annual

1950

FEDERAL RESERVE BANK OF MINNEAPOLIS

report

THIS REPORT to the stockholders—the member banks—contains a message from the president, a feature article on one of the departments of the bank, and statements of condition and of earnings and expenses.

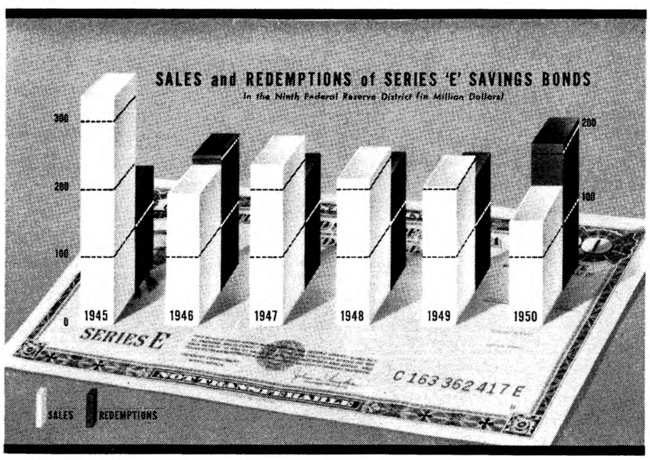
The message of President John N. Peyton stresses the impact of international developments on the economy of our nation and the Ninth Federal Reserve district. It also reviews internal operations of the bank for the past year.

The feature article entitled *Doing a Job for Uncle Sam* presents a description of services performed by the Fiscal Agency department for the government of the United States, the banks, and the people. Thus is added one more story to the series on Federal Reserve services contained in previous annual reports—stories on coin and currency, on the settlement of interdistrict balances, and on check collection.

We hope that these annual reports will serve to make you more familiar with the role of our regionalized central banking system in the economy.

R. B. Shepard

Chairman



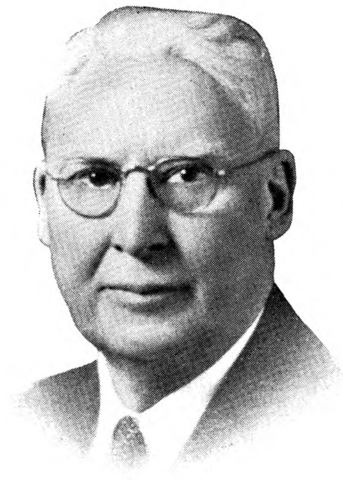
● **FISCAL AGENCY**

Feature Subject of this Annual Report to the Stockholders

DOING A JOB FOR UNCLE SAM - - - PAGE 13

AT THE beginning of 1950, most surveyors of the business scene thought that recovery from the slight recession of the previous year would surely last as long as six months. Many were doubtful that revival of the postwar boom would longer endure. These prognosticators, true to their working rules, protected their predictions with the assumption that the temperature of international relations would get neither hotter nor colder.

When at mid-year fighting broke out on the 38th parallel, longitude about 127, that spark not



PRESIDENT PEYTON'S MESSAGE

only set off an international conflagration and feverish military mobilization — it set money in motion.

While young men lined up at enlistment and induction centers, eager shoppers with currency and charga-plates in their hands queued up at trading counters. When their supply of ready cash was depleted, these busy buyers rushed to lenders and safe-deposit boxes to reenforce their buying power —and rushed back to the counters again.

Behind the front lines—the retail counters—supply lines were kept open and a steady stream of mobile units moved goods from wholesalers' depots. Farther behind, in manufacturing plants, men tugged at switches and levers setting assembly lines moving at a faster speed as unfilled orders piled up. Still farther removed from the front lines, stockpiles were heightened as men in mines dug deeper and ships brought from distant lands bigger cargoes of precious things labeled "strategic."

One commentator searching for a phrase to describe the 1950 business scene borrowed one from a Dickens character, Oliver Twist, who said simply, "Please, sir, I want some more." People wanted and got more of almost everything: more houses, more automobiles, more household appliances, more food, and more clothing. They also got more wages, more profits, more bank credit, and more mortgages.

At the end of the year, with the exhilaration of bountiful business, came perplexing, sobering problems. It had become apparent that military involvements abroad would be of longer duration than we had hoped earlier, and we faced spiralling inflation—a threat to economic stability and strength —at home.

The 1950 Economy Had Four Phases

The economic history of 1950 divides conveniently for analytical purposes into four periods:

- The period of recovery from the slight recession of 1949 extended from the year's beginning to the outbreak of hostilities in Korea on June 25.
- The period of "scare buying," which began the last week in June, reached its height in July.
- The return to a more normal pulse in consumer expenditures began in August, accompanied by hopes for an early return to a quiescent state in international affairs.
- A period of intensified mobilization followed the more overt participation by Chinese armies in the fighting in Korea. The year ended on the

sobering note that the nation's resources would be severely taxed by great demands of consumers and the defense program.

Moderate Acceleration Featured First Six Months

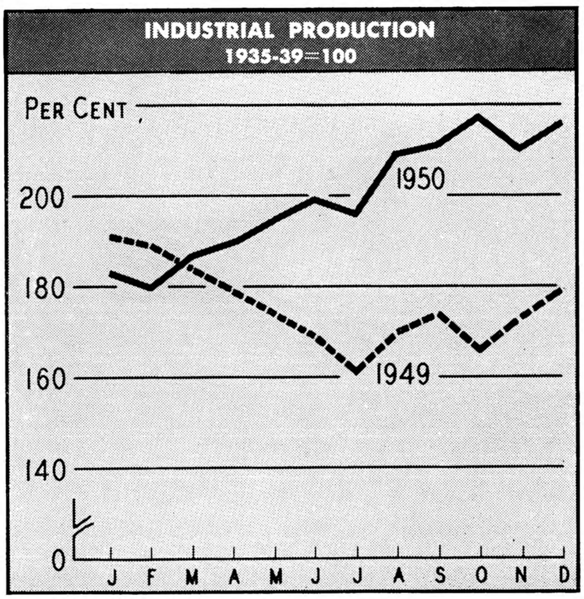
At the opening of the year, business was engaged in a vigorous recovery from the recession of 1949. One measure of this movement was the Federal Reserve index of industrial production, which had advanced from 161 in July 1949 to 179 in December 1949 (1935-39=100). That index reached 199 in June 1950. Meanwhile, wholesale prices advanced from 151.2 in December 1949 to 157.3 in June 1950 (1926=100). The slower-acting consumers' price index rose only 2% from January to June.

Reflecting confidence in the outlook, businessmen had shifted from a policy of inventory liquidation early in 1949 to one of inventory accumulation later in that year—and this was continued in the first half of 1950. They also invested more freely in plant and equipment, especially in the second quarter.

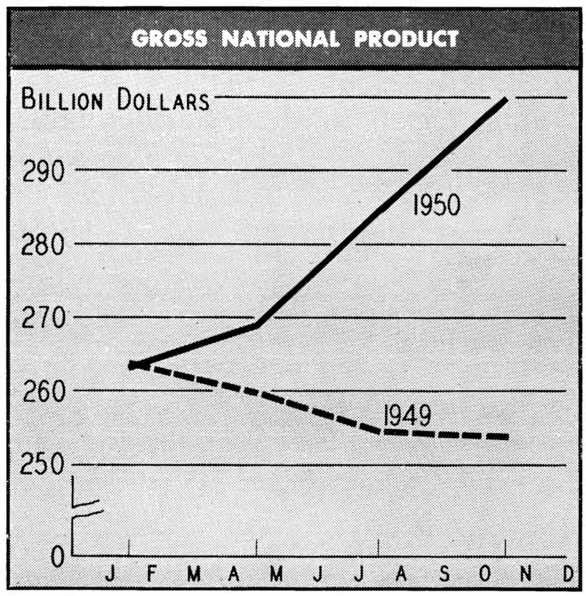
Monetary and credit developments featured a rise of 11% in outstanding instalment credit in the first half of 1950. Residential mortgage credit also rose rapidly, and farmers, who had reduced their debts in the 1940's, began to borrow quite heavily. Bank loans expanded about $2.5 billion in six months. Total money supply increased only moderately as bankers financed a large part of their loan expansion by selling securities to nonbank investors.

Indexes Jumped Sharply After June 25

Contrasting sharply with the previous moderate acceleration, business activity reflected a high state of inflationary "psychology" beginning the last week in June. Shoppers, fearing that shortages would develop and that prices would rise, rushed to the retail stores and bought almost all kinds of goods. This was measured by the Federal Reserve's seasonally adjusted index of department store sales,



● The Federal Reserve index of industrial production, which measures the physical volume of goods produced, indicates that new high peacetime levels were achieved in 1950. Behavior of this index in the latter part of 1950 reflected a production level whose further extension would require plant expansion.



