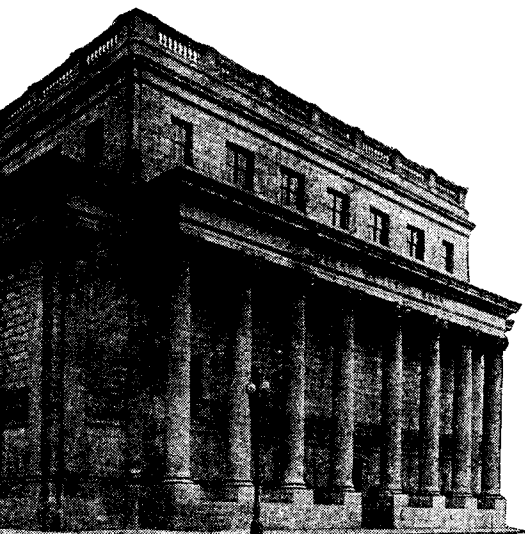




ANNUAL REPORT

1948

FEDERAL RESERVE BANK OF MINNEAPOLIS



■ THE YEAR 1948 included a date of more than passing interest in the bank's history, for it was April 9, 1923, that the cornerstone of the bank building was laid. Fittingly, therefore, the front facade of the building is portrayed (in bas relief) on the cover of this annual report. History-making was its construction as blocks of Minnesota granite quarried for the base course and portico columns were publicized as the largest ever finished in the state. A special lathe was built to turn the eight massive pillars.

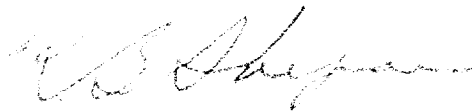
■ In his message delivered at the cornerstone ceremonies, Roy Young, governor of the bank, said in part: "While the future may make it necessary to change the methods of operation of this institution, let us hope, to avoid future disaster, that unsophisticated financiers, theorists, economists or what not, possessed of visionary and untried ideas, will never be permitted to undermine or change in any particular the foundation of sound fundamental credit principles upon which this Federal Reserve bank and the Federal Reserve System have been established."

THE STATEMENTS of condition and of earnings and expenses of the Federal Reserve Bank of Minneapolis for 1948—with certain comparative data for 1947—are here presented.

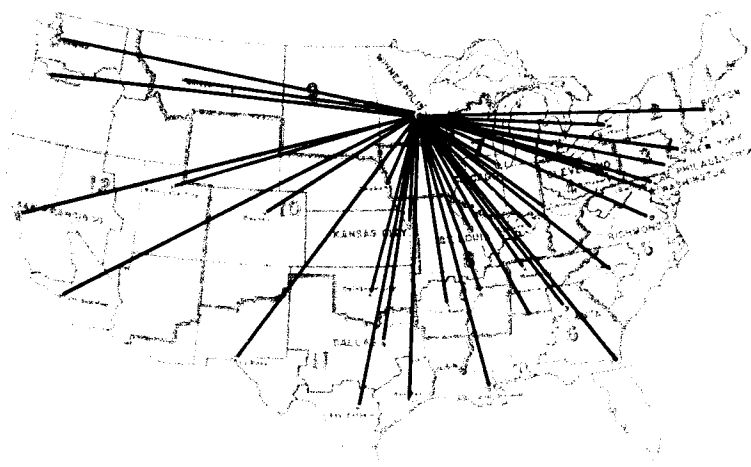
In a letter to the stockholders, President John N. Peyton has reviewed the year's operations of the bank in the light of contemporaneous developments in the commercial banking, agriculture, and business of the district.

Continuing the policy introduced the previous year, this year's report contains a feature article revealing another facet of the bank's operations not clearly reflected in the balance sheet or operating figures.

This treatise, which has the Interdistrict Settlement Fund as its subject, is designed to present a simplified version of one of the important yet not generally understood services performed by the Federal Reserve System for the nation's banks and the general public.

A handwritten signature in dark ink, appearing to read "John N. Peyton". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chairman, Board of Directors



BOOKKEEPER FOR THE NATION — PAGE 8

THE PRESIDENT'S LETTER

TO THE STOCKHOLDERS

A YEAR AGO, when you, the Ninth district bankers, looked back over the previous year, you probably said, "Things can't be that good again this year." Well, things in 1948 were that good and a little better!

The people of the United States produced more, bought and sold more, and consumed more goods and services than in any other peacetime year. In this accomplishment the people of the Ninth Federal Reserve district contributed handsomely. The production of our farms, mines, and factories reached record proportions.

Reflecting the high level of business activity, Ninth district bankers last year handled more money payments—made by coins, currency, and checks—than in the previous year. Although total bank deposits were down slightly from 1947, they changed hands more rapidly, and hence did more money work. Services rendered your customers through loans were substantial, since bank loans hit an all-time peak volume.

Business Indicators Reflect Leveling Off

Nevertheless, the year 1948 must be described as a year in which readjustments and leveling off, rather than sharp advances, took place. Percentage-wise, advances over 1947 in most cases were less than those in 1947 over 1946.

The accompanying chart (next page) shows that in several business indicators the percentage increases over the extremely high levels of 1947 were comparatively modest. Only in construction contracts awarded was there a marked percentage increase—attributable largely to greater expenditures for educational purposes and public works. The increase in department store stocks reflected

a "filling of the pipelines." Reports indicate that today very few items are unavailable to willing and able buyers.

Loan Expansion Reached Record Level

At the close of 1948, total loans of all Ninth district member banks reached the record level of \$876 million, surpassing the previous all-time high of \$811 million in June, 1920. Nevertheless, the rate of loan expansion in 1948 was the lowest so far in the postwar period—16 per cent—which compared with increases of 27 per cent in 1947 over 1946 and 31 per cent in 1946 over 1945.

