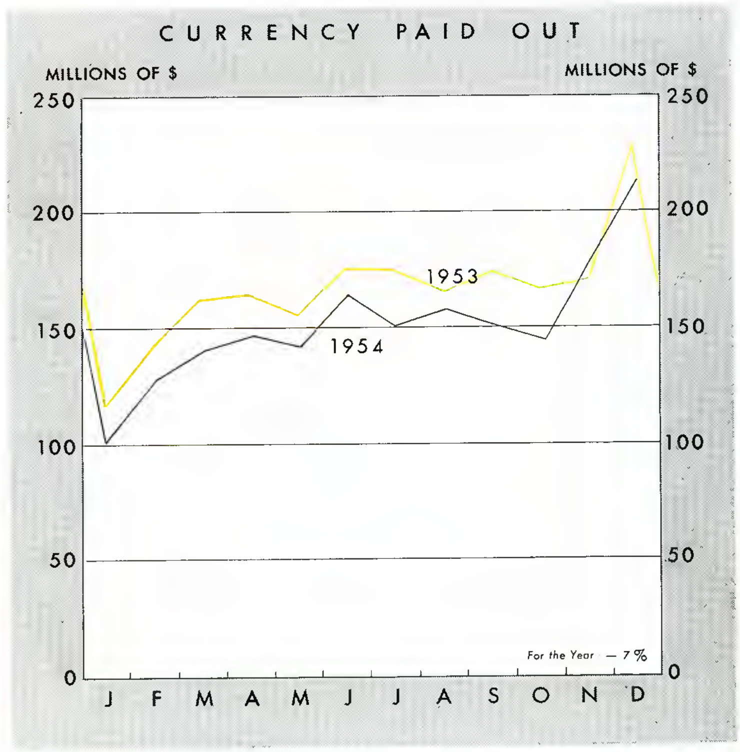
The number of *pieces of mail* sent out by the three offices provides a general indicator of the bank's volume of operations. Close to 7 million pieces were mailed during 1954, or 5 percent more than during 1953. This figure includes ordinary mail and registered mail, but excludes parcel post.

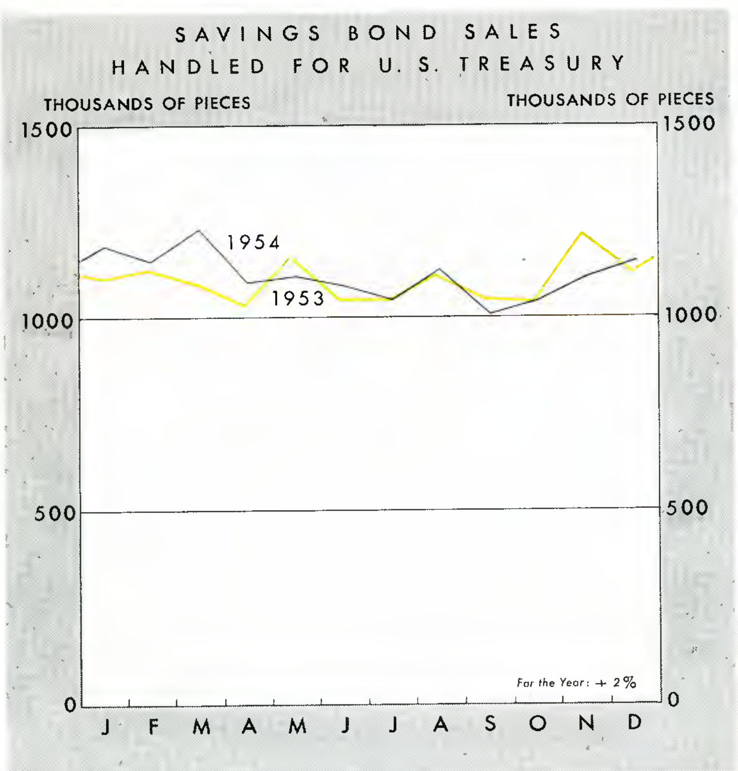
Lending to member banks which have short-term needs for replenishing their reserves is one of the important central-banking functions of this institution. During 1954, member banks utilized the borrowing privilege to a much smaller extent than in the previous year; outstandings during the year averaged about $11 million as contrasted with the 1953 average of about $68 million.

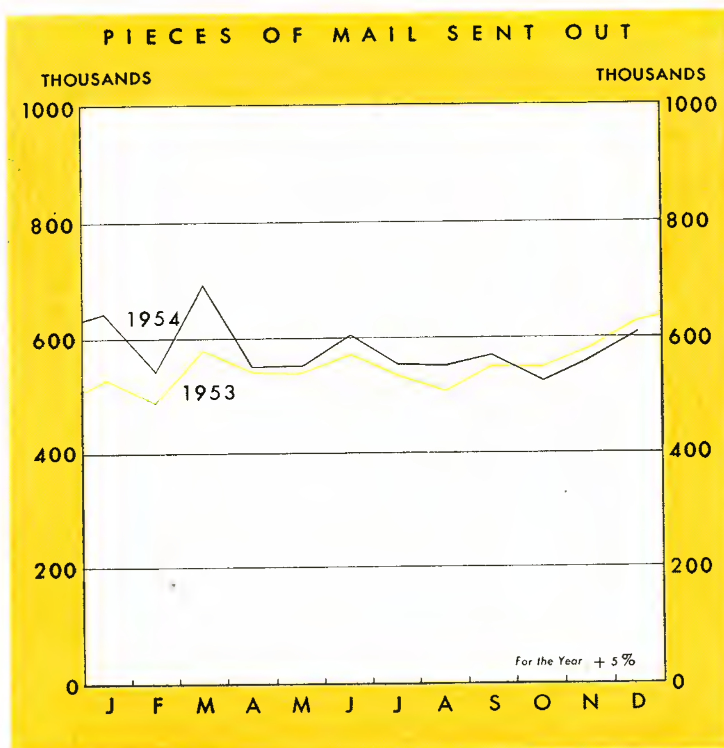
The volume of *Treasury issues handled* by this bank as fiscal agent of the United States reflected the Treasury's large refunding operations during the year. The total of $1.3 billion of Treasury *bonds*, which was handled by the bank, amounted to nearly four times the volume handled in 1953. Treasury *bills*, the shortest-term obligations, were handled in relatively regular amounts from month to month; for the entire year, the bank acted as agent in the disposal of $2.5 billion of Treasury bills, or almost exactly the same amount as the 1953 total. Activity in *certificates and notes* amounted to $1.4 billion, or about 8 percent less than the previous year's total.