● In the fourth quarter of 1950, gross national product (the money value of all goods and services) was $46.5 billion above the fourth quarter of 1949. Accounting for most of it, personal consumption expenditures rose $15 billion and private domestic investment $29 billion above fourth quarter of '49.

Recent Changes in Prices

Series	Per cent increase to January 25, 1951 from: Week ending June 24	Year ago
Consumer Prices		
All items	5	7
Foods	5	9
Apparel	6	6
Rent	2	3
Wholesale Prices		
All commodities	14	19
Farm products	18	28
Grains	11	16
Livestock	15	34
Foods	13	19
Other commodities	14	16
Textile products	32	31
Chemicals	27	25
Building materials	11	17
Metals and metal products	10	12
28 Basic Commodities	46	55
Selected items:		
Rubber	155	296
Tin	140	144
Lard	67	72
Wool tops	107	126
Print cloth	54	42
Cocoa	10	28
Hides	69	80
Hogs	7	25
Coffee	13	11
Cotton	32	42
Sugar, raw	2	2
Steel scrap	27	85
Wheat	9	9
Steers	19	14
Zinc	16	73
Copper	9	33

Note.—Compiled from Bureau of Labor Statistics data. Changes in consumers' prices are to mid-December.

which after rising from 282 to 290 per cent of the 1935-39 dollar volume, shot up to 362 for July. The scare buying, particularly in items most scarce in the previous war, pulled department store stocks down from 285 for May to 269 for July (1935-39=100), despite efforts of store managers to keep the shelves filled.

Wholesale prices, which had advanced from 151.1 in January to 155.9 in May (1926=100), rose to 162.9 in July. The index of industrial production advanced from 195 in May to 209 in August.

Trade Had Resumed More Normal Tempo by September

When it became apparent that supplies of most goods were ample to satisfy demands for a considerable length of time, "scare buying" subsided. Department store sales by September were not much higher than for the corresponding period of the previous year.

That trade had resumed a more normal tempo did not mean, however, that total business activity had declined. Retailers, wholesalers, and manufacturers, whose inventories had declined, placed extraordinarily high orders for replacement stocks. Expenditures on plant and equipment were revised upward. Construction activity, both in residential and commercial sectors, advanced to new peak levels.

The index of industrial production reached 217 in October, then levelled off. Prices continued to rise, overtaking the previous postwar high attained in 1948. In the meantime, various kinds of controls had been imposed, such as regulations on instalment credit for consumer durable goods and for residential real estate mortgage credit. Some restrictions were also imposed on the utilization of a number of raw materials and on non-essential construction.

Intensified Mobilization Began in November

Hopes for an early termination of hostilities were blasted when late in November the massive assault began on the United Nations forces in Korea. This development was followed by more intensified mobilization in the United States, and it became evident that more stringent curbs on production of civilian goods would become necessary.

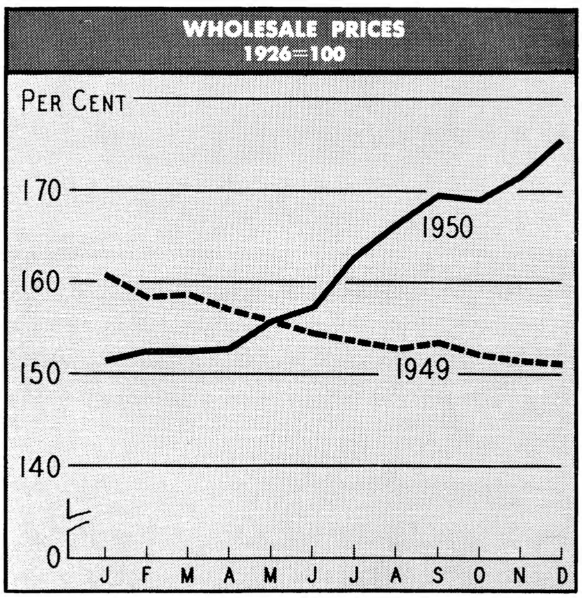
While persons and boards charged with authority to promote the defense effort and also maintain stability in the economy were searching for formulae whereby their tasks might be accomplished, prices rose precipitously. Finally, an over-all price and wage "freeze" was ordered at January 26, 1951, levels. Thus, once more within a decade, price and wage control mechanisms had been brought into operation in an effort to prevent spiralling costs, wages, and prices.

The record of price changes from June 24, 1950, to January 25, 1951, is revealed in the percentage rise in selected commodities and price series as shown in the accompanying table.

Requirements of Defense Program Boosted

The more intensified mobilization program, although it began in 1950 and exerted considerable pressure on the price level in that year, will leave a more pronounced mark on the economy of 1951.

From July to December, 1950, the Department of Defense let approximately one-half million contracts with a total of about $12 billion involved. The rate of contract dollars per month was boosted to $3 billion at the beginning of 1951. A rate of about $4.5 billion of contracts per month has been blueprinted for mid-1952. By November 1952 an estimated total of $87 billion of defense contracts will have been awarded, according to the program as now outlined.



● Wholesale prices at the end of 1950 reached a level which was higher than the previous postwar peak in 1948. This also exceeded another peak, the one reached in May 1920 following World War I.

Financial Lessons Should Be Learned From Experience

The inflationary potential in the economy of the United States and of the world throughout the 1940's was of great magnitude. At the end of the decade the degree of inflation found in market places was, fortunately, less than the inflation-potential to be found in financial statistics.

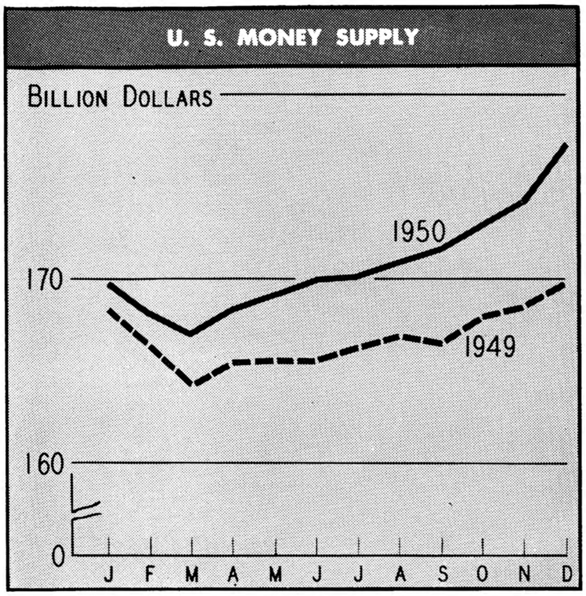
One should not, however, find comfort in that fact—rather, it should put us on guard lest the disastrous consequences of a full realization of the inflation potential should befall us. The decade of the 1950's has begun with inflation pressing hard against controls designed to suppress it.

During World War II—from the end of 1941 to the end of 1945—privately-held money supply increased approximately $74.5 billion. Although it is now realized that the war financing should have been accomplished more by taxation and less by borrowing from the banking system, it must be remembered that procedures employed were taken with a view to winning the war as quickly as possible, while other considerations received scant attention.

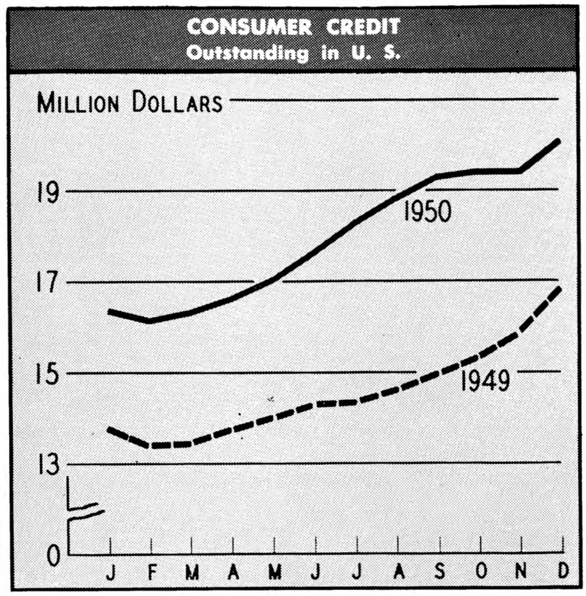
During the war years, many investors thought that government securities sold to them might without harmful effects on the economy be monetized in a later depression. The opinion was widely held that a recession would surely follow the ending of wartime expenditures.

As things turned out, we had no postwar depression. Instead, prosperity ensued and our chief economic problem became the prevention of inflation.