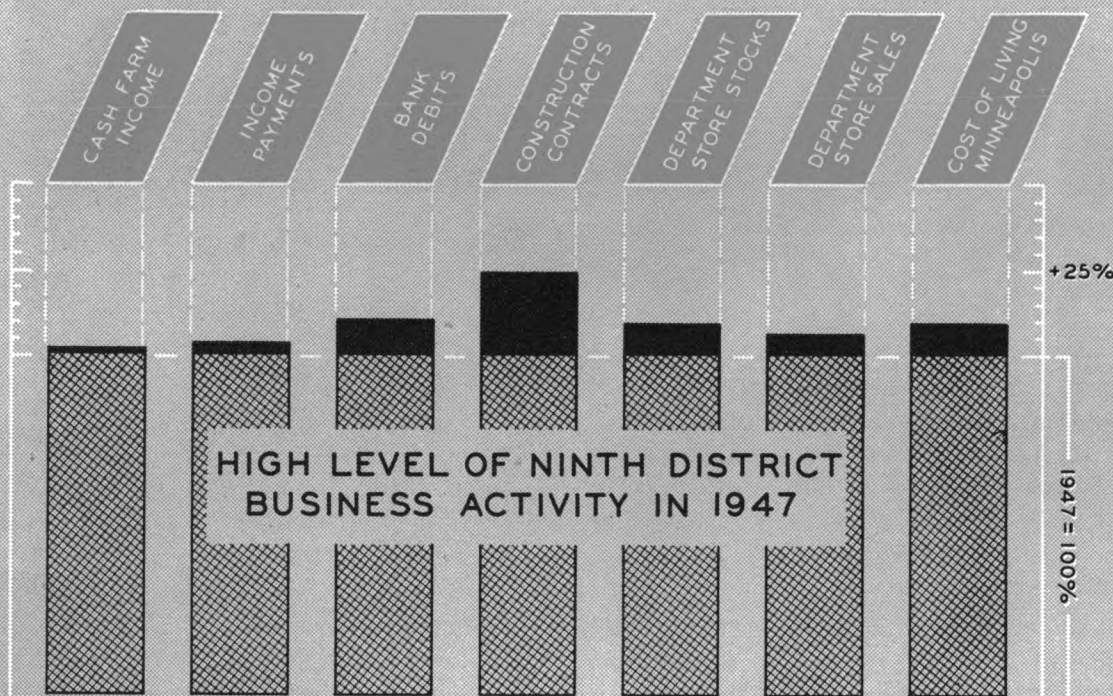
The major sources of loan expansion, indicated by reports from a selected group of the larger banks in this district, were real estate and consumer loans. In these reporting banks real estate loans increased from \$55 million to \$63 million during the year. That real estate loans did not increase more, in the face of a brisk demand for mortgage credit, indicates a reluctance on the part of bankers to lend freely in an inflated real estate market.

Other loans of these banks—mostly consumer loans—increased from \$91 million to \$118 million during the year. Here again there is evidence of cautious restraint on the part of commercial bankers, who were faced with continued strong demand. While real estate and consumer loans were increasing, commercial, industrial, and agricultural loans were declining slightly in 1948 in this group of banks. The volume of loans of the latter three categories declined from \$252 million to \$246 million.

In the four full states of our district in all insured commercial banks, however, agricultural

PERCENTAGE EXPANSION IN NINTH DISTRICT BUSINESS INDICATORS, 1947-48

CHART I



FOR SOURCES AND DESCRIPTION OF DATA FOR CHARTS SEE INSIDE BACK COVER

loans increased steadily, the increase being 32 per cent from June 30, 1947, to June 30, 1948. This development reflected pressure on country banks by farmers, whose credit needs increased owing to greater costs of operations and more ready availability of such items as farm machinery, building materials, and motor vehicles.

Price Readjustments Noticeable in 1948

The past year was characterized by readjustment in prices as well as leveling off in several business indicators. In general, the prices of industrial products rose steadily, while prices of farm products behaved erratically. Prices of farm products took a sharp break in February, recovered during the summer and autumn, then broke again in November and December, reflecting the bountiful crops

of this year. The accompanying table shows some of the price readjustments of 1948.

WHOLESALE PRICES OF SELECTED GROUPS OF COMMODITIES

December 1947 and December 1948

(Index numbers of the Bureau of Labor Statistics, 1926 = 100)

	Decem- ber 1947	Decem- ber 1948 (est.)	Percent- age Change
All commodities	163.2	163.5	+ 0.2
Farm products	196.7	176.1	-10.5
Foods	178.4	173.5	- 2.8
Hides and leather products	203.4	184.4	- 9.4
Textile products	148.0	145.8	- 1.5
Metals and metal products	151.5	173.8	+14.7
Building materials	191.0	202.1	+ 5.8
House furnishings	139.4	147.5	+ 5.8

Farm machinery increased in price from 127.0 in November 1947 to 146.2 in November 1948, an increase of 15.1 per cent. In the same period, brick and tile increased in price from 148.1 to 160.5, up 8.4 per cent, while cement prices advanced from 120.6 to 133.7, a rise of 10.9 per cent.

That farmers are now being caught in a squeeze between rising costs and falling farm prices can hardly be questioned. This development portends a struggle on the part of the agricultural interests to maintain the favorable position they have enjoyed in recent years.

Tug-of-War in Economy

At year's end, most observers looking backward saw the development of a trend toward a more even balance between the strength of still-present inflationary factors and the strength of growing "soft spots" making an appearance in the economy.

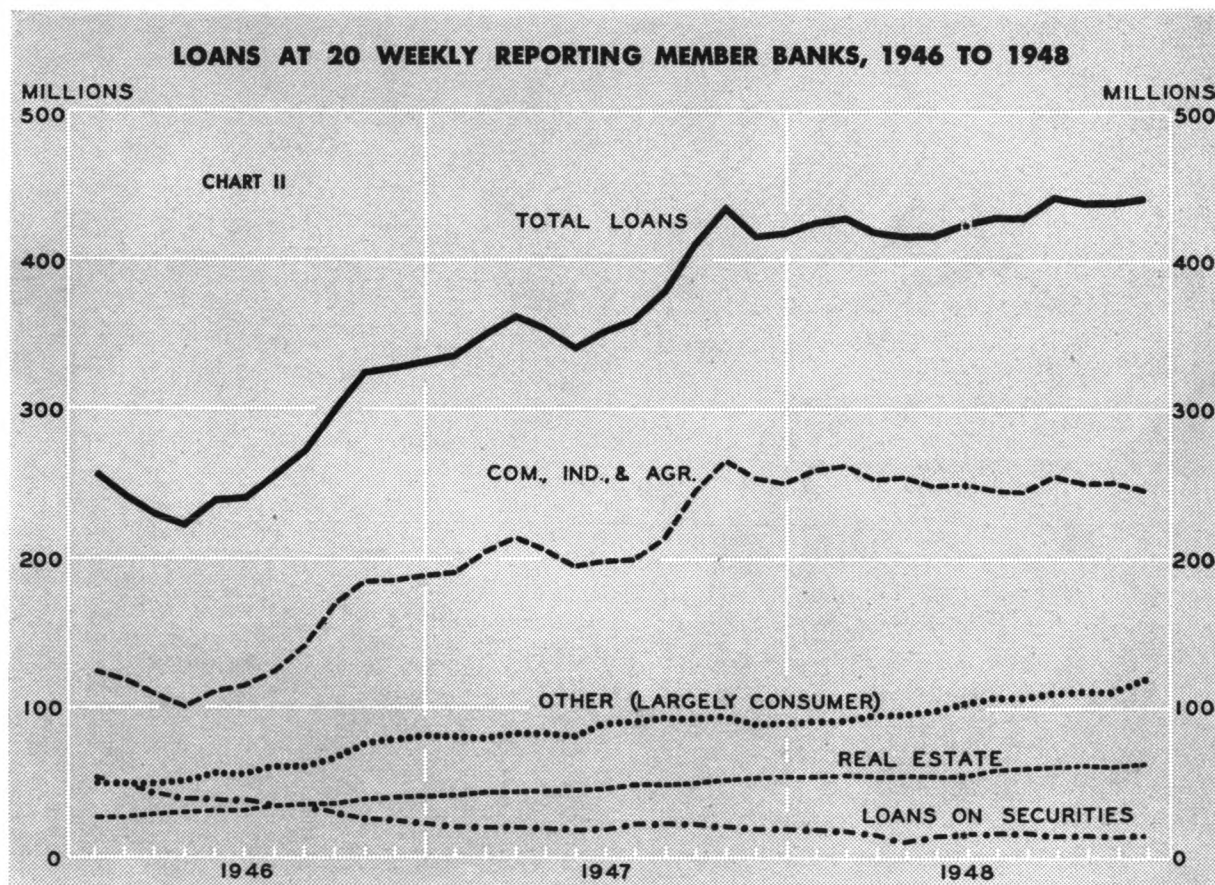
Looking forward, they are puzzled over this tug-of-war between the forces of inflation and deflation, and are watching carefully for signs that indicate which side may get the firmer foothold in the changing economic scene.