Securities *held in safekeeping* for member banks and for others amounted on Dec. 31, 1954, to nearly $4 billion, or more than 11 percent in excess of the total of such securities held at the end of the previous year.


NUMBER OF CHECKS HANDLED
MILLIONS
MILLIONS
40
30
20
10
0
1954
1953
For the Year: + 8%
J F M A M J J A S O N D


CURRENCY PAID OUT
MILLIONS OF $
MILLIONS OF $
250
200
150
100
50
0
1953
1954
For the Year — 7%
J F M A M J J A S O N D


SAVINGS BOND SALES
HANDLED FOR U. S. TREASURY
THOUSANDS OF PIECES
THOUSANDS OF PIECES
1500
1000
500
0
1954
1953
For the Year: + 2%
J F M A M J J A S O N D


PIECES OF MAIL SENT OUT
THOUSANDS
THOUSANDS
1000
800
600
400
200
0
1954
1953
For the Year + 5%
J F M A M J J A S O N D

BANKING FOR THE POST OFFICE

. . . the Cincinnati Branch takes on a New Set of Duties

Checking the Registered Packages as Received

In their capacity as fiscal agents of the United States, the twelve Federal Reserve banks have always carried on a wide range of specific activities stemming from the Treasury's basic operations in taxing, borrowing and making payments. A new function was added on May 1, 1954—that of accepting daily deposits from post offices and crediting the appropriate amounts to the account of the United States Treasurer.

The Cincinnati branch of this bank was selected to receive the daily deposits from all post offices in the Fourth Federal Reserve District, numbering about 3,500, and comprising all post offices in Ohio together with those located in the parts of Pennsylvania, West Virginia and Kentucky which are within the Fourth District. That was part of the arrangement which went into effect with the beginning of the plan in May, 1954.

According to a revision of the plan which takes effect January 1, 1955, however, each of the Federal Reserve banks, or branches, which serves as a depositary for the Post Office is assigned the coverage of one of the 15 operating Post Office regions of the country. The Cincinnati branch of this bank, instead of handling deposits from post offices located in the Fourth Federal Reserve District, is henceforth assigned to take all deposits of post offices located in the region comprising the entire states of Ohio, Indiana, and Kentucky. This includes 4,278 individual post offices; it happens to be the largest number of individual post offices assigned to any single Federal Reserve bank or branch operating as depositary for a postal region.

The entire daily receipts of each individual post office in the three named states are sent to the Cincinnati branch. They take such diversified forms as currency, coin, checks, postal money orders, postal savings stamps, Government bonds and coupons. The tasks of opening the deposit envelopes and of verifying cash and securities fall upon a special unit of employees within the Cash Department. Other departments of the bank are involved at later stages of the processing, before the proceeds of the deposits are credited to the Treasurer of the United States.

The postal deposits arrive at the Branch chiefly as registered mail. Before being opened, the envelopes are checked and recorded by a special control system. Opening, counting and sorting operations then follow. The count of each class of items such as cash, redeemed savings stamps, or money orders is verified against the deposit card which accompanies the deposit. (The deposit card, known as "CX-1" is in punch-card form. See accompany-

Opening and Proving the Postal Deposits

Final Balancing of Postal Deposits

ing illustration.) Totals are posted and proved on a daily record of deposits.

The various items are then distributed physically to the appropriate departments of the bank; thus, for example, currency and coin go to the tellers, checks and postal money orders go to the Check Collection Department for collection by usual procedures. Redeemed postal savings stamps are sent to the Cincinnati Post Office the following morning for payment by check. The total of each deposit is punched in the deposit card by key-punch machine. The deposit cards are then listed in numerical sequence by number assigned to each post office and forwarded to the local Regional Accounting Office. Totals of the immediate credit items (such as cash, Government checks, postal money orders, etc.) are credited on the current day to General Account of the Treasurer of the United States.

Physical and procedural safeguards accompany the postal deposit operations at all stages. Although they have some special features, the safeguards are broadly similar to those observed in other departments of the bank. The distinguishing feature of the new operations stems from the variegated character of the batches of deposits which are daily received and processed.

Processing the Checks or Money Orders

The volume of work thus added to the Branch's activities, although not large in comparison with a number of other regular operations, is of some significance. During the month of October 1954, for example, about 40,000 remittances were processed; the dollar total was about $40 million, of which the cash remittances accounted for $7.5 million.

	AMOUNT			DESCRIPTION OF THIS REMITTANCE
1				CASH (BILLS AND COINS)
2				PAID DOMESTIC MONEY ORDERS (IF MORE THAN THREE LIST ON FORM 1841 OR ADDING MACHINE TAPE)
3				MISCELLANEOUS (REDEEMED SAVINGS STAMPS AND MONEY ORDERS ISSUED IN OTHER COUNTRIES)
4				CHECKS (DESCRIBE ON REVERSE OF FORM CX-2)
5				TOTAL

DATE SENT ____________

REMITTED BY POSTMASTER

CITY ____________ STATE ____________

PREPARED BY ____________ WITNESSED BY ____________

FORM CX-1 (REV. 12-53)

IBM 841716-0

INSTRUCTIONS TO POSTMASTERS

THIS FORM SHOULD BE MAILED IN THE SPECIAL ENVELOPE PROVIDED, ALONG WITH CASH, CHECKS, PAID MONEY ORDERS, ETC. A CARBON COPY ON FORM CX-2 MUST BE RETAINED AT THE OFFICE.