To the extent that monetary policy could contribute to stability in the postwar years, prudence required that, when inflation threatened, such policy should be directed toward discouraging the conversion of securities into cash. At least good policy would not provide that encouragement be given to nonbank investors to convert securities into cash or to banks to convert securities into



● The nation's money supply, comprising privately-held bank deposits (both demand deposits and time deposits) and currency outside banks, rose steadily in 1950, ending the year at an all-time high level.



● Total consumer credit outstanding, including both instalment and non-instalment credit, rose to record levels in the first half of 1950. Average monthly increase for the year was nearly one-third billion.

reserves that provide a base for bank credit expansion.

It is now quite generally recognized that the ready convertibility of government securities into reserve balances was an important factor contributing to monetary expansion in the postwar boom years. From the end of 1947 to the end of 1950, reserve funds, gained from a variety of factors, and a reduction in banks' holdings of government securities, allowed total bank credit to expand by about $18 billion.

In 1950, member banks alone, by reason of increased reserve balances gained through a variety of factors, boosted their loan totals by $8.6 billion. Practically all of this occurred in the last half of the year, when loans of those banks increased by $7.1 billion.

Guides for Making of Policy Decisions

Experiences over the past decade suggest the following guides for monetary and fiscal policies under present conditions with inflation threatening the economy:

1—Government expenditures for military and other purposes should be met to the greatest possible extent by taxation.

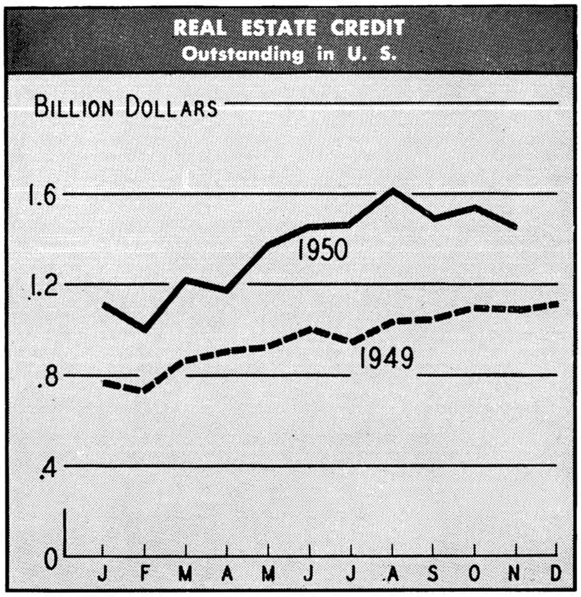
2—If securities must be issued to finance a Treasury deficit, they should be sold exclusively, if possible, to nonbank investors.

3—The total amount of credit should be restricted in order that future income not be used to purchase goods when the demand is already inordinately high.

These measures would withdraw from circulation the income earned in the production of defense goods and would hold down the spending stream to the limited supply of civilian goods available. They go straight to the heart of the inflation problem, since they seek to prevent the greater relative growth of the money supply over the supply of goods.

The Ninth District in 1950 Followed National Trends

The course of Ninth district business followed closely that of the national economy. Changes in



● New nonfarm mortgages recorded ($20,000 and under) were estimated to have reached a total of $1.6 billion for the month of August 1950. Declining slightly thereafter, monthly totals nevertheless held about 50% above those for the same months in '49.

the smaller area followed rhythmically those in the larger, occurring mostly on the upside.

Our people displayed the same excesses in spending and lending, buying and borrowing, as did people elsewhere. We participated in national inflationary tendencies and got the share of it to which each sector of the economy claims it is entitled.

Thus an insidious characteristic of inflation was demonstrated in 1950: as persons and groups claim and receive a fair share of it, further inflation results.

National trends were reflected in Ninth district measures of business activity, the most important of these being department store sales, construction, farm income, bank debits, bank loans, and deposits.

After declining slightly in 1949 compared with the previous year, department store sales in metropolitan areas reached record levels in 1950. Those in some smaller communities, however, did not for the year as a whole measure up to 1948 levels — although in some months, notably July, sales everywhere reached an all-time high dollar volume.

Measuring great activity in building of all kinds, construction contracts awarded reached unprecedented levels. In 1950 the dollar volume was over five times the 1935-39 average, almost double that of 1946, more than 50 per cent above 1948, and nearly 20 per cent in excess of the 1949 figures.

Cash income from farm marketings of the Ninth district in 1950 were a little short of the 1949 performance. Such income last year was 96 per cent of that in 1949 and about 82 per cent of the extraordinary high volume of 1948. Income from livestock in 1950 compared more favorably with 1949 than was the case with income from grains.

Bank debits in 1950, reflecting the great volume of transactions, rose above those in 1949. In 108 cities bank debits were reported as totaling $34.8 billion, compared with $31.6 in 1949.

The interrelated items—bank loans and bank deposits of member banks—were more than three times as high as the 1935-39 average. Deposits of all member banks at $3,615 thousand on December 31, 1950, were $112 million above the close of 1949. Loans of country banks were 22 per cent higher on December 31, 1950, than a year earlier, while loans of city banks were 26 per cent higher.

Fed Operations Reflect 1950 Business Picture

While we know that business activity in general was at record high levels in 1950, we also know that not all lines of business enterprise were soaring at the same altitude. The problem is to find a single indicator of the Ninth district's economic condition as a whole.

A possible answer seems to lie in using volume of activity in the banking system as a measuring stick, for the work of banks reflects the activity of all segments which go to make up the business community.

Since the volume of work performed by a Federal Reserve bank depends a great deal upon the work volume of hundreds of banks in all parts of the district, 1950 combined figures of the Federal Reserve Bank of Minneapolis and its Helena branch provide a quick indicator of the general business climate in the Ninth Federal Reserve district.

We have already seen that there was a 10 per cent rise in the bank debits volume of 108 cities in the district in 1950, and it is interesting to learn that there was a nearly identical increase in checks flowing through the Federal Reserve bank.

Dollar volume of checks (not including government checks) handled by our Check Collection department last year totaled slightly more than $20.6 billion as compared with $18.7 billion in 1949, or an increase of 10.6 per cent. The bank also handled $2.1 billion worth of government checks during the year. Grand total of the value of all checks going through the bank, therefore, was $22.7 billion. Number of cash items handled was 69.3 million, as against 65.2 million in 1949.

In our Noncash Collections department, where grain drafts furnish the large bulk of the items processed, 1950 also topped 1949, but by a much smaller margin. Noncash clerks handled 841,000 grain drafts worth $712 million in 1950, about 3.5 per cent above 1949 both as to number and dollar volume.

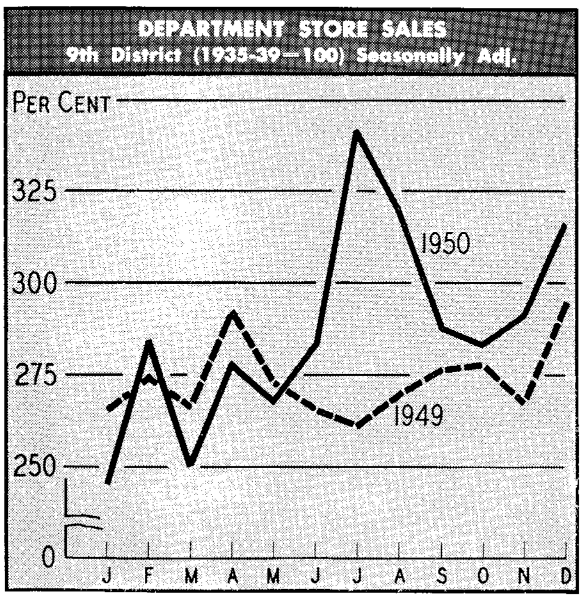
Transfers of funds by the transfer section of our Accounting department again rose this year with a 1950 total of $11.9 billion, 9 per cent above that of the year before.

Currency and Coin Showed Little Variation

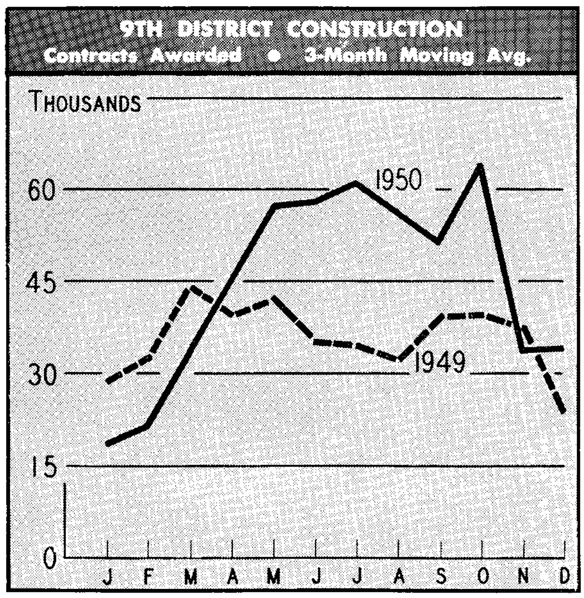
Most of the increased money flow in the district seems to have been accomplished through the use of checks, drafts, and bookkeeping transfers, there being little apparent change in the volume of pocket money—currency and coin—in the district.