Discount Rates Raised in 1948

Although 1948, as a leveling-off year, saw less drastic alterations in our bank operations than did the war and immediate postwar period, there were several noteworthy developments.

In January our discount rate on advances to member banks secured by government securities or eligible paper was increased from 1 per cent to 1¼ per cent, and in August, with inflationary factors still strong in our economy, it was raised to 1½ per cent. Our rates on other types of borrowing moved up correspondingly.

Pursuant to measures passed by Congress, Sep-



tember saw the reimposition of consumer credit controls and an increase in reserve requirements for member banks of 2 per cent on demand deposits and 1½ per cent on time deposits.

Changes Facilitate Transfers and Clearings

Of more permanent significance to the banks of the Ninth district was the arrangement by the Treasury department and Reserve banks to make telegraphic transfer of long-term government coupon bonds after March 1, 1948. Previously only short-term securities could be transferred by wire. This service will save banks in the district an estimated \$45,000 annually in registration and insurance costs.

New microfilming equipment enabled us to notify our member banks May 1 that all checks drawn on banks outside the Twin Cities would be photographed before leaving our bank, eliminating our requirement that member banks describe or maintain descriptive records of items sent to us for collection.

There were two other important developments in our check collection operations in 1948. Our operating letters were amended to provide that only cash and noncash items of more than \$500, instead of those for more than \$100, should be protested, and Regulation J was changed to permit conditional payment of checks on the day of receipt, allowing return of unpaid items on the following business day.

Our Activity Reflects Business Activity

Past experience has shown that the volume of work handled by the various departments of our bank is a fair indicator of the level of business and agricultural activity in this district. Our volume figures for 1948 seem to bear out the observation that this was a year of record prosperity and, at the same time, of leveling off. The volume of transactions in some departments was up from the record figures of 1947, while in others it turned down.

Our check collection departments at the head

office and the Helena branch handled 58.5 million checks with a value of \$21.3 billion, well ahead of 1947 and a new record. Grain drafts collected numbered 912,000, up slightly from last year's total. Their dollar volume of \$1,057 million was slightly less than in the previous year, however, indicating that the average grain draft was slightly smaller than in record 1947.

Our fiscal agency department showed a substantial decline in the number of pieces handled, although dollar figures were above last year's. Savings bonds sold in the district (not including post office sales) numbered 1,380,000, down from 1947's 1,426,000, but increasing in dollar value from \$317 million to \$340 million. The number of savings bonds redeemed dropped from 3,200,000 in 1947 to 2,708,000 last year, but their dollar volume of \$210 million was almost 5 per cent above the previous year.

Currency and coin counted and sorted at the head office and branch reached a record total of \$442 million in 1948, up 11 per cent from 1947. Number of pieces of money handled, however, showed a year-to-year decline of approximately 5 per cent. More than 46 million coins were wrapped in the first full year of our wrapped coin service, 23 per cent above the figure for 1947, when the service was inaugurated.

The note circulation of our bank, which makes up most of the currency used in the district, totaled \$631 million at year's end, up only \$4 million from the figure for December 31, 1947, and the smallest increase since before the war.

There was a decline in the dollar value of securities held in custody for Ninth district banks, the total for December 31, 1948, being \$1,297 million compared with \$1,407 million a year previously.

We made 181 advances to member banks for a total of \$256 million, both figures being lower than those for 1947.

Number of Our Employees Leveled Off

Perhaps nowhere in the bank does the over-all flattening out of work during the year show up so clearly as in the size of our bank staff. After

the sharp rise in the number of employees during the war and a rather rapid reduction immediately following the war, in 1948 the number remained almost constant. There were 644 employees at the head office and Helena branch on December 31, 1948, compared with 651 at the close of 1947.

Burges Elected Director; Two Changes in Official Staff

Our bank began 1949 with a new class A director, Charles W. Burges, vice president and cashier of the Security National Bank, Edgeley, North Dakota. Mr. Burges was elected in November to replace F. D. McCartney, who was not a candidate for reelection.

The Helena branch also had one change in its directorate as James A. McCain, president of the University of Montana, at Missoula, was appointed by the Board of Governors to the vacancy created by the retirement of R. B. Richardson.

The composition of the two boards otherwise remained unchanged. Ray C. Lange was reelected and Paul E. Miller reappointed to the district board, and Theodore Jacobs and E. D. MacHaffie were reappointed to the Branch board.

R. B. Shepard continues as chairman and W. D. Cochran as deputy chairman of the district board in 1949, and Malcolm E. Holtz was named chairman of the Branch board.

Henry E. Atwood was renamed to the Federal Advisory Council for 1949.

There were two changes in the bank's official staff during the year. Paul W. McCracken, who had been director of research, resigned to join the faculty of the University of Michigan. He was succeeded by J. Marvin Peterson, formerly head of the economics department at Miami University, Oxford, Ohio.

The second change was at the Helena branch when C. J. Larson, assistant cashier, resigned to become vice president of the Conrad National Bank, Kalispell, Montana. C. W. Groth of our examination department was named assistant vice president and assigned to the Helena branch to succeed Mr. Larson.

Number of Banks Unchanged

There were 1,285 banks in the district as 1948 ended, the same number as at the close of 1947.