IF CHECKS ARE ENCLOSED, THEY MUST BE LISTED AND DESCRIBED ON THE REVERSE OF FORM CX-2. IF MORE THAN 3 PAID UNITED STATES MONEY ORDERS ARE TRANSMITTED, THEY WILL BE LISTED ON FORM 1841 OR ADDING MACHINE TAPE. REDEEMED SAVINGS STAMPS AND INTERNATIONAL MONEY ORDERS WILL BE ENTERED ON MISCELLANEOUS LINE.

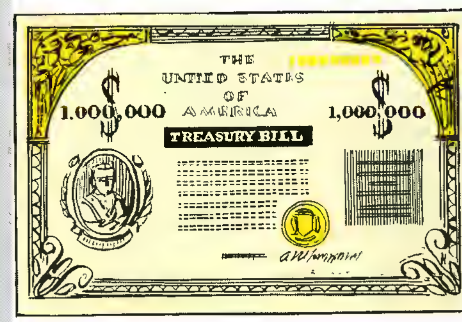
DOCUMENTS SHOULD NEVER BE ATTACHED TO THIS FORM AS IT WILL BE USED FOR MACHINE PROCESSING.

DO NOT FOLD, STAPLE, OR OTHERWISE MUTILATE THIS FORM.

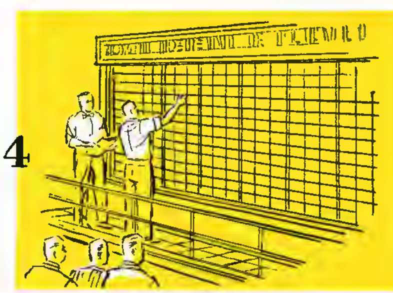
REMITTANCE FORM-POST OFFICE DEPARTMENT

THE 91-DAY LIFETIME

THE weekly sale of 91-day Treasury bills is an important source of short-term funds for the U. S. Treasury. These short-run securities also enable investors to earn a modest return on temporary funds. As fiscal agents of the Treasury Department, this bank and other Federal Reserve banks handle much of the work involved in issuing, servicing and redeeming these securities. In addition, the Reserve banks buy and sell Treasury bills for their own account, with a view to influencing the flow of money and credit in the interests of high-level economic stability. The accompanying illustrations depict the hypothetical travels of a Treasury bill through the hands of a variety of owners during its 91-day life span.



4



two weeks later—the industrial concern needs funds for some contingency and sells THE BILL in the open market. It is purchased by a government security dealer (for around $999,780) for purposes of resale.

5

next day—the dealer sells THE BILL to a Turnpike Commission which seeks temporary investment of the proceeds of a major bond issue.

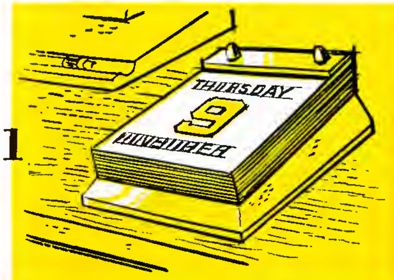
9

ten days later —THE BILL is sold by the foreign central bank, which unexpectedly needs funds. A government security dealer buys THE BILL. (It has about two weeks to run.)

10

three days later—the government security dealer has found no buyers for THE BILL because of tight credit conditions. The Federal Reserve System buys THE BILL, providing immediate ease in some bank's reserve position. In this instance, the dealer is given the right to repurchase THE BILL within a week.

OF A $1,000,000 TREASURY BILL

1


The regular weekly announcement is made by the Treasury that $1.5 billion of 91-day discount bills will be offered to highest bidders. Sealed bids are received by this bank and its two branches, acting as fiscal agents of the Treasury in the Fourth District.

2


4 days later—the highest bids are accepted by the Treasury—an industrial concern in Akron, for example, has bought a Treasury bill, having a maturity value of $1,000,000, for $999,741. The income on THE BILL, which carries no interest coupon, is provided by the difference between the purchase price and the maturity value—or $259.

3

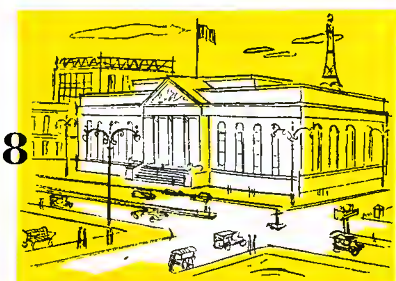

3 days later—this bank delivers THE BILL to the industrial concern and receives payment on behalf of the U. S. Treasury.

6

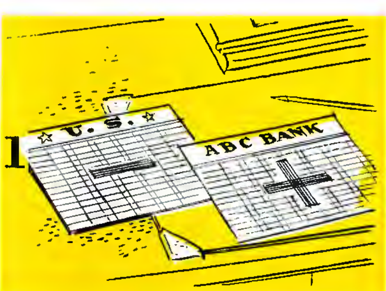

a month later—THE BILL is sold in the open market by the Turnpike Commission, which needs funds to pay contractors. Perhaps within a few hours, THE BILL is purchased by a commercial bank with excess reserves. (THE BILL still has 45 days to run.)

7


two weeks later—the commercial bank sells THE BILL in the open market in order to replenish its reserves, which are being depleted by holiday outflow of currency. THE BILL is sold by the bank in the open market. The next day, the Federal Reserve System purchases THE BILL for the purpose of creating needed member-bank reserves.

8


one week later—the Federal Reserve System sells THE BILL directly to a foreign central bank which is seeking a temporary investment.

11


two days later—a commercial bank, perhaps in the Fourth District, buys THE BILL from the dealer (who has exercised his repurchase option) as an extremely short-term investment.

Ten days later, THE BILL matures—the commercial bank tenders THE BILL to one of the three offices of this bank. Then, by a debit and credit entry, this bank transfers $1,000,000 from the Treasury's account to the reserve account of the member bank.