Circulation of Federal Reserve notes issued by our bank, making up the bulk of the paper money in circulation in the district, was $610.6 million at year's end, almost the same as the 1949 year-end total of $612.2 million.

As Federal Reserve notes and other types of currency flowed in and out of our bank and the



● "Scare" buying in July, which subsided in the following two months, broke the normal seasonal pattern of department store sales. Pre-holiday buying at department stores in December exceeded that of the previous year by a substantial margin.



● Spring and summertime construction contracts awarded in 1950 exceeded those of 1949. While dollar volume of new contracts slumped seasonally in November, construction activity continued brisk, with a very large number of units still uncompleted.

Helena branch during the year, every bill was counted and inspected for fitness, genuineness, etc., by sharp-eyed currency sorters. At year's end they found they had counted $463 million in paper money, slightly up dollar-wise from 1949. However, actual number of pieces counted—70.8 million—was down about 8 per cent.

Coins counted were up both in number and dollar value, with 105.5 million pieces worth $8.4 million being handled, 15 per cent in number and 7 per cent in value above 1949.

Our Safekeeping department on December 31 held $1.3 billion in securities in safekeeping for member banks. This figure is 8 per cent below that of December 31, 1949, and perhaps reflects the general tendency already noted of banks to reduce their holdings of Governments in order to satisfy the increased demands of business for bank credit.

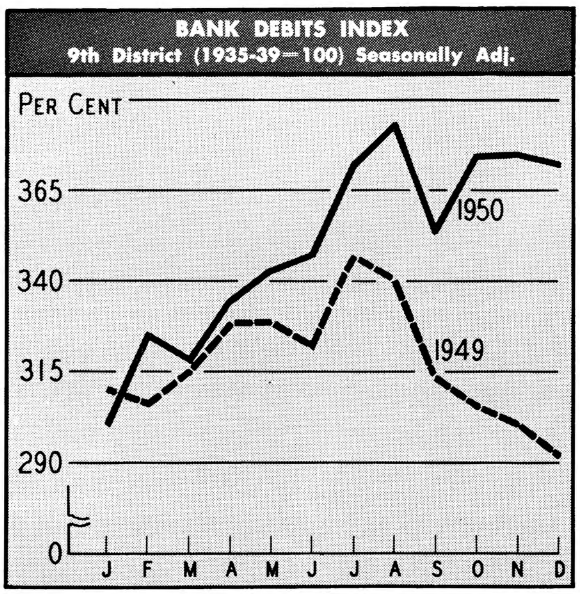
District figures on savings bond sales and redemptions, compiled by our Fiscal Agency department, are indicative of the universal urge apparent the last half of the year to obtain more money and spend it. The number of savings bonds sold in the district (not including post office sales) dropped 11 per cent from last year, while the number of bonds cashed increased 5.8 per cent. In dollar figures, redemptions increased 15 per cent over the previous year, while sales showed little change.

Inflation Danger Brought Federal Reserve Action

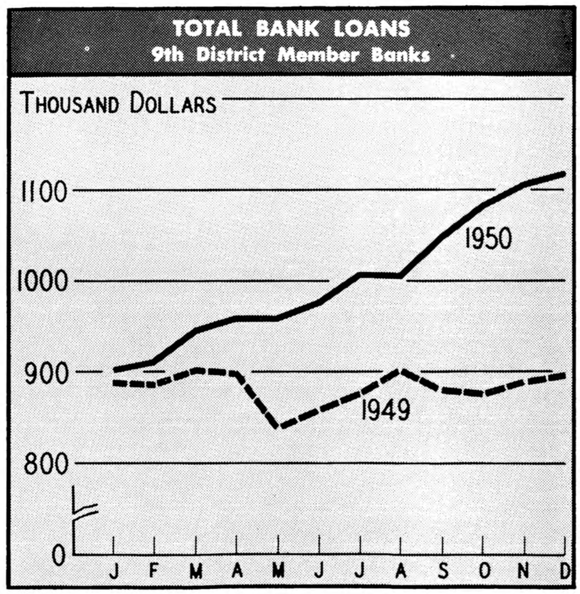
As the danger of inflation grew, actions designed to minimize it became more apparently necessary. Actions taken affected relationships of the Federal Reserve banks with commercial banks and the general public in a number of ways.

In August the discount rate for member banks on loans secured by government securities and eligible paper was raised from 1½ per cent to 1¾ per cent, and interest rates on other types of borrowing were increased correspondingly.

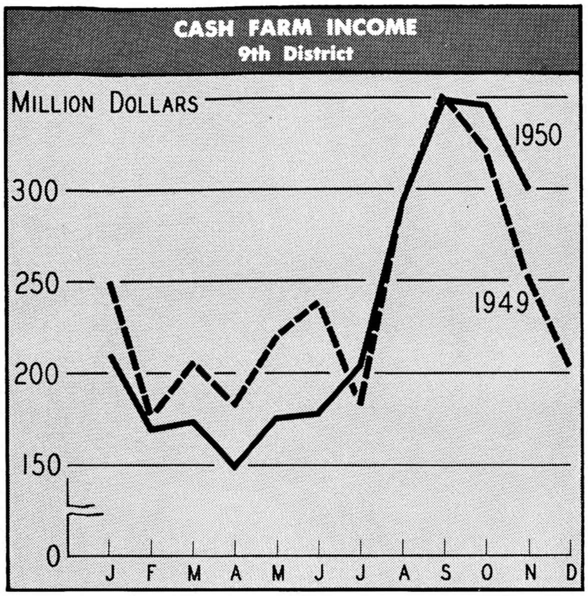
In September, pursuant to the provisions of the Defense Production Act of 1950, and Presidential executive order, Regulation V loans for defense production, which had been in effect during the World War II period, were reinstituted by the Board of Governors of the Federal Reserve System.



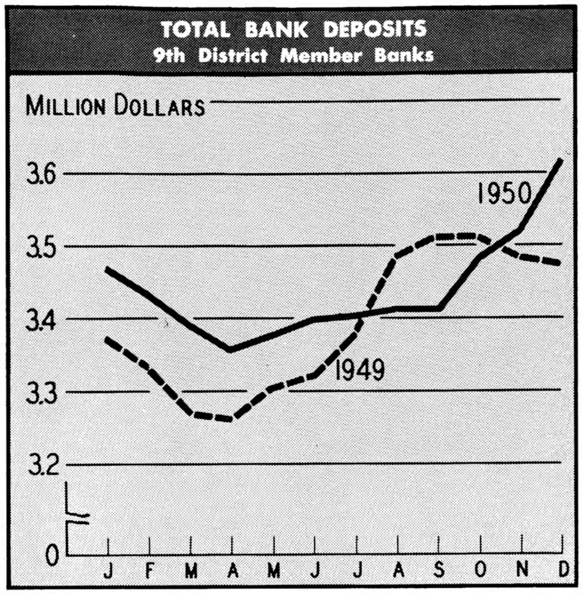
● Turnover of deposits, as indicated by the index of debits to deposit accounts, rose sharply during the first half of 1950, and except in September stayed at a high level—reflecting record business activity.



● Contrasting sharply with a dominantly sidewise movement in 1949, member bank loans rose steadily in 1950. The rise in the last four months exceeded the increase of the first eight months of the year.



● Attributable mostly to high prices for livestock, 1950 cash farm income in spring months exceeded that for 1949. Thereafter the pattern for the two years was almost identical, but the normal seasonal slump in the late months of 1950 was less severe.



● Deposits of member banks in the Ninth district in the first quarters of 1949 and 1950 followed a declining course. In 1950 they advanced slowly until September, when a vigorous upward movement commenced which continued to the end of the year.

At about the same time Regulation W was reimposed to control consumer credit. In October the Board of Governors, under authority of the Defense Act and the executive order, issued its new Regulation X to control real estate credit.

Late in December the Board of Governors announced an increase in reserve requirements for all member banks of 1 per cent on time deposits and 2 per cent on demand deposits to become effective in steps during the month of January, 1951.

This action brought reserve requirements to their legal maximum for all banks in this district. At approximately the same time it was announced that margin requirements on purchases of listed stocks were being raised to 75 per cent, up 25 per cent from the previous requirement.

Year Saw Changes In Bank Staff

As a result of a greater volume of work, particularly in connection with the job of administering Regulations W and X, our staff in 1950 for the first time since the end of World War II increased in number instead of decreasing. Total employees at the head office and Helena branch at the end of the year was 673 as compared with 633 at the end of 1949.