Of these, 476 were member banks. The four following banks joined the Federal Reserve System during the year:

SECURITY STATE BANK, POLSON, MONTANA
LAKE COUNTY BANK, ST. IGNATIUS, MONTANA
BANK OF RHAME, RHAME, NORTH DAKOTA
SUPERIOR NATIONAL BANK, SUPERIOR, WISCONSIN.

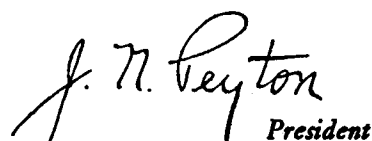
Conferences Well Attended

Nearly 1,100 bankers attended our annual Ninth district conference on April 24; the third Federal Reserve Forum on October 11 and 12 brought more than 400 potential executives of member banks to Minneapolis; and approximately 140 representatives of state and federal supervisory agencies met on November 27 for our annual Examiners' conference.

In March we launched something new in banking education—a Short Course in Central Banking. The course brought member bankers into the Federal Reserve bank in groups of 12 for five days of detailed study of our operations and the theory of central banking. The course was presented 12 times with a total attendance of 144.

Students, educators, businessmen, and others have evinced their interest in our bank during the year, as indicated by the frequency of conducted bank tours, and requests for our publications. The number of persons who have seen our bank movie passed the half-million mark during the year.

Calls on country banks by members of our staff and visits by country bankers to the Federal Reserve bank have continued to keep us in close touch with the men who know best the business, agricultural, and financial conditions of all parts of the district.


President

BOOKKEEPER FOR THE NATION

A LOOK AT THE INTERDISTRICT SETTLEMENT FUND

HOW would you ship \$461,000,000,000?

It sounded like quite a job to us—something for Paul Bunyan, maybe.

"How much money is that?" we asked our statistician. The wheels in his head began to turn and out came the answer.

"In dollar bills, laid end to end, enough to extend almost 44 million miles," he replied. "Almost half the distance from the earth to the sun," he added.

"No, not in dollar bills," we interposed hastily. "In gold."

The wheels turned again.

"Four hundred fifty-two thousand tons of 24-carat gold," he said. "Nineteen times as much gold as there is in Fort Knox and the other depositories of the U. S. Treasury. Enough to cover a football field with a solid block fifteen feet high. Enough to make wedding rings for . . ."

"We get the idea," we interrupted. It looked like too big a job even for Bunyan's Blue Ox. What baffled us was that apparently the job had already been done.

We had just seen some figures which indicated that money payments back and forth between different sections of our nation last year were measured in hundreds of billions of dollars. The figures were those representing the dollar amount of transfers made through the Interdistrict Settlement Fund of the Federal Reserve System.

In 1948, these transfers totaled approximately \$461 billion—a figure sufficiently gigantic to fit

the pine tree pen of Bunyan's Johnny Inkslinger.

This seemed to call for an investigation. What is this Interdistrict Settlement Fund? How does it work? We began to ask a few questions.

The Fund Actually Is Gold Certificates

In outward appearance the Interdistrict Settlement Fund is a small, quiet office in the Federal Reserve Building, Washington, D. C. The three men who work there are neither transportation experts nor magicians. Their only magic is that of the telegraph and double-entry bookkeeping.

Technically—if you want to be technical—the fund consists of several billion dollars in gold certificates, which are due to the nation's 12 Federal Reserve banks from the U. S. Treasury.

A gold certificate, as its name implies, is a receipt for gold bullion held by the United States Treasury.

We found that these gold certificates do double duty in that they not only serve as a clearing fund but also form a part of the reserves which Federal Reserve banks are required to maintain against the deposits of member banks, the United States Treasury, and others in the Federal Reserve banks.

The balance which the Federal Reserve Bank of Minneapolis held in this fund on December 31, 1948, is included among our assets in the item, "Gold certificates on hand and due from U. S. Treasury," which appears on our Statement of Condition (page 17 of this report).

But, as we said, that's the technical part of it. What we really wanted to find out is how this Fund works—how it moves money from one part of our country to another. Perhaps we can best tell you with an illustration.

Check Payments Speeded Up Through the Fund

Remember last Christmas you wondered what you should give Aunt Mary in Peoria? You finally decided to send her a check for \$10, drawn on your own First National bank. You put the check

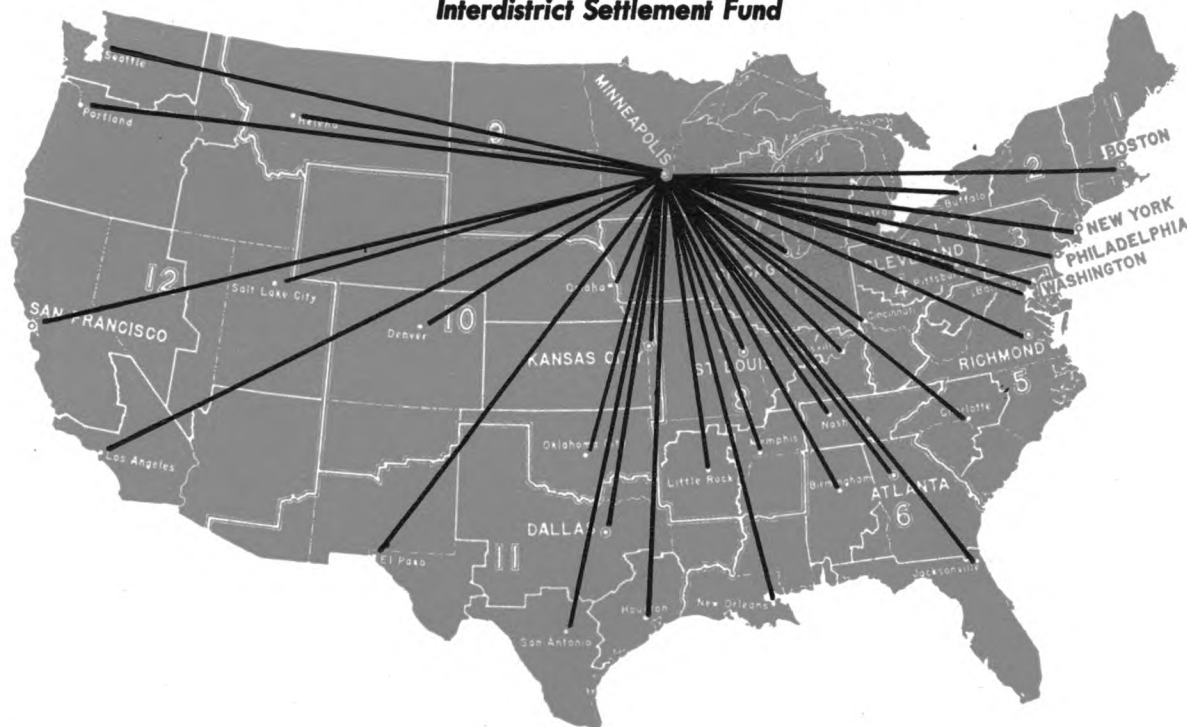
in the mail and forgot about it—at least until you received your statement from the First National.