EPILOGUE

The Treasury had the use of $1,000,000 for 91 days at an interest cost of $259. Concurrently, THE BILL was earning a modest rate of return for nine different owners. (In actual practice, of course, many Treasury bills have only one owner during the entire 91-days.) The industrial concern, the Turnpike Commission, and the two commercial banks would probably have earned no interest on their idle funds if an instrument of this type were not available in quantity. The government security dealers which temporarily owned THE BILL on several brief occasions are professional middlemen whose services provide the market with continuity. Moreover, THE BILL's short stays in the Federal Reserve System helped to moderate technical fluctuations in credit conditions.

The market for these 91-day discount bills is broadened, and payment and delivery (via wire transfer) are expedited, by the fiscal agency and other facilities of the Federal Reserve banks.

A CHANGE IN THE FEDERAL RESERVE ACT

Paying out Notes of Other Reserve Banks

■ The Federal Reserve Act was amended by Act of Congress, approved July 19, 1954, so as to repeal the provision which prohibits one Federal Reserve Bank from paying out the notes of another Federal Reserve Bank.

The step was in the nature of procedural correction—taken in the interest of efficiency and economy, with no implications of change in fundamental credit or monetary policy.

Prior to the change, it had been necessary for each Federal bank to sort all of the millions of Federal Reserve notes fit for further circulation which are received by it from member banks, according to the Reserve bank by which each note was originally issued; further, it was necessary for the Reserve bank to return such notes to the Reserve banks that originally issued them.

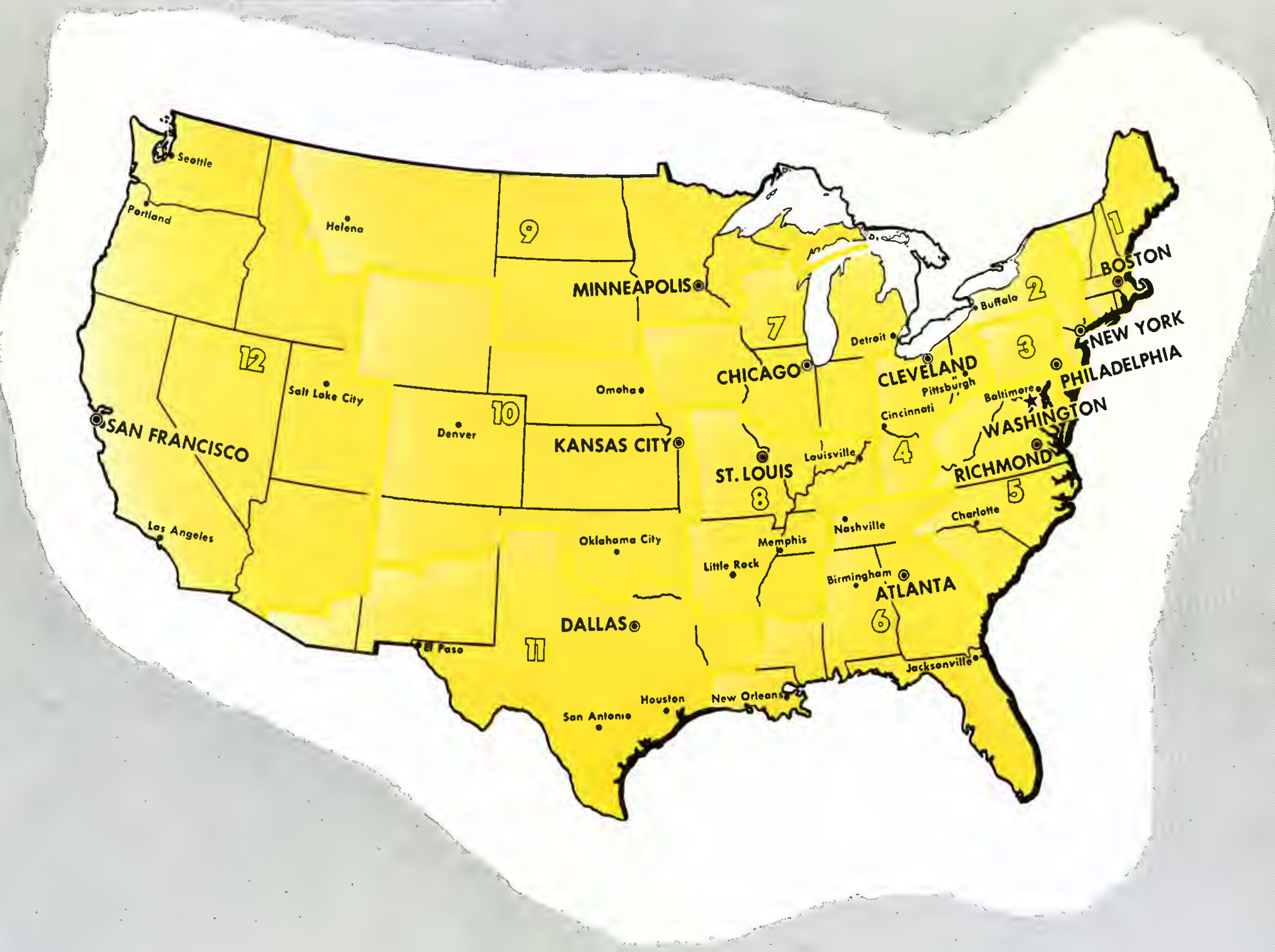
Such sorting and crisscross handling of currency was found to be expensive, no longer serving a useful purpose. The requirement had been thought to be important in the early days of the System but in practice it had not proved to be so.

A statement on the point made to a Senate Subcommittee by Mr. William McC. Martin, Jr., Chairman of the Board of Governors of the Federal Reserve System, included the following:

"Experience over the years definitely establishes that the requirement for the return of fit Federal Reserve notes to the Federal Reserve banks of issue has no important economic effect on the amount of Federal Reserve notes in circulation. The notes that are returned to the Federal Reserve banks of issue, in accordance with the requirements of the present law, are again placed in circulation as demand for currency appears. Outstanding currency which is not needed by the economy is returned to the Reserve banks for credit to the reserve accounts of the member banks.