Several important changes occurred in membership of the boards of directors and official staffs of both the bank and its Helena branch during the year. Following the unfortunate death in August of Henry E. Atwood, class A director, Arthur H. Quay, who succeeded Mr. Atwood as president of the First National Bank of Minneapolis, was named in a special election to fill the unexpired term on the FRB board.

At the regular election of directors in November, H. N. Thomson, vice president of the Farmers and Merchants Bank of Presho, South Dakota, was named class A director to succeed J. R. McKnight, and William A. Denecke, livestock rancher from Bozeman, Montana, and at that time director of the bank's Helena branch, was named to succeed Walter H. McLeod as class B director.

With the resignation in July of Dr. James A. McCain as chairman and member of the branch board, John E. Corette, Jr., vice president of the Montana Power Company, Butte, Montana, was named a branch director and later chairman of the Helena board. G. R. Milburn, Grass Range, Montana, rancher, was named to fill the vacancy created on the branch board when Mr. Denecke became a head office director.

Membership in the two boards was otherwise unchanged, with Roger B. Shepard being reappointed class C director and redesignated board chairman and Federal Reserve agent, and W. D. Cochran being redesignated as deputy chairman. E. D. MacHaffie and Theodore Jacobs were again reappointed directors of the Helena branch. Joseph F. Ringland was named for the second year to the Federal Advisory Council.

The bank's official family saw the resignation on September 1 of Oliver S. Powell, first vice president, to become a member of the Board of Governors of the Federal Reserve System. He was succeeded as first vice president by Albert W. Mills, who had been vice president and cashier.

The year also brought the resignation of R. E. Towle, vice president assigned to the Helena branch, because of ill health, and of C. E. Tillander, chief examiner, to become executive vice president of the First National Bank of Little Falls, Minnesota.

In May, C. W. Groth was promoted from assistant vice president to vice president assigned to the Helena branch, to succeed Mr. Towle, and, in June, Harold A. Berglund was elected assistant cashier and assigned to the branch.

Three other changes, which are reflected in the official staff roster as it appears elsewhere in this report, did not take place until shortly after the end of the year. Kyle K. Fossum was elected assistant cashier; Maurice H. Strothman, Jr., was promoted from assistant vice president to vice president; and Clement Van Nice was advanced from assistant cashier to assistant vice president.

Educational Program Continued During Year

As in the past, the Federal Reserve Bank of Minneapolis tried to keep abreast of business, agricultural, and banking developments in the district during the year. At the same time it attempted to do its part in contributing to the district's development by supporting, and in some cases initiating, constructive programs of banking, business, and agricultural education.

Its educational objectives were carried out in part through a program of meetings and conferences, including the annual Federal Reserve Conference of Ninth District Bankers, the Federal Reserve Forum, the Short Course in central banking series, the Workshop for money and banking instructors, and the Conference of Bank Examiners, all of which had been inaugurated in previous years.

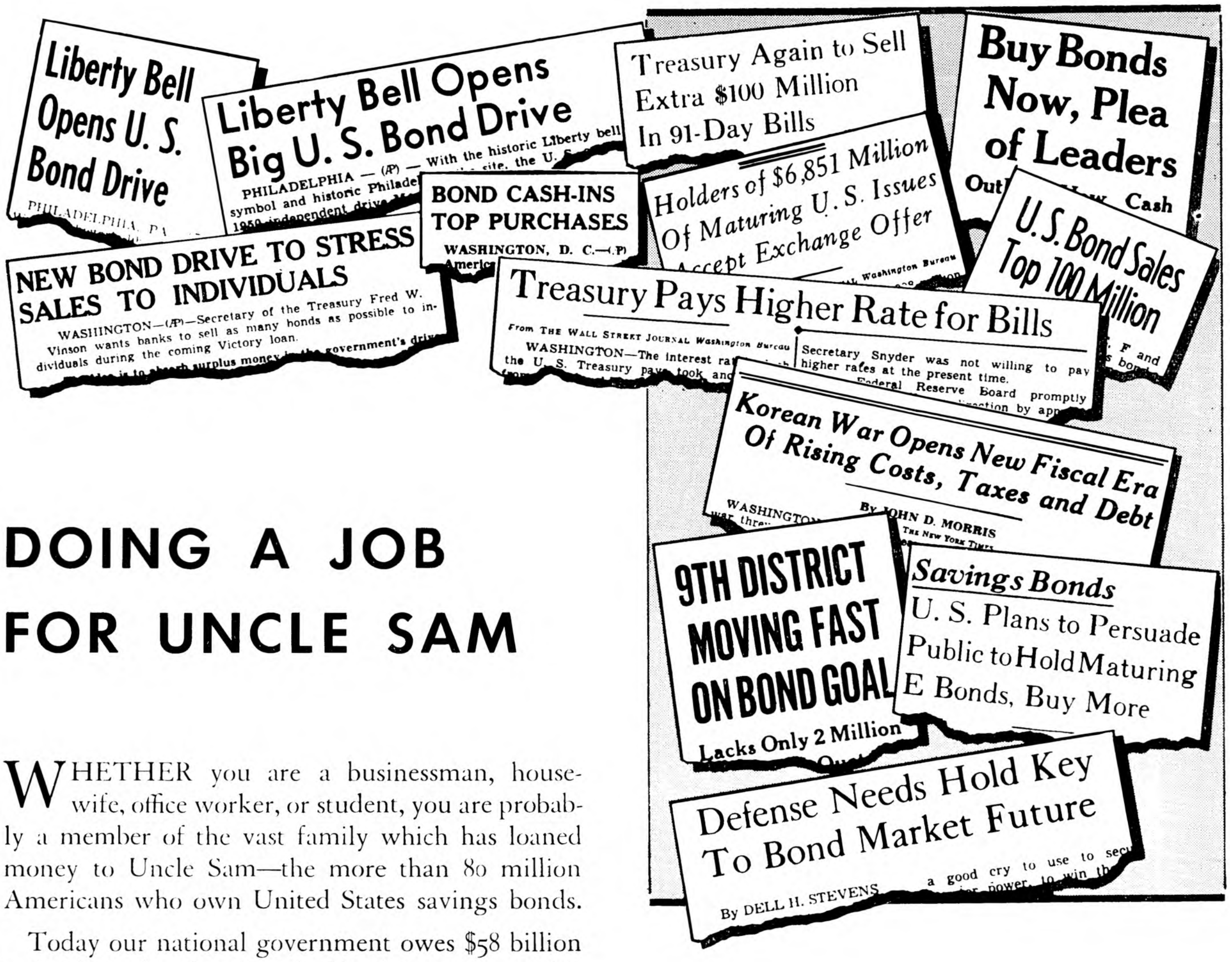
During the year our bank also was host to one-day educational meetings of newspaper publishers and editors and of certified public accountants. In addition, for several weeks we conducted a series of counterfeit currency clinics for tellers and others from Twin Cities banks.

We continued our program of bank calls and also our "farming out" program of sending senior employees to commercial banks in various parts of the district for a period of training in commercial bank operations.

Our new educational movie, *The Federal Reserve Bank and You,* which was made available for public distribution in March, had been shown to more than 102,000 persons by the end of the year, not including an unknown number who had seen it on television.

The advent of the year 1951 finds our country confronted with the twin perils of foreign war and domestic inflation. Stabilization of our economy in the face of these dangers presents a real and present challenge to all of us, but particularly to the banking fraternity and to the Federal Reserve System. We sincerely hope that the close of this year will see substantial progress made in overcoming the forces which threaten our economy both within and from without—and toward that objective the Federal Reserve Bank of Minneapolis dedicates its efforts.

President



DOING A JOB FOR UNCLE SAM

As Fiscal Agents for the Government, Federal Reserve Banks Play an Active Role in Treasury Financing Operations

WHETHER you are a businessman, housewife, office worker, or student, you are probably a member of the vast family which has loaned money to Uncle Sam—the more than 80 million Americans who own United States savings bonds.

Today our national government owes $58 billion to holders of savings bonds. Yet, impressive as this statistic is, these bonds represent less than 23% of Uncle Sam's IOUs.

The government finances most of its debt by selling marketable securities to banks, insurance companies, corporations and others. All told, Uncle Sam's obligations comprise the national debt of $256 billion—$1,700 for every man, woman, and child in the United States.

Handling the financial paper representing the government's enormous debt is the special responsibility entrusted to Fiscal Agency departments of Federal Reserve banks. Whenever you read a news story about a savings bond drive, an offering of other Treasury securities, or some other development in federal financing, you may be sure the Federal Reserve banks in their role as fiscal agents for the government are actively engaged behind the scenes.