That was the beginning of a money transfer between two Federal Reserve districts, for, if you remember your high school civics, you know that your bank is in the Ninth Federal Reserve district, served by the Federal Reserve Bank of Minneapolis, while Peoria is in the Seventh district, served by the Federal Reserve Bank of Chicago.

When Aunt Mary received the check she cashed it at her bank in Peoria. How she spent the money is her business. Let's follow the check. The Peoria

FUNDS ARE FLASHED FROM MINNEAPOLIS TO ANY BANKING CENTER

Telegraphic Network Implements Transfers Through Interdistrict Settlement Fund



bank bundled it up with several hundred others and sent it to the Federal Reserve Bank of Chicago. The Chicago Reserve bank whisked the check on to our own Federal Reserve bank here in Minneapolis and then paid the Peoria bank by adding the amount of the check to its account with the "Fed" of Chicago. Our bank sent it to your own First National, who paid us for it and, as you well know, reimbursed themselves from your bank account.

Everyone who handled the check, from Aunt Mary to your own bank, seems to have been paid—that is, everyone except the Federal Reserve Bank of Chicago. Our bank owes them \$10.

How did we pay the Chicago Reserve bank? By sending them a \$10 bill? No, for with millions of checks being written and sent to all parts of the country daily, shipment of currency in payment would be too expensive, too risky, and too slow.

Here's where the Interdistrict Settlement Fund comes in. Remember that both the Federal Reserve Bank of Minneapolis and the one at Chicago own parts of that Fund. Their ownership is reflected in figures on the Fund's books. A simple bookkeeping entry reduces our own bank's share of the Fund by \$10 and increases the Chicago bank's share by the same amount. The payment has been made.

Of course, that may be oversimplifying it a bit because your check to Aunt Mary was only one of thousands which the Chicago Reserve bank sent to us on that particular day. At the same time, our bank was sending the Chicago "Fed" other thousands of checks drawn on banks in the Chicago district and cashed or deposited in banks in our area.

The Feds Settle Up Daily

In settling up at the end of the day our bank telegraphs the Interdistrict Settlement Fund the

dollar total of checks and other items collected by us for the account of other Reserve banks and branches. If these collections totaled a million dollars our wire might be as follows:

"Charge our account in the Interdistrict Settlement Fund one million dollars and credit the Federal Reserve banks and branches listed below in the amounts indicated: Buffalo, \$100,000; New York, \$300,000; Chicago, \$400,000; San Francisco, \$200,000."

Each of the other Reserve banks and branches would send similar wires to the Interdistrict Settlement Fund for amounts collected in its district payable to other Federal Reserve banks. When all of the wires have been received by the manager of the Fund, he gets out his books and posts the entries to each bank's account. Then he wires each bank or branch the total amount of its credits and from whom received.

It's as simple as that. A transfer between any of the 12 Federal Reserve banks and their 24



branches can be made just by bookkeeping entry. No one so much as rustles the gold certificates which the figures on the Fund's books represent.

All the banks and branches are connected by telegraph to facilitate such transfers.

Most Money Is Bank Deposits

The transfer of money by bookkeeping entry instead of by actual transportation of cash can be appreciated only if we realize that most of our money in the United States is not in the form of coin or currency, but in the form of demand deposits in banks. Those familiar little slips of paper—checks—are the vehicles by which bank deposit money is shifted from one section of our economy to another as purchases and sales of goods and services are made.

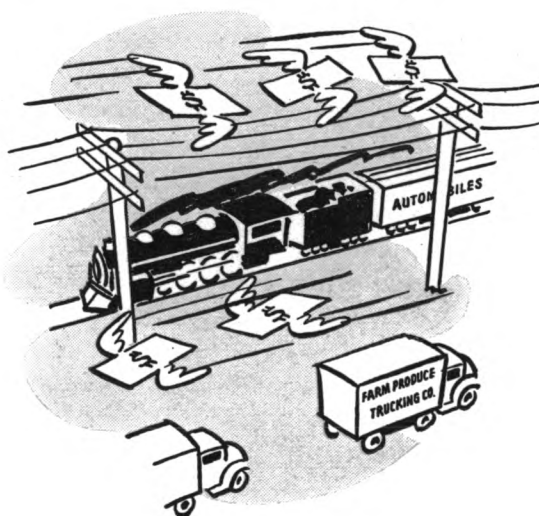
Deposit banking and the use of checks on the scale we know it now are comparatively recent developments. Your great grandfather seldom wrote a check. Only since Civil War days have checks become more important than bank notes as a medium of exchange. Today an estimated 90 per cent of the money payments in this country are made through the medium of the check.

When checks circulate locally only—that is, when you give Jake, the grocer, a check and he deposits it in the local bank with which you both do business—payment is made by a simple adjustment of the figures for your account and his on the bank's books. If the check goes out of town but stays within the boundaries of one particular Federal Reserve district, payment may involve bookkeeping entries on the books of at least two or more commercial banks and probably the Federal Reserve bank of that district.

Whenever a check goes outside the district of origin, however, in a large percentage of cases payment between the two districts will be made through the Interdistrict Settlement Fund. By a well-developed means of telegraphic communication and daily settlement of accounts in the Fund, the various Federal Reserve banks and branches

provide a ready channel for the movement of deposit money about the country.

The millions of checks which travel from one Federal Reserve district to another are, however, not the only instruments for which payment is made by bookkeeping entry in the Fund. Payment



for notes, drafts, coupons, warrants, and other pieces of paper—which your banker calls “non-cash items”—are similarly made.

Banks Can Transfer Customers' Funds Quickly

A substantial part of the \$461 billion handled by the Fund represents wire transfers of funds between commercial banks which are members of the Federal Reserve System. Many such transfers are made by banks to accommodate their customers. In such cases the sending of a check or other payment order by mail is not necessary. Again, let's take an example.

J. Mactavish Doe, a hypothetical businessman, lives in the very real city of Fargo, North Dakota.

This morning he received a bill from Smith and Company, San Francisco, which to the sorrow of J. Mactavish's thrifty soul, must be paid today if he is to take advantage of the discount. A thousand dollars must be in San Francisco today, but he knows that a check sent by mail cannot possibly reach Smith and Company in time.

His bank in Fargo has a simple solution to his problem, however. They will be happy to take his check for \$1,000.