"In other words, the amount of currency in circulation rises and falls in accordance with changes in the demand for currency on the part of the public, and is in no way affected by the return of fit notes to the bank of issue. Accordingly, no useful purpose is served by retaining the restriction upon a Federal Reserve bank's paying out of currency issued by other Federal Reserve banks."

THE 12 FEDERAL RESERVE DISTRICTS



APPOINTMENTS AND RETIREMENTS

Dwight L. Allen

Dwight L. Allen was appointed vice president as of July 1, 1954, to serve as senior officer in charge of personnel administration. The appointment of a professional personnel administrator to this rank is in line with the growing emphasis of the personnel function among modern business enterprises. Previous to his joining this bank, Mr. Allen held the post of Director of the Division of Personnel Administration at the Board of Governors of the Federal Reserve System.

Edward A. Fink, formerly manager of the Accounting Department, was made assistant cashier, as of January 1, 1955. Mr. Fink, who has been with this bank since February 1925, was on leave during 1954 serving on the field examination staff of the Board of Governors of the Federal Reserve System.

William Hauk was named manager of the Accounting Department, as of January 1, 1955.

George R. Ross, assistant cashier, retired October 31 after more than 37 years of uninterrupted service at the Main Office.

Walter H. Benus, manager of the Cash Department at the Cincinnati Branch, retired May 31, 1954—also after 37 years of service with the bank.

Montfort Jones, a director of the Pittsburgh Branch of this bank, died at his home on May 16, 1954. He was Professor of Finance at the University of Pittsburgh, where he had served on the faculty since 1915. For the last 25 years Professor Jones had also been a member of the faculty of the Pittsburgh Chapter of the American Institute of Banking. "Monty's" full life had in it a large place for the Federal Reserve. Shortly after his death, Mrs. Eleanor Jones presented the entire private library of her late husband to the library of the Pittsburgh Branch. It is an outstanding collection of books on the subjects of money, banking, government finance, banking associations and the Federal Reserve System. Included are many out-of-print books as well as Professor Jones' private notes.

Montfort Jones
1890-1954

MEMBERS OF THE TWENTY-FIVE YEAR CLUB

(Employees of the Federal Reserve Bank of Cleveland, as of January 1, 1955, who have rendered 25 or more years of service)

MAIN OFFICE

Albert, H. W.
Antolik, John

Bagley, Irene
Banks, R. H.
Barnett, Madeleine
Basta, R. S.
Bechemer, Carl
Beier, V. E.
Bettcher, Lena
Bevin, Joseph
Blanchard, Jerry
Bolthouse, C. J.
Boyd, Dorothy
Boyd, H. M.
Brown, James A.
Buday, Frank W.

Caley, W. J.
Campbell, Helen B.
Cassell, P. H.
Cavanaugh, J. W.
Clapp, Jesse T.
Clark, Ruth
Clink, Donald
Cox, Chris
Crisco, M. J.

Daeuble, F. W.
Davies, D. E.
Davis, Helen C.
DeMorbus, Terry
Dennerle, H. S.
DeWard, R. C.
Dorow, Alice M.
Durschlag, Ethel

Effinger, Mae C.
Ehninger, C. F.
Emde, Geo. H.
Exoo, George

Fink, Edward
Fisher, H. E.
Fitts, C. H.
Flinkers, H. B.
Forrest, George
Francis, A. J.

Gale, Florence
Galyas, V. A.
Ganner, Hermina
Goudreau, C. J.
Gray, Mabel
Green, Kenneth

Haliski, John
Hall, V. E.
Hancox, George R.
Handrick, Victoria
Hanser, O. O.
Hasek, L. G.
Hauk, W. J.
Haylor, Ruth
Haynes, Oden M.
Henk, L. J.
Honsa, L. G.

John, Margaret

Kasper, Anne
Kelly, Fred S.
King, Cora L.
Klassen, F. A.
Klecka, F. J.
Klinger, Harry A.
Knapp, L. E.
Konz, R. F.
Krejci, Joseph
Kuebler, H. C.
Kulow, Nettie E.
Kunz, R. H.

Langeneker, Roy
Laning, A. H.
Lewis, Stella
Lindemann, E. C.
Louis, Henry
Lowe, J. R.

Martin, C. L.
Martin, L. E.
Matter, N. R.
Mauer, George
McKibbin, L. J.
McLaughlin, F. M.
Mericka, Otto

Merkel, E. L.
Meyer, Calvin
Miller, J. M.
Morse, C. D.
Muro, Andrew
Myers, Paul

Neubacher, R. C.
Nevel, L. E.
Nuske, A. W.

Orin, John E.
Ornas, Wanda
Ostendorf, J. A.

Peace, John
Peck, E. F.
Pinkle, Helen

Quast, G. T.

Read, W. B.
Reebel, Jacob
Reinker, Roy
Reiss, John
Renz, H. H.
Robbins, M. K.
Robey, G. W.
Rohn, A. J.
Rohrich, E. G.

Schroeder, Dorothy
Seavert, E. A.
Sibbing, A. J.
Sileny, Albert
Skala, Clifford
Smith, H. E. J.
Spirakus, Y. J.
Spring, W. C.
Stasienko, Josephine
Stech, E. O. H.
Stephan, V. J.
Stroh, Coletta
Struhar, Rudolph
Stull, F. J.
Swiderski, D. J.

Thielman, Mary Frances
Tomasek, L. T.
Tomsik, G. F.
Trimbur, Hilda
Trojanski, John
Trout, R. M.

Vorac, Lillian

Walker, Mary
Wereb, Joseph
Wieczorek, Bessie
Wilde, W. A.
Winter, P. A.
Wolf, Ann
Wolf, E. A.

Zahour, Eleanor
Zinner, Loretta M.

PITTSBURGH BRANCH

Bauer, Helen G.
Bedel, W. L.
Boyd, Betty B.
Briegel, Walter A.
Brown, Alice P.

Campbell, S. G.
Cosgrove, Wm. J.
Criswell, R. W.
Cummings, Marg. G.