At the Minneapolis "Fed" the Fiscal Agency department has a staff of 130 at present. Altogether they devote more than 5,200 working hours a week to issuing new government securities; redeeming matured and cashed-in issues; typing and tabulating orders for E, F, and G bonds; providing information about government securities; and executing the myriad details connected with Uncle Sam's finances.

Imagine the mountains of paper work! And as financing the national defense program gets underway, these loom even larger.

Uncle Sam Offers Variety of Securities

When the U. S. Treasury borrows from the public, it sells either nonmarketable or marketable securities. The familiar Series E savings bond is a "nonmarketable" security. As its name implies, such securities cannot be bought or sold in financial markets. Only the Treasury and its agents sell and cash nonmarketable issues.

The main kinds of nonmarketable government securities are:

- U. S. savings bonds: Series A through E with maturities of 10 years; Series F and G with maturities of 12 years;
- Treasury savings notes (which may be presented in payment of federal taxes or redeemed for cash) with maturities of three years.

"Marketable" securities — which make up the bulk of the national debt—are traded in the open market after they have been issued by the Treasury. When they are bought and sold in the market, their prices vary according to market forces.

Generally marketable government securities include:

- Treasury bills with maturities up to one year (currently maturities of bills are 90-92 days);
- Certificates of indebtedness with maturities up to one year;
- Treasury notes with maturities from one to five years;
- Treasury bonds with maturities over five years.

In addition to nonmarketable and marketable public issues, there are special issues to government trust funds and agencies.

Uncle Sam has a purpose in offering this wide variety of securities. He seeks to provide investment opportunities for every kind of investor—from million-dollar banks to office workers and housewives.

The Fed Acts As Middleman in Treasury Refundings

"Refunding" debt is a common practice in private business as well as in government financing. To refund a debt means to refinance it. When outstanding bonds or other securities fall due, the borrower—a private corporation, a local government, or Uncle Sam—issues new securities to replace the maturing ones.

Let's look at the part Federal Reserve banks play in a Treasury refunding operation. On December 15, 1950, 1½% U. S. Treasury bonds, issued five and a half years previously, matured; two weeks later, on January 1, 1951, 1⅛% one-year certificates of indebtedness fell due. Altogether, there were more than $8 billion of the maturing securities outstanding—over two-fifths of them in investment portfolios of commercial banks.

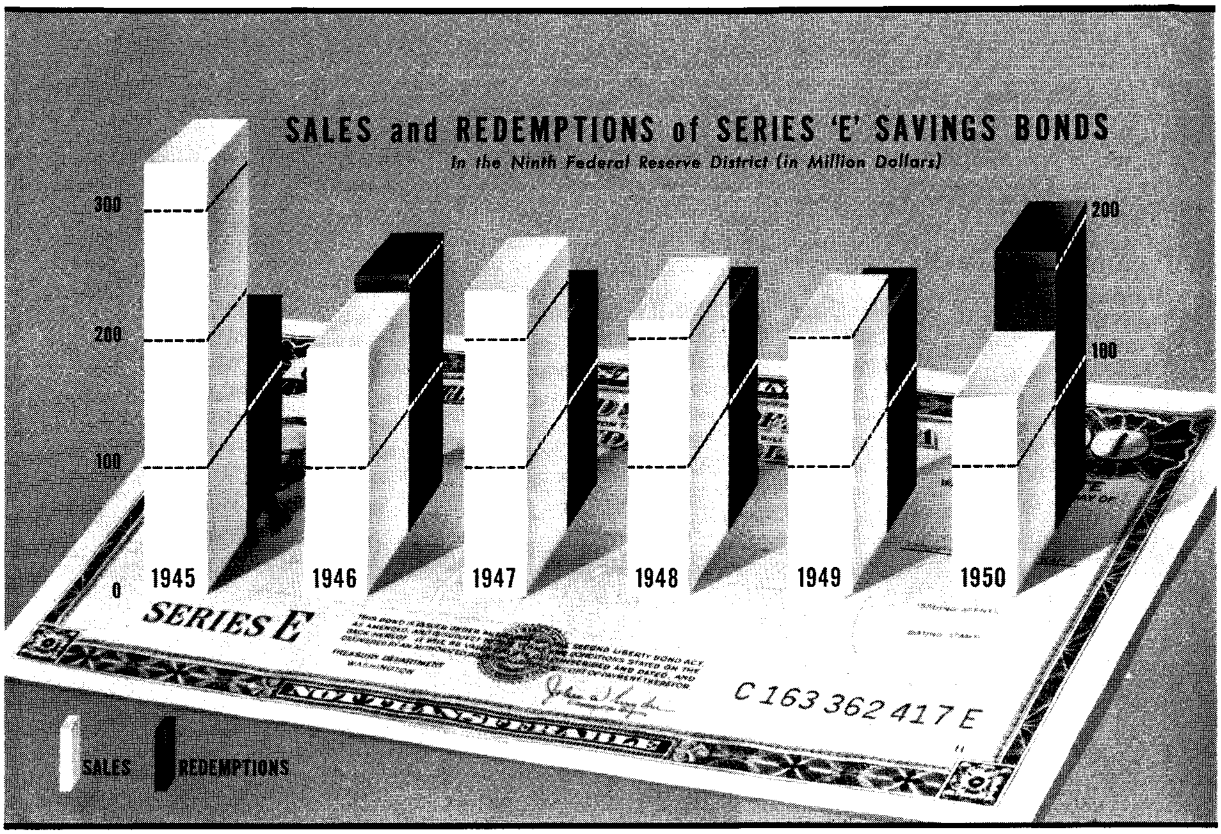
Holders of the maturing securities faced two alternatives; they could turn in their bonds or certificates for cash or they could exchange them for a new issue of securities offered by the Treasury.

In Washington, D. C., several weeks before the December-January issues matured, the wheels for refunding the bonds and certificates began to turn. Secretary of the Treasury John W. Snyder and other Treasury department officials met with prominent bankers and businessmen and with the Board of Governors and other officials of the Federal Reserve System. The Treasury department, consulting with these financial experts, determined what new security to offer in exchange for the maturing issues.

On November 22, 1950, Secretary Snyder sent confidential telegrams to presidents of the 12 Federal Reserve banks informing them that the Treasury would offer 1¾% five-year notes in exchange for the maturing bonds and certificates of indebtedness.

Secretary Snyder's telegram was the starting gun for Fiscal Agency departments of the Federal Reserve banks. It was their job to notify banks, insurance companies, and other investors of the Treasury's exchange offering; to accept subscriptions for the new issue; and to deliver the new notes.

If you are a banker in the Ninth Federal Reserve district, you remember receiving from the Minneapolis Fed an announcement of the December-January exchange offering. Shortly after, you received two subscription forms—a green one for



● Portrayed by the pictorial chart above is the manner in which redemptions have gradually come to exceed sales in the Ninth district in recent years. In 1950 for the first time since 1946, people in this area—as well as in the nation—cashed in more Series E bonds than they purchased. (Note: Sales figures are at issue price, redemption figures at current redemption values. Redemptions include Series A-D.)

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exchanging the maturing bonds and a yellow one for the maturing certificates.

If you chose to accept the Treasury's offer—as 85% of the holders did—you returned the completed subscription forms to the Minneapolis Reserve bank in the interval between December 4 and December 7, 1950, the official dates when "subscription books" were open.

Either you submitted the maturing securities with your subscription or you informed the Fed by whom they would be submitted. Perhaps the maturing bonds or certificates were in safekeeping in a Minneapolis or St. Paul correspondent bank and would be delivered by messenger to the Federal Reserve bank, or perhaps they already were in the Minneapolis Fed in a safekeeping vault and needed only to be delivered from the safekeeping department to Fiscal Agency.

Behind the scenes, Fiscal Agency—following the procedure set by the Treasury—cancelled the matured bonds and certificates they received and eventually sent them to the Treasury.

Meanwhile a stock of the new 1¾% notes was sent by the Treasury to the Federal Reserve Bank of Minneapolis and to the other Federal Reserve banks. Tellers in Fiscal Agency filled the subscriptions. On December 15, 1950, and January 2, 1951, the new notes were delivered according to the subscriber's instructions, either by registered mail, over-the-counter, or into safekeeping in the Federal Reserve vault.

• PICTURE STORY

. . . Showing the Main Steps in the Sale of a United States Savings Bond

• 1—Here you see a familiar scene. Making application for a Series E bond at his local bank is one of millions of Americans who invest in savings bonds.

"Our work must be letter-perfect, both for the Treasury and for the security holders," explains Clarence Swenson, the new-issue teller in the Minneapolis Fed. "We check and double-check every step in processing subscriptions from the minute they arrive until the new securities are delivered."