Out goes a wire from the Fargo bank to the Federal Reserve Bank of Minneapolis. As instructed, our bank charges their account with us for \$1,000 and simultaneously wires instructions to the Federal Reserve Bank of San Francisco. The San Francisco Reserve bank credits Smith and Company's bank with \$1,000, and the latter bank passes the credit along to Smith and Company.

Long before the sun has set over the Golden Gate, Smith and Company has its money, J. Mactavish has his discount, and everyone has done a neat piece of business all along the line—incidentally, at no profit to either Reserve bank.

Everyone has been paid, too—that is, everyone except the Federal Reserve Bank of San Francisco. They aren't worrying, however. They own a share of that Interdistrict Settlement Fund, too. They know that at the end of the day, when our bank wires the manager of the Fund, the San Francisco share of the Fund will be increased by \$1,000 and our own Reserve bank's share will be reduced by the same amount as a result of this particular transaction.

What Happens When You Buy a Bank Draft

Banks often transfer money from one place to another for their own accounts, too. Let's see how such a transaction might arise.

Did you ever buy a bank draft? Perhaps you've

wondered how your local banker always seems to have funds in Minneapolis, St. Paul, Duluth, Chicago, New York, or some other banking center against which he can draw so that you can pay a bill in or near one of those cities.

It's all a part of an efficient "correspondent bank" relationship which commercial banks have developed. Your own bank keeps money on deposit with larger commercial banks in several banking centers. He calls them his correspondent banks. When he sells you a draft on one of these banks, his balance with the particular correspondent on which the draft is drawn is, of course, reduced. How does he rebuild it so that he can again sell you a draft the next time you come in?

He has two principal methods. First, he may bundle up part of the out-of-town checks he has taken in during the day and send them directly to his correspondent bank. When the correspondent bank has collected for the checks, it places the money on deposit in your local bank's account.

The second and more rapid method is to use our old friend, the Interdistrict Settlement Fund. Suppose your banker has more money than he needs in his New York correspondent bank, but not enough with his correspondent at Omaha. He merely asks his New York bank to transfer money by wire to Omaha. Presuming both banks to be members of the Federal Reserve System, such transfers are made by the Federal Reserve banks free of charge. Settlement is made, of course, through the Interdistrict Settlement Fund.

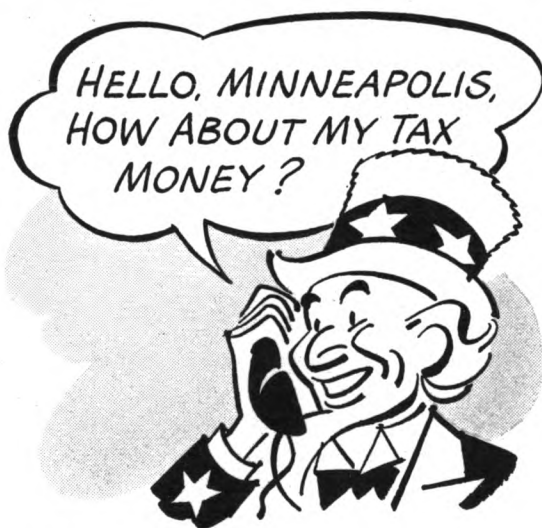
Uncle Sam Also Makes Use of the Fund

Some of the largest transfers which flow through the Fund each day are those made in connection with United States Treasury accounts. The Treasury department is well acquainted with big figures and Treasury deposits in Federal Reserve banks have been unusually large in the last few years.

Through the Interdistrict Settlement Fund such deposits can be transferred from one Reserve bank to another easily and quickly.

The withholding tax which your employer deducted from your last salary check and turned over to the local bank is now, or soon will be, resting in the Treasury's account at the Federal Reserve Bank of Minneapolis. It's been a good year here in the Northwest and tax money is piling up in our bank.

Down in Boston, however, Uncle Sam may have bills to meet in payment for that sleek, new battleship the Navy is building. Now the Interdistrict Settlement Fund has another money moving job. A quick change of the figures on its books and the money which was formerly in the Federal Reserve Bank of Minneapolis has been shifted



at the Treasury's request to the Federal Reserve Bank of Boston where Uncle Sam needs it.

Seasonal shortages of money in one district can be eased by such Treasury transfers or by borrowing between Reserve banks through bookkeeping entries in the Fund.

Homing FR Notes Are Redeemed Through the Fund

Many other adjustments between Reserve banks are made through the Fund. In your wallet right now you may have a \$20 bill. Inspection reveals that its correct name is a "Federal Reserve Note." On which Federal Reserve bank is it drawn? What difference does it make so long as it's worth \$20? You're right. None at all to you, but when that "twenty" comes in to our bank in a currency shipment from your local banker it makes quite a difference to us. We can receive from but not pay out to member banks in our district the Federal Reserve notes of the 11 other Reserve banks.

One of our big jobs is the sorting out of incoming Federal Reserve notes as to the bank of issue. The notes of other Reserve banks are returned to them, or, if they are beginning to look a little travel weary, to the Treasury department for redemption. The other Federal Reserve banks have the same job.

How is payment made for the notes thus exchanged and redeemed? Daily, through the Interdistrict Settlement Fund.

From time to time the Open Market committee of the Federal Reserve System buys or sells government securities for the accounts of the 12 Reserve banks. Such operations may be undertaken as a credit control measure or to stabilize the government bond market. Allocation to the various Reserve banks of the funds spent for or realized from such transactions are made, as you should guess by this time, through the Interdistrict Settlement Fund.

Transfers Total Nearly Half-Trillion Annually

These are a few of the transactions that make up that annual total of almost a half-trillion dollars in transfers. In a sense, the Interdistrict Settlement

Fund is the bookkeeper for the nation's economy. The term aptly describes the enumeration of transactions between the different sections of the country. The volume of business activity, as reflected in interdistrict trade and money payments, shows up, at least in part, in the transfers of funds from one Federal Reserve bank or branch to another.

For instance, when the automobile industry is booming in Detroit, sales of motor cars in other districts of the country mean a flow of money to that city. Drafts and checks on banks in other sections go to the auto makers' banks in Detroit. Payment for such checks and drafts results in transfers on the books of the Fund from other Federal Reserve banks and branches to the Detroit branch of the Federal Reserve Bank of Chicago, which passes the money along to the commercial banks in Detroit as it pays for the checks.

During the crop-moving and livestock-selling seasons a particularly large number of checks are sent to the predominantly agricultural districts.

During summer tourist seasons, vacationists to Minnesota's and Wisconsin's lakes, to South Dakota's Black Hills, and to Montana's national parks write checks on banks in other sections of the country. Payment for these checks means a shifting of bank deposits in other Reserve districts to the banks of the Ninth district. Settlement through the Fund means a greater share of it for the Federal Reserve Bank of Minneapolis.