Descamps, Ernest
Dobson, T. J.
Dorn, Marie E.
Dorn, Paul

Elliott, Agnes J.
Embree, Gladys E.

Fertig, Margaret
Flock, Amelia
Foster, A. G.

Gildersleeve, H.
Glazier, Bertha
Greenaway, G. T.

Hall, John B.
Heim, Olive W.
Henderson, J. M.
Heuer, Oscar N.
Hicks, Richard H.
Houpt, C. E.

Iffarth, F. C.

Jauquet, J. L.
Johnson, Ivar C.

Kossin, J. W.

Laughlin, G. D.
Link, Armella M.
Luzar, Rose B.

Martin, W. C.
McCarroll, C. P.
McElroy, R. H.
Moore, C. R.

Nolte, Wm. H.

Parrish, Gertrude
Perry, Ira D.
Peterson, G. A.
Peth, Emma G.
Platte, Florence
Price, J. R.

Rampa, Julia C.
Raubenstraw, W. C.
Rickert, H. E.
Roush, G. K.

Schmidt, J. W.
Smith, Munroe T.
Steinbrink, R. J.
Stiglitz, Marie
Sullivan, J. D.

Verner, Marguerite

Wehling, S. Grace
Wirth, N. A.

CINCINNATI BRANCH

Allmoslechner, M.

Bardua, Albert
Berberich, Edna
Biermann, John, Jr.
Bishop, Mary E.
Bruce, H. H.
Burka, Louis

Dewar, Helen L.
Dieringer, Lester

Flaig, Oscar
Flannery, Helen
Frede, George

Geers, P. J.
Groppe, John

Harrell, Clyde
Hartwell, Mary
Hurst, G. W.

Johnson, R. G.

Knecht, R. C.
Koppman, Damon
Kothe, H. C.

Lindenstruth, R. O.
Ludwig, Virginia

Marsh, W. H.
Miller, Clara
Miller, Clifford
Mitchell, C. W.
Molique, A. L.
Moorehead, Martha
Motz, Arnold L.

Oettinger, Richard
Ostendorf, H. H.

Peddicord, Laura
Plogman, H. F.

Quinn, Catharine

Schroth, Edward
Sleight, Ralph
Snider, S. F.
Stoffregen, C. E.
Stopher, Roy

Taylor, H. E.

Uth, Elsie

Walsh, J. B.
Wiegand, A. F. Jr.
Williamson, Mae

COMPARATIVE STATEMENT OF CONDITION

December 31, 1953 and December 31, 1954

ASSETS	Dec. 31, 1953	Dec. 31, 1954
Gold certificates	$1,770,513,128	$1,717,478,423
Redemption fund for Federal Reserve notes	82,246,914	76,998,629
Total Gold Certificate Reserves	1,852,760,042	1,794,477,052
Federal Reserve notes of other banks	13,707,500	16,882,000
Other cash	24,612,955	37,499,357
Total Cash	1,891,080,497	1,848,858,409
Discounts and advances	2,655,000	14,636,667
U. S. Government securities:		
Bills	220,398,000	185,727,000
Certificates	493,760,000	1,189,814,000
Notes	1,125,940,000	517,436,000
Bonds	309,094,000	240,130,000
Total U. S. Government Securities	2,149,192,000	2,133,107,000
Total Loans and Securities	2,151,847,000	2,147,743,667
Uncollected cash items	416,386,228	371,458,534
Bank premises	5,288,513	5,260,131
Other assets	12,546,045	11,329,889
Total Assets	$4,477,148,283	$4,384,650,630

LIABILITIES	Dec. 31, 1953	Dec. 31, 1954
Federal Reserve notes	$2,463,794,755	$2,417,960,675
Deposits:		
Member bank—reserve accounts	1,533,769,067	1,467,287,399
U. S. Treasurer—general account	38,382,198	42,858,260
Foreign	37,646,400	44,344,000
Other deposits	14,502,122	13,024,590
Total Deposits	1,624,299,787	1,567,514,249
Deferred availability cash items	293,806,191	299,651,925
Other liabilities	1,355,581	1,120,605
Total Liabilities	4,383,256,314	4,286,247,454

CAPITAL ACCOUNTS	Dec. 31, 1953	Dec. 31, 1954
Capital paid in	25,409,650	27,318,050
Surplus (Section 7)	57,647,949	60,222,039
Surplus (Section 13b)	1,005,665	1,005,665
Other capital accounts	9,828,705	9,857,422
Total Liabilities and Capital Accounts	$4,477,148,283	$4,384,650,630
Contingent liability on acceptances purchased for foreign correspondents	$ 2,201,754	$ 1,766,400
Industrial loan commitments	$ 748,100	$ 598,300

Forty-one percent of the bank's assets consists of GOLD CERTIFICATE RESERVES which are secured by an equal amount of gold in custody of the U. S. Government.

This item fluctuates in response to (1) changes in the nation's monetary gold stock, (2) changes in this bank's proportionate share in the System portfolio of government securities, and (3) the net flow of funds into, or out of, the Fourth District.

This sum represents the extent to which member banks in this District had borrowed from this bank (as of the statement date) for the purpose of maintaining their reserves at or above the legal minimum.

Changes in DISCOUNTS AND ADVANCES are initiated solely by the borrowing banks. By means of the discount rate, however, this bank can alter the relative, as well as the absolute, cost of replenishing reserves by borrowing.

Nearly fifty percent of this bank's assets is made up of U. S. GOVERNMENT SECURITIES, most of which mature within one year. The portfolio of certificates of indebtedness increased substantially during the year as maturing notes and bonds were exchanged for new certificates in the course of several Treasury refundings.

Changes in holdings of U. S. GOVERNMENT SECURITIES are initiated by the System with the view of influencing the nation-wide volume of reserves maintained by all member banks combined.

The largest single liability of this bank is in the form of hand-to-hand currency which circulates throughout the Fourth District and beyond. The collateral behind these FEDERAL RESERVE NOTES consists of at least twenty-five percent in gold certificate reserves and the remainder in U. S. Government bonds and/or eligible paper.