Refundings of matured certificates, notes, or bonds, occur almost every month. Without a hitch, billions of dollars of old securities are exchanged for new issues. Besides these, which fall either at the half-way mark or at the end of the month, the Fed handles weekly maturities and new offerings of Treasury bills.

"CXRs," "RXCs," "TRs"—Fed Lingo for Security Transactions

The bank floor of the Federal Reserve Bank of Minneapolis looks like that of any large commercial bank. Opposite "officers' row" are the tellers' cages. Windows 10 and 11, labeled "Receiving" and "Delivery," are part of Fiscal Agency. Vera Grant, receiving teller, and Ralph Ennis and Leonard Johnson, delivery tellers, handle a wide variety of security transactions.

Vera's biggest job is receiving securities for redemption and making payment. For example, December 15 bonds and January 1 certificates belonging to holders who decided to ask for cash (rather than accept the new Treasury notes), wound up in the receiving teller's cage. Vera redeems any matured or called government securities—bonds, notes, certificates, bills, Treasury savings notes, and others.

The U. S. Treasurer has large bank accounts in the Federal Reserve banks. At the end of each day, the receiving teller charges the Treasurer's account for the amount paid out for redeemed securities.

Bonds are issued in two forms—"coupon" or "registered." If the buyer chooses a coupon bond, he finds numbered coupons attached to the security. Every six months he clips one of the coupons and cashes it, thereby obtaining his interest payment. If he buys a registered bond, he finds his name inscribed on the face of the bond, and the

Treasury, which keeps a record of all registered bonds outstanding, sends him an interest check every six months.

The tellers in Fiscal Agency receive coupon bonds to be exchanged for registered bonds, vice versa, and also registered bonds to be transferred from the name of one owner to another. In the short-cut language of the Fed, there are "CXRs," exchanges of coupon bonds for registered bonds; "RXCs," exchanges of registered bonds for coupon bonds; and "TRs," transfers of names on registered bonds. All of these transactions are sent to the Treasury for processing, before new securities can be delivered to the owners.

Perhaps a banker wishes to exchange ten $1,000 notes he owns for one $10,000 note. This is called a denominational exchange and is quickly handled by the bond delivery tellers.

There are also wire transfers which make it possible to transfer securities from one part of the country to another in a matter of minutes. By special arrangements between Federal Reserve banks, these transfers are made without shipping the securities, saving much time and expense.

Fiscal Agency tellers also receive and deliver securities which the Federal Reserve bank has bought or sold for banks. Buying and selling government obligations in the open market, explains Christian Ries, assistant cashier, is a service the Fed performs for member and nonmember banks upon request.

If you were to walk into the purchase and sales unit of Fiscal Agency, you might hear Bea McGaughren or Les Haversack saying over the telephone, "What will you bid for 100,000 Victories?" They would be talking to a dealer in government securities, getting a bid on one-hundred thousand 2½% Treasury bonds of December 15, 1967-72, which some bank desired to sell. The procedure is to call two or three dealers and accept the best price available at the time.

Fed Processes U. S. Savings Bonds for Uncle Sam

For the Federal Reserve banks, the savings bond program of the past decade has spelled an avalanche of paper work. Almost every savings bond sold, reissued, or redeemed goes through the hands of Federal Reserve workers as the bonds are processed for the United States Treasury. In 1950 the Fiscal Agency department of the Minneapolis Fed processed more than four million individual savings bonds with a value of more than $500,000,000.

"I would like to buy a Series E bond" is a familiar refrain to today's bankers. Banks and other issuing

● 2—From the bank's stock of unissued bonds, which ←— are supplied by the Federal Reserve bank, the teller obtains the requested denomination—such as this $100 bond. The purchaser gets the bond itself after it is dated, inscribed with his name and address and names of any co-owners or beneficiaries, and stamped with the issuing agent's dating stamp.

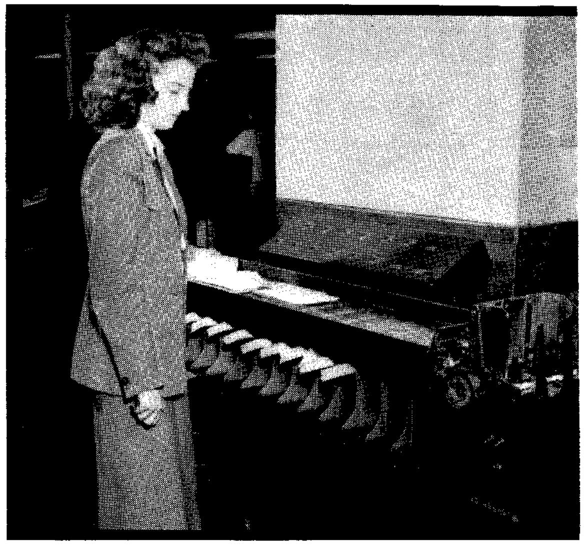
The original registration stub (middle) is sent to the Federal Reserve bank. It is a stiff white card punched with holes which enable sorting and tabulating by International Business machines.

The duplicate registration stub (bottom), orange in color, is kept by the issuing agent for his records.

● 3—Issuing agents send the white stubs of E —→ bonds they have sold, along with payments received for the bonds, to the Federal Reserve bank. At right you see a messenger delivering mail containing the stubs and payments to the Federal Reserve bank. (Picture story is continued on pages 18 and 19.)

● 4—First step at the Federal Reserve bank in ← processing savings bonds sold by issuing agents is examination of stubs and payments. The total of payments from agents for bonds sold is credited to the Treasurer's account at the end of each day.

● 5—Machines sort stubs into "bins" according to denominations and serial numbers. After the final sort, each denomination is in numerical order. ↓



agents are performing a real public service by selling savings bonds. At the same time, the signs reading "U. S. Savings Bonds Are Issued Here" have brought untold numbers of new customers through the doors of banks and other financial institutions.

When a teller hands a savings bond over the counter, the process of issuing the bond has just begun. Look at the picture story told on these pages and see the main steps involved—from the purchase of the bond at a teller's window until the record of the sale is sent by the Fed to the Treasury savings bond headquarters in Chicago.

Along with bonds sold by banks, Federal Reserve banks handle bonds issued by authorized business firms operating on the pay-roll savings plan, by savings and loan associations, and by other qualified issuing agents—all in all numbering more than 1,400 in the Ninth Federal Reserve district.

Moreover, the Feds themselves issue savings bonds. A customer may come in and buy a savings bond over the counter in a Federal Reserve bank, or a business firm not authorized as an issuing agent may send the Federal Reserve bank its list of purchasers on the pay-roll savings plan and the Reserve bank issues the bonds.

The Treasury has printed a thick book of regulations describing, among other things, the circumstances under which savings bonds may be reissued, changing the name of the owner or owners. When a beneficiary inherits a savings bond, he will have the bond reissued in his name, or a person may add a wife's or husband's name as co-owner on a savings bond. A new bride will want to change her maiden name inscribed on savings bonds to her married name. There are many other reasons which the Treasury allows for changing names on bonds.

No erasures or crossed-out names are permitted on a valid savings bond. Therefore, bonds requiring changes are sent to the Federal Reserve bank, where they are cancelled. Then the bonds are reissued with the corrected inscription.

In the reissue unit of the Minneapolis Fed, a crew of six experts examine each application for reissue. Every detail, including legal evidence when it is required, must be according to Treasury regulations, by which Reserve banks strictly abide.

Cashed-in Savings Bonds Are Sent to the Fed

The redemption unit in the Minneapolis Federal Reserve bank is staffed at present by 40 employees. Their work is processing savings bonds paid by the 1,266 authorized paying agents in the Ninth Federal Reserve district.

Commercial banks, trust companies, savings banks, savings and loan associations, and other financial institutions are authorized to redeem Series A-E savings bonds. (Paying agents are not authorized to cash Series F and G bonds. These are sent directly to Federal Reserve banks for redemption.)

When you cash a bond at your local bank, your banker pays you from his own till. Periodically, at least once a month or oftener, he sends the bonds he has cashed, each signed by the owner and stamped with the paying agent's "paid" stamp, to the Federal Reserve bank. Acting for the Treasury, the Fed pays back bankers and other paying agents for every bond cashed.

● 6—From the punched holes in the original ↑ registration stubs, tabulating machines assemble a printed record on a master tape of the denominations and serial numbers of the issued bonds.