Trade Pattern of District Revealed by Transfers

Recently here in the Federal Reserve Bank of Minneapolis we made a study of the flow of funds into and out of this district as revealed by transfers to and from our account in the Interdistrict Settlement Fund last year. Some rather interesting facts were disclosed.

The study shows that the Chicago district is apparently the largest importer of Ninth district

products. Our transactions with the Federal Reserve of Chicago are not only larger than those with any other Reserve bank but they show what economists call a "favorable balance of payments" during every month of the year.

In other words, more funds flowed into the Ninth district from the Seventh district than flowed the other way. Evidently Chicago is our best market for the grain, livestock, dairy products, and other commodities of this area.

Our transactions with Detroit, on the other hand, reveal an unfavorable balance. We consistently transferred more money to the Detroit branch than we received from them, a fact attributable perhaps to the heavy purchases by persons in this district of the automobiles, trucks, and auto parts manufactured in that city and area.

Our transactions with New York rank second in dollar volume according to the debits and credits to our account in the Fund. In 1948, we had a favorable balance with New York from January to August and unfavorable from September to December. With Buffalo, however, our balance was favorable in all months of the year by a wide margin. Buffalo is a good market for Ninth district grain.

Our Trade Is in Balance with Some Areas

Our debits and credits with the Federal Reserve Bank of Kansas City rank third. Our trade with that city and area is in near balance during all months of the year. Similarly, exports and imports, as revealed by money transfers, seem to be about equal between Minneapolis and the cities of Boston, Philadelphia, Cleveland, Baltimore, Birmingham, Omaha, El Paso, and Los Angeles.

The Minneapolis area has a sizable unfavorable balance of payments with the Cincinnati region because of our large imports of machine tools, office supplies, soap, and other goods produced

there. Pittsburgh also sells more to us than they buy from us, due to our heavy purchases of coal and steel.

Our purchases of such products as tobacco, peanuts, and liquor probably account for a surplus of imports over exports with such cities as Richmond, Charlotte, Louisville, Nashville, and Memphis. Purchases of cotton, cottonseed oil, and petroleum products may account for an unfavorable balance of trade with other southern cities.

During the winter months Florida and California gain at the expense of the Midwest from tourist expenditures, as shown by our settlements with the Jacksonville and Los Angeles branches.



In the summertime, northern sections of Michigan, Minnesota, and Wisconsin benefit from the tourist traffic.

Transfers through the Fund, however, by no means represent all of the trade between various sections of the country. Curiously enough, payments for northern Minnesota's vast shipments of iron ore may involve no transfer of money into the Ninth Federal Reserve district, because the companies owning the mines do not carry their principal bank accounts in Ninth district

banks. Such payments may entail only a transfer of money between or within large eastern banks.

A similar situation prevails in the lumber and wood products industry of our North Woods country, the copper mining of Montana, the gold mining of the Black Hills, and several other lines of industry in the district. Of course, money does flow into the Ninth district to meet payrolls, taxes, and for other purposes.

The Interdistrict Settlement Fund, however, does the lion's share of the job of moving money from one part of our nation to another.

Since its establishment in 1915, the Fund has increased tremendously in both size and importance. Then, known as the "Gold Settlement Fund," it amounted to only \$20 million. The name was changed in 1934. Today it totals some \$8 billion. The increase in its size, however, is much less significant than the increase in the volume of transactions flowing through it.

Simplest Transaction Places Mechanism in Motion

By the time you get around to mailing in your next subscription check to the Saturday Evening Post, you will probably have forgotten that such a Fund exists. Nevertheless, from the time a teller in a Philadelphia bank takes your check in through his window until the bookkeeper in your local bank posts it to your account, the efficient and complex mechanism of modern banking serves you.

And the cog in that mechanism through which payment for your check and some \$461 billion in other transactions takes place each year is that great bookkeeper for the nation, the Interdistrict Settlement Fund, which shovels mountains of money from one part of the country to another with such ease as would make Paul Bunyan, Johnny Inkslinger, and even the Blue Ox turn green with envy. **END**

E A R N I N G S A N D E X P E N S E S

	1948	1947
Earnings from:		
Discounted Bills	\$ 88,859	\$ 96,443
United States Government Securities	9,148,680	4,506,670
Industrial Advances	0	0
All Other	8,889	9,994
Total Current Earnings	\$ 9,246,428	\$ 4,613,107
Expenses:		
Net Operating Expenses	\$ 2,119,004	\$ 1,888,829
Assessment for Expenses of Board of Governors	80,229	65,186
Federal Reserve Currency:		
Original Cost	88,202	90,473
Cost of Redemption	18,665	18,610
Total Current Expenses	\$ 2,306,100	\$ 2,063,098
Current Earnings	\$ 6,940,328	\$ 2,550,009
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities	179,381	74,733
All Other	828	782
Total	\$ 180,209	\$ 75,515
Deductions from Current Net Earnings:		
Reserve for Registered Mail Losses	11,754	11,289
All Other	343	593
Total	\$ 12,097	\$ 11,882
Net Additions to Current Net Earnings	\$ 168,112	\$ 63,633
Net Earnings	\$ 7,108,440	\$ 2,613,642
Dividends Paid	\$ 262,776	\$ 253,251
Paid to U. S. Treasury (Interest on outstanding		
Federal Reserve Notes)	5,081,916	2,124,282
Paid to U. S. Treasury (Section 13b)	0	500
Transferred to Reserves for Contingencies	1,199,000	0
Transferred to Surplus (Section 13b)	0	0
Transferred to Surplus (Section 7)	564,748	235,609

Surplus Account (Section 7)

Balance at Close of Previous Year	\$11,232,567	\$10,996,958
Transferred from Profits of Year	564,748	235,609
Balance at Close of Year	\$11,797,315	\$11,232,567

Surplus Account (Section 13b)

Balance at Close of Previous Year	\$ 1,072,621	\$ 1,072,621
Transferred to Surplus (Section 13b)	0	0
Balance at Close of Year	\$ 1,072,621	\$ 1,072,621

STATEMENT OF CONDITION

	<u>Dec. 31, 1948</u>	<u>Dec. 31, 1947</u>
ASSETS		
Gold Certificates on Hand and Due from		
U. S. Treasury	\$ 470,419,210	\$ 431,974,895
Redemption Fund—F. R. Notes	23,135,518	22,880,274
Total Gold Certificate Reserve	\$ 493,554,728	\$ 454,855,169
Other Cash	12,127,891	6,792,806
Bills Discounted	4,928,125	1,265,000*
Industrial Advances	0	0
U. S. Government Securities:		
Bonds	336,001,000	93,936,000
Notes	24,198,000	48,618,000
Certificates of Indebtedness	186,029,000	223,788,000
Bills	167,963,000	298,577,000
Total U. S. Government Securities	\$ 714,191,000	\$ 664,919,000
Total Bills and Securities	\$ 719,119,125	\$ 666,184,000
Due from Foreign Banks	1,221	2,379
F. R. Notes of Other F. R. Banks	9,273,550	8,158,050
Uncollected Items	73,484,442	67,641,451
Bank Premises	1,177,033	1,208,439
Other Assets	4,464,921	3,656,181
Total Assets	\$1,313,202,911	\$1,208,498,475