Changes in this item are initiated entirely by the public at large. This bank has scarcely any influence over the fluctuations in the volume of currency in circulation from one week to the next.

This liability account represents the legal reserves of all member banks in the Fourth District. During the year, the aggregate balance carried at this bank averaged roughly five percent in excess of the legal minimum.

The size of this account is *directly* affected by (1) gold movements and (2) discounting, and is *inversely* affected by changes in (3) the other types of deposit accounts, (4) notes in circulation, and (5) capital accounts. Nevertheless, the general level of MEMBER BANK-RESERVE ACCOUNTS is determined for the country as a whole by monetary policy effectuated through purchases or sales of U. S. Government securities by the Federal Reserve banks.

COMPARISON OF EARNINGS AND EXPENSES

FOR THE YEARS 1953 AND 1954

	1953	1954
Total current earnings	$ 47,470,927	$ 37,422,140
Net expenses	10,154,418	10,131,271
CURRENT NET EARNINGS	37,316,509	27,290,869
Additions to current net earnings:		
Profit on sales of U. S. Government securities (net)	184,975	45,288
All other	14,693	11,556
TOTAL ADDITIONS	199,668	56,844
Deductions from current net earnings:		
Reserves for contingencies	39,472	28,716
All other	161,498	1,455
TOTAL DEDUCTIONS	200,970	30,171
Net additions	—0—	26,673
Net deductions	1,302	—0—
Net earnings before payments to U. S. Treasury	37,315,207	27,317,542
Paid U. S. Treasury (interest on F. R. notes)	32,249,472	23,166,338
Dividends	1,482,436	1,577,114
Transferred to Surplus (Section 7)	$ 3,583,299	$ 2,574,090

SOME ADMINISTRATIVE MATTERS

BANK BUILDINGS

As part of a comprehensive modernization program for the Main Office building, the following steps were taken during 1954: completion of the new elevator installation; conversion of the power plant for use of purchased electricity and steam; progress in the modernization of furniture, equipment and lighting. Plans were being made for the complete air conditioning of the building.

During 1954, the air conditioning system of the Cincinnati Branch building was completed.

COST SAVINGS IN HANDLING OF CHECKS

Efforts were continued during 1954 to improve efficiency in the handling of the very large volume of checks which daily pass through the three offices of the bank—averaging over a million checks per banking day. Cost analysis shows that substantial progress was achieved. One procedural change was the discontinuance of the practice of photographing out-of-town checks; the change was made possible by improved operating procedures for tracing lost or destroyed items to incoming cash letters.

EXECUTIVE DEVELOPMENT PROGRAM

A series of steps involving a considerable realignment of duties was taken during 1954 to afford the officers immediately below the vice-president level an opportunity to widen their supervisory experience. As in any forward-looking business organization, the development of talent for top management is receiving continuing consideration.

EDUCATIONAL ASSISTANCE

As part of a general program of helping qualified employees prepare for management responsibilities, it was announced in October 1954 that the bank would assume tuition costs for approved educational courses. This step adds opportunities to those which have long been available through the reimbursement provided by the American Institute of Banking for the successful completion of courses which it offers.

BRANCH ASSIGNMENT

Another new set of duties assigned to the Cincinnati Branch during 1954 (in addition to the postal-deposit function described on p. 18-19 of this report) stems from the federal government's price-support activities for agriculture. The Cincinnati Branch now makes all disbursements for the office of the Commodity Credit Corporation which deals with dairy products, oils and other processed agricultural commodities in states east of the Mississippi. The Branch also processes the deposits arising from sales of commodities by the same office of the C. C. C. The volume of disbursements made by the Branch between March 3, when the operation was begun, and November 15, amounted to a figure in excess of $196 million.

EXAMINATION

The annual examination of this bank was made as of the close of business, September 7, 1954 by the examiners of the Board of Governors of the Federal Reserve System.

DIRECTORS AND OFFICERS

DIRECTORS

JOHN C. VIRDEN (*Chairman*)
Chairman of the Board, John C. Virden Company, Cleveland, Ohio

SIDNEY A. SWENSRUD (*Deputy Chairman*)
Chairman of the Board, Gulf Oil Corporation, Pittsburgh, Pennsylvania

JOHN D. BAINER, President
The Merchants National Bank and Trust Company of Meadville
Meadville, Pennsylvania

EDWARD C. DOLL, President
Lovell Manufacturing Company
Erie, Pennsylvania

JOSEPH B. HALL, President
The Kroger Company
Cincinnati, Ohio

EDISON HOBSTETTER, President
The Pomeroy National Bank
Pomeroy, Ohio

J. BRENNER ROOT, President
The Harter Bank & Trust Company
Canton, Ohio

ALEXANDER E. WALKER, Chairman of the Board
The National Supply Company
Pittsburgh, Pennsylvania

FRANK J. WELCH, Dean
College of Agriculture and Home Economics, University of Kentucky, Lexington, Kentucky

MEMBER OF FEDERAL ADVISORY COUNCIL

(from the Fourth District)

FRANK R. DENTON
Vice Chairman of the Board
Mellon National Bank and Trust Company
Pittsburgh, Pennsylvania

CINCINNATI BRANCH

DIRECTORS

ANTHONY HASWELL (*Chairman*)
The Dayton Malleable Iron Company, Dayton, Ohio

HENRY C. BESUDEN, Farmer
Winchester, Kentucky

LEONARD M. CAMPBELL, President
The Second National Bank of Ashland
Ashland, Kentucky

FRED A. DOWD, President
The First National Bank of Cincinnati
Cincinnati, Ohio

ROGER DRACKETT, President
The Drackett Company
Cincinnati, Ohio

BERNARD H. GEYER, President
The Second National Bank of Hamilton
Hamilton, Ohio

WILLIAM B. IRVINE, President
Marietta College
Marietta, Ohio

OFFICERS

JOHN BIERMANN, JR., *Assistant Cashier*
CLYDE HARRELL, *Assistant Cashier*
RICHARD G. JOHNSON, *Vice President*
PHIL J. GEERS, *Cashier*
GEORGE W. HURST, *Assistant Cashier*