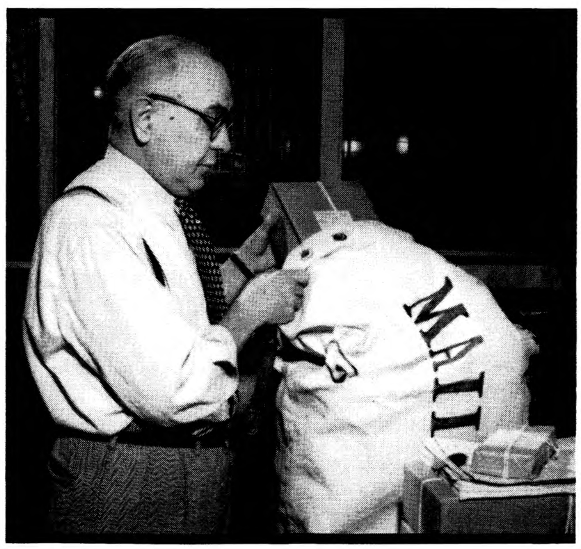
● 7—After the white stubs are sorted and ⟶ tabulated they are packaged and shipped to the Treasury savings bond headquarters in Chicago, where records of all savings bonds sold in the United States are maintained at one central location.

The paying-agent redemption unit of Fiscal Agency is busy as a beehive. The Fed seeks to reimburse paying agents for cashed bonds as fast as possible. In fact, payment is made as soon as the bonds arrive, and adjustments are made later when errors are discovered.

High-speed IBM machines are used in the paying-agent redemption unit. Skilled workers punch cards coding a complete record of every bond paid. The fastest worker in the Minneapolis Fed punches out 250 cards an hour. "She can really make that machine talk," vouches Carl Gadney, supervisor of the machine unit.

Other IBM machines sort and tabulate the punched cards. Even checking the redemption value paid on the bonds is done by machine. In December 1950, the current redemption value of a $25 bond issued January 1945 was $20.75. If a paying agent has paid a penny too little or too much, the machine picks up the error.

Each day, Fiscal Agency charges the Treasurer's account in the Reserve bank for the amount paid to the paying agents. Subsequently the bonds are sent to the Treasury. *(Concluded on page 24)*



EARNINGS AND EXPENSES

	1950	1949
Earnings from:		
Discounted Bills	$ 81,248	$ 68,198
United States Government Securities	8,441,067	10,104,928
Industrial Advances	8,581	496
All Other	5,988	5,408
Total Current Earnings	$ 8,536,884	$10,179,030
Expenses:		
Net Operating Expenses	$ 2,359,069	$ 2,284,048
Assessments for Expenses of Board of Governors	86,300	80,800
Federal Reserve Currency:		
Original Cost	138,749	98,048
Cost of Redemption	18,309	18,213
Total Current Expenses	$ 2,602,427	$ 2,481,109
Current Earnings	$ 5,934,457	$ 7,697,921
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities	1,113,176	912,889
All Other	116	32
Total	$ 1,113,292	$ 912,921
Deductions from Current Net Earnings:		
Reserve for Registered Mail Losses	11,596	11,565
All Other	518	84,650
Total	$ 12,114	$ 96,215
Net Additions to Current Net Earnings	$ 1,101,178	$ 816,706
Net Earnings	$ 7,035,635	$ 8,514,627
Dividends Paid	$ 294,034	$ 272,831
Paid to U. S. Treasury (Interest on Federal Reserve Notes)	6,067,408	6,268,252
Paid to U. S. Treasury (Section 13b)	0	0
Transferred to Reserves for Contingencies	0	1,277,000
Transferred to Surplus (Section 13b)	0	0
Transferred to Surplus (Section 7)	674,193	696,544

Surplus Account (Section 7)

	1950	1949
Balance at Close of Previous Year	$12,493,859	$11,797,315
Transferred from Profits of Year	674,193	696,544
Balance at Close of Year	$13,168,052	$12,493,859

Surplus Account (Section 13b)

	1950	1949
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

	Dec. 31, 1950	Dec. 31, 1949
ASSETS		
Gold Certificates on Hand and Due from U. S. Treasury	$ 366,114,498	$ 424,248,428
Redemption Fund—F. R. Notes	21,466,655	22,338,153
Total Gold Certificate Reserve	$ 387,581,153	$ 446,586,581
Other Cash	6,060,199	5,906,731
Bills Discounted	0	1,787,500
Industrial Advances	185,301	77,892
U. S. Government Securities:		
Bonds	142,940,000	233,658,000
Notes	387,549,000	18,200,000
Certificates of Indebtedness	72,218,000	203,156,000
Bills	38,487,000	156,337,000
Total U. S. Government Securities	$ 641,194,000	$ 611,351,000
Total Bills and Securities	$ 641,379,301	$ 613,216,392
Due from Foreign Banks	590	941
F. R. Notes of Other F. R. Banks	5,612,500	5,153,950
Uncollected Items	113,210,107	79,245,036
Bank Premises	1,114,221	1,145,627
Other Assets	3,645,414	3,190,486
Total Assets	$1,158,603,485	$1,154,445,744
LIABILITIES		
Federal Reserve Notes in Actual Circulation	$ 610,642,820	$ 612,216,965
Deposits:		
Member Bank—Reserve Accounts	391,854,990	394,919,650
U. S. Treasurer—General Account	22,613,859	36,733,183
Foreign	22,192,500	19,015,000
Other Deposits	4,909,573	4,997,716
Total Deposits	$ 441,570,922	$ 455,665,549
Deferred Availability Items	82,741,455	63,781,091
Other Liabilities	171,162	354,302
Total Liabilities	$1,135,126,359	$1,132,017,907
CAPITAL ACCOUNTS		
Capital Paid In	$ 5,073,700	$ 4,709,650
Surplus (Section 7)	13,168,052	12,493,859
Surplus (Section 13b)	1,072,621	1,072,621
Other Capital Accounts	4,162,753	4,151,707
Total Liabilities, Capital Accounts	$1,158,603,485	$1,154,445,744

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DOING A JOB FOR UNCLE SAM

(Continued from Page 19)

Safekeeping Vaults Provided for Public's Savings Bonds

Did you know that the Federal Reserve banks provide—free of charge—safekeeping vaults for your savings bonds? Anyone holding savings bonds may bring or send them to a Federal Reserve bank or branch, fill out an application for safekeeping, and have their bonds under the protection of a Federal Reserve bank vault. On short notice a bond can be withdrawn from safekeeping if the owner is properly identified.

Safekeeping of savings bonds at the Fed is very popular with the public. At the end of 1950, the savings bond vault in the Federal Reserve Bank of Minneapolis held almost 250,000 savings bonds —worth over $30 million—belonging to residents of the Ninth district.

Fiscal Agency Provides Information Service

Financial parlance of the Treasury department is a foreign language to most of us, even though we may own some government securities. Even bankers and other members of the financial community frequently find there are details regarding government securities which need to be interpreted or explained. To clear up such technicalities, the Reserve bank provides an information service.

"I've lost my bond. What shall I do?" "Can power of attorney be used in cashing savings bonds?" "What is the current rate of interest on Treasury savings notes?" Every day Fiscal Agency answers numerous questions like these, which people mail, telephone, or present in person.

To come up quickly with the right answers, Fiscal Agency maintains an up-to-date library containing shelves of official Treasury bulletins and correspondence covering all angles of handling government securities. An efficient index system makes it possible for the staff to put their fingers on pertinent information without delay.

In doing a job for Uncle Sam, Fiscal Agency covers several more operations. It receives withheld income taxes and social security payments collected by business firms. Taxpayers either send the funds directly to the Federal Reserve bank or they may deposit them in a commercial bank authorized to accept federal taxes. The banks then forward the payments to the Fed.

Fiscal Agency also keeps records of Treasury Tax and Loan accounts. These accounts, known until January, 1950, as War Loan Deposit accounts, are Uncle Sam's deposits in commercial banks.

Remember the picture story showing the sale of a savings bond? If the issuing bank is authorized as a depositary of public monies, it can credit the amount paid for the savings bond to its Treasury Tax and Loan account. It can also credit to the same account the withheld taxes and social security funds received from business customers. When Uncle Sam wants to make a withdrawal from his accounts with commercial banks, the depositary banks are notified by Fiscal Agency.

The Federal Reserve banks are reimbursed by the Treasury for many of the Fiscal Agency services performed. From the salaries and wages of the Fiscal Agency staff to the money paid cashing Treasury securities, Uncle Sam foots the bill.

Expansion of Fiscal Agency Depends on World Events

The work load in Fiscal Agency may increase considerably as government financing of the current defense program gets underway. Earl B. Larson, vice president, explains that expansion of Fiscal Agency hinges on international developments.

In anticipation of increasing operations, the Minneapolis Fed last November acquired additional space on the second floor of the nearby Syndicate Building, 84 South Sixth Street. A crew of 82, under supervision of William Bronner, assistant department head, moved to that location. With these enlarged facilities Fiscal Agency can expand as conditions warrant.

During World War II, the Federal Reserve banks throughout the country served tirelessly on the financial front. In the present emergency, they again are prepared to do whatever jobs are required of them—in serving the government, the nation's banks, and the general public.