LIABILITIES

Federal Reserve Notes in Actual Circulation	\$ 631,348,825	\$ 626,968,780
Deposits:		
Member Bank—Reserve Account	506,653,068	450,542,397
U. S. Treasurer—General Account	74,129,726	43,974,904
Foreign Bank	15,892,500	8,225,000
Other Deposits	2,843,121	2,645,456
Total Deposits	\$ 599,518,415	\$ 505,387,757
Deferred Availability Items	61,749,681	57,023,537
Other Liabilities	381,005	867,040
Total Liabilities	\$1,292,997,926	\$1,190,247,114

CAPITAL ACCOUNTS

Capital Paid in	\$ 4,471,800	\$ 4,293,650
Surplus (Section 7)	11,797,315	11,232,567
Surplus (Section 13b)	1,072,621	1,072,621
Other Capital Accounts	2,863,249	1,652,523
Total Liabilities and Capital Accounts	\$1,313,202,911	\$1,208,498,475

* Consists solely of foreign loans on gold.

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CALENDAR OF 1948 FINANCIAL EVENTS

- JANUARY 12-19 . . . Rediscount rates increased from 1 per cent to $1\frac{1}{4}$ per cent.
- JANUARY 23 . . . Reserve requirements increased from 20 per cent to 22 per cent against net demand deposits of central reserve city banks—effective on February 27.
- JANUARY 26 . . . Thomas B. McCabe nominated chairman of Board of Governors. Confirmed by Senate, April 12. (Term as chairman expires April 15, 1952; as member of Board, February 1, 1956.)
- MARCH 18 . . . Upper limit on annual purchases of Series E United States Savings bonds raised from \$5,000 to \$10,000.
- MARCH 25 . . . United States monetary gold stocks hit \$23,000,000,000; new all-time high.
- MARCH 31 . . . United States money supply (demand deposits adjusted and currency outside of banks) dipped to \$107,100,000,000—down almost \$6,500,000,000 from the beginning of 1948.
- APRIL 2 . . . Foreign Assistance Act of 1948 passed (\$5,050,000,000 for 12-15 months).
- APRIL 2 . . . Revenue Act of 1948 reduced personal income tax rates beginning May 1.
- MAY 13 . . . Retention of $1\frac{1}{8}$ per cent certificate rate for June 1 and June 15 refunding announced by Treasury.
- JUNE 2 . . . Reserve requirements increased from 22 per cent to 24 per cent against net demand deposits of central reserve city banks (effec. June 11).
- JUNE 10 . . . Upper limit on annual purchases of Series F and G United States Savings bonds temporarily (July 1-15) lifted from \$100,000 to \$1,000,000.
- JUNE 19 . . . Agricultural Act of 1948 passed—signed July 3, 1948. Generally provided for continuation of farm price supports at existing levels of 90% of parity for 1949; and provided for long-range program of revision of parity and flexible price supports at 60-90% of parity, effective January 1, 1950.
- JUNE 30 . . . Total loans of all Ninth district member banks reached \$813 million—\$2 million above the previous all-time peak of June 1920.
- AUGUST 7 . . . Anti-Inflation Act of 1948 passed—signed August 16. Conveyed authority to Board of Governors to reinstitute some consumer installment credit restrictions and to increase reserve requirements another 4 per cent and $1\frac{1}{2}$ per cent, respectively, against demand and time deposits, in addition to existing statutory limits. Expires June 30, 1949.
- AUGUST 9 . . . Certificate rate permitted to rise from $1\frac{1}{8}$ per cent to $1\frac{1}{4}$ per cent with September 15 and October 1 refunding.
- AUGUST 13-23 . . . Rediscount rates increased to $1\frac{1}{2}$ per cent (see January 1948).
- AUGUST 16 . . . Yield on new Treasury bills rose above 1 per cent.
- AUGUST 18 . . . Series D Tax Saving Notes to be put on tap beginning September 1 (yield to maturity 1.40 per cent) in place of Series C Notes.
- AUGUST 19 . . . Consumer instalment credit controls announced, to be effective September 20.
- SEPTEMBER 8 . . . Third 1948 increase in reserve requirements announced:
- $1\frac{1}{4}$ per cent on time deposits at all member banks beginning September 16.
 - 2 per cent on demand deposits at all country member banks beginning September 16.
 - 2 per cent on demand deposits at reserve city and central reserve city member banks beginning September 24.
- NOVEMBER 3 . . . United States monetary gold stocks hit \$24,000,000,000.
- NOVEMBER 10 . . . Federal Reserve System open market purchases (net) of Treasury bonds have totaled \$10,500,000,000 during past 12 months, but holdings of bills, certificates, and notes are nearly \$9,500,000,000 below year ago. Ninth Federal Reserve bank portfolio of Treasury bonds increased over \$320,000,000 during past year; holdings of bills, certificates, and notes are more than \$220,000,000 below a year ago.
- NOVEMBER 16 . . . Retention of $1\frac{1}{4}$ per cent certificate rate for December 15 and January 1 refundings announced by Treasury.
- NOVEMBER 30 . . . November annual rate of turnover of demand deposits adjusted in reporting centers other than New York City reached the highest point so far in the postwar period.
- DECEMBER 29 . . . United States money supply at \$111,460,000,000, recovering approximately two-thirds of the loss sustained in the first quarter of the year.
- DECEMBER 29 . . . Total loans of all United States banks established all-time high, roughly 12 per cent above a year earlier.

THE RIBBON running head theming the special article on the Interdistrict Settlement Fund contains some of the code words used in the wire transfer of money and securities. Although real code words, no actual message could be deciphered from them, as they appear in disordered sequence.

CHART I

SOURCE: Cash Farm Income, USDA; Income Payments, Department of Commerce; Construction Contracts Awarded, F. W. Dodge Corp.; Cost of Living, Department of Labor.

NOTE: Changes in Cash Farm Income and Income Payments are based on partially estimated data. Department store stocks are measured from year-end 1947 to year-end 1948. "Cost of Living" is a percentage change in an annual average of the quarterly data. All other items are based on annual volume.

CHART II

NOTE: * Beginning June 30, 1949, individual loan items are reported gross, i.e., before deduction of valuation reserves, instead of net as previously reported.