OFFICERS

WILBUR D. FULTON, *President*

DONALD S. THOMPSON, *First Vice President*

DWIGHT L. ALLEN, *Vice President*

ROGER R. CLOUSE, *Vice President and Secretary*

L. MERLE HOSTETLER, *Director of Research*

RICHARD G. JOHNSON, *Vice President*

JOHN W. KOSSIN, *Vice President*

ALFRED H. LANING, *Vice President and Cashier*

MARTIN MORRISON, *Vice President*

HAROLD E. J. SMITH, *Vice President*

PAUL C. STETZELBERGER, *Vice President*

CARL F. EHNINGER, *General Auditor*

PHILLIP B. DIDHAM, *Assistant Vice President*

GEORGE H. EMDE, *Assistant Vice President*

JAMES R. LOWE, *Assistant Vice President*

JOSEPH M. MILLER, *Assistant Vice President*

HUGH M. BOYD, *Chief Examiner*

CHARLES J. BOLTHOUSE, *Assistant Cashier*

CHARLES E. CRAWFORD, *Assistant Cashier*

ELWOOD V. DENTON, *Assistant Cashier*

EDWARD A. FINK, *Assistant Cashier*

ELMER F. FRICEK, *Assistant Cashier*

HARMEN B. FLINKERS, *Assistant Secretary*

INDUSTRIAL ADVISORY COMMITTEE

HERMAN R. NEFF (*Chairman*)
Chairman of the Board, The George S. Rider Company — Engineers, Cleveland, Ohio

HERBERT P. LADDS, President
The National Screw and Manufacturing Company
Cleveland, Ohio

SAM W. EMERSON, President
The Sam W. Emerson Company
Cleveland, Ohio

JOHN P. McWILLIAMS, Chairman of the Board
Youngstown Steel Door Company
Cleveland, Ohio

ARTHUR W. STEUDEL, President
Sherwin-Williams Company
Cleveland, Ohio

PITTSBURGH BRANCH

DIRECTORS

HENRY A. ROEMER, JR. (*Chairman*)
President, Sharon Steel Corporation, Sharon, Pennsylvania

JOHN H. LUCAS, President
Peoples First National Bank & Trust Company
Pittsburgh, Pennsylvania

PAUL MALONE, President
The Second National Bank of Uniontown
Uniontown, Pennsylvania

DOUGLAS M. MOORHEAD, Farmer
North East, Pennsylvania

ALBERT L. RASMUSSEN, President
The Warren National Bank
Warren, Pennsylvania

JOHN C. WARNER, President
Carnegie Institute of Technology
Pittsburgh, Pennsylvania

IRVING W. WILSON, President
Aluminum Company of America
Pittsburgh, Pennsylvania

OFFICERS

JOHN W. KOSSIN, *Vice President*

ARTHUR G. FOSTER, *Cashier*

W. HUNTER NOLTE, *Assistant Cashier*

JOHN R. PRICE, *Assistant Cashier*

JOHN A. SCHMIDT, *Assistant Cashier*

ROY J. STEINBRINK, *Assistant Cashier*

YEAR 1954 MARKS 40th ANNIVERSARY OF ESTABLISHMENT OF THE FEDERAL RESERVE SYSTEM

The fortieth anniversary of the establishment of the Federal Reserve System, and of the opening of this bank, was observed during the year. Following the signing of the Federal Reserve Act in December 1913, this bank was chartered in May 1914 and opened its doors for business on November 16, 1914.

An editorial in a financial magazine had observed that "the Federal Reserve Bank of Cleveland will have deposits of at least $75 million." At the end of 1954, deposits were, in fact, close to $1,500 million as shown on page 26 of this report.

Signers of the application for the charter of this bank are shown below. The original photograph was taken in Cleveland May 18, 1914.

Reading from left to right:

W. A. McDowell, *vice president*
The Phoenix & Third Nat. Bank, Lexington, Ky.

T. J. Davis, *vice president*
The First National Bank, Cincinnati

W. L. Threlkeld, *cashier*
The Phoenix & Third Nat. Bank, Lexington

Harrison Nesbit, *president*
The Bank of Pittsburgh, N. B. A.
(National Banking Association)

Robert E. McEvilley, *cashier*
The First National Bank, Cincinnati

Alex Dunbar, *cashier*
The Bank of Pittsburgh, N. B. A.

C. E. Farnsworth, *cashier*
The First National Bank, Cleveland

C. R. Shields, *cashier*
The New First Nat. Bank, Columbus

Joe C. Royon, *Cleveland attorney*
(not a signer)

C. R. Mayers, *president*
The New First Nat. Bank, Columbus

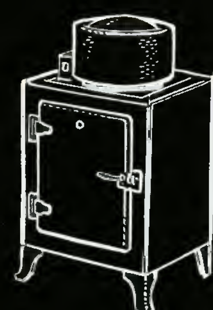
Joseph R. Kraus, *vice president*
The First National Bank, Cleveland

Seated:

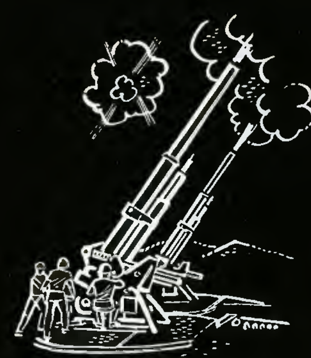
Thomas H. Wilson, *vice president*
The First National Bank, Cleveland
(chairman of the meeting)

1914

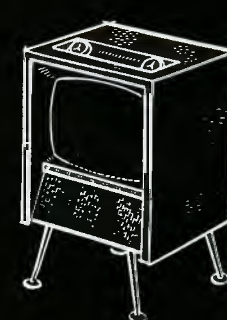
1924



1934



1944



1954

CLEVELAND · PITTSBURGH · CINCINNATI

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