



1951

# *Annual Report*



***1951***

***ANNUAL REPORT***

**FEDERAL RESERVE BANK OF MINNEAPOLIS**

## FOREWORD

A DUAL PURPOSE is served by this Annual Report of the Federal Reserve Bank of Minneapolis. The first purpose is to present to the stockholders the statement of condition of the bank at the close of the year and its earnings and expenses for the year.

The second purpose is educational—to offer to the general public, as well as to the stockholders, a description of one of the service functions of the bank and also a statement on the functioning of the Federal Reserve System in the nation's economy.

The message of President J. N. Peyton entitled, *Monetary Policy Can Contribute to the Nation's Strength*, states his belief that the national welfare is best served by a central banking system that provides regional representation in policy-determining bodies.

The feature article, fifth in a series and entitled, *Service Station for Your Folding Money*, describes the important services performed by the bank's Currency department.

It is hoped that this Annual Report will serve to promote a better understanding of the Federal Reserve System — its services and functions.

A handwritten signature in black ink, appearing to read "R. B. Shepard". The signature is fluid and cursive, with a large, sweeping final flourish that extends to the right.

Chairman



**ROGER B. SHEPARD**



**PAUL E. MILLER**



**CHARLES W. BURGES**

## **BOARD OF DIRECTORS**

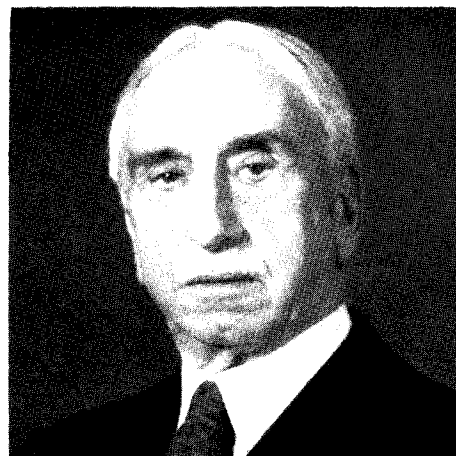
**ROGER B. SHEPARD**, St. Paul businessman, has been chairman since Jan. 1, 1946. Representing the public interest as a class C director, appointed by the Board of Governors, he was reappointed for a three-year term to serve through December 31, 1953.

**PAUL E. MILLER**, deputy chairman, is director of the University of Minnesota agricultural extension division, St. Paul. He was recently reappointed a class C director.

**CHARLES W. BURGES**, a class A director, is vice president and cashier of the Security National Bank, Edgeley, N.D. He was recently reelected by member banks having combined capital and surplus of less than \$150,000.

**HOMER P. CLARK**, honorary chairman of West Publishing Co., St. Paul, is a class B director representing commerce, industry, and agriculture. He was elected by member banks having combined capital and surplus of more than \$400,000.

**WILLIAM A. DENECKE** is a livestock rancher of Bozeman, Montana. A class B director, he was elected by member banks having combined capital and surplus of less than \$150,000.



**HOMER P. CLARK**



**EDGAR F. ZELLE**

**F. A. FLODIN** is president of the Lake Shore Engineering Co., Iron Mountain, Mich. He was recently appointed a class C director to fill an unexpired term ending Dec. 31, 1952.

**RAY C. LANGE**, a class B director, is president of Chippewa Canning Co., Chippewa Falls, Wis. He was recently reelected by member banks having capital and surplus of \$150,000 or more but less than \$400,000.

**HAROLD N. THOMSON**, vice president of the Farmers and Merchants Bank, Presho, S.D., is a class A director. He was elected by member banks having combined capital and surplus of \$150,000 or more but less than \$400,000.

**EDGAR F. ZELLE** is chairman of the First National Bank of Minneapolis and chairman and treasurer of Jefferson Transportation Co. He was elected a class A director by banks with combined capital and surplus of \$400,000 or more, to fill an unexpired term ending Dec. 31, 1952.



**HAROLD N. THOMSON**



**RAY C. LANGE**



**WILLIAM A. DENECKE**



**F. A. FLODIN**

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## PRESIDENT PEYTON'S MESSAGE



### *Monetary Policy Can Contribute to the Nation's Strength*

#### 1951 SAW THE FORMULATION OF MEASURES TO INHIBIT INFLATION

LIFE in the United States today is on the whole comfortable. We cannot afford to be sanguine, however, for as more and more of our citizens are coming to realize, a great task lies ahead of us which may exert stresses and strains on our economy.

We are embarked on a program which seeks to provide a volume of civilian goods sufficient to maintain a high standard of living for our people and at the same time produce mountains of military materiel. While doing this, we certainly wish to preserve our democratic political institutions.

Our country can lose power and prestige—and endanger the life of democratic institutions throughout the world—as much by a failure to build defenses against a deterioration of our economic structure as by a failure to build adequate defenses against military aggression.

We must therefore be alert to detect and must courageously correct weaknesses in our economic structure as well as those that appear in our military armor.

An apparent threatening weakness in our economic structure, and that of other nations which seek to preserve political and economic democracy, is inflation. This threat must be recognized and

met. To meet it we must formulate and follow in detail the best protective measures we can devise.

Defenses against inflation require that men with specialized skills—and wisdom—shall be entrusted with the formulation and development of the program for the maintenance of a strong and stable economy. It is obvious that efficiency in production is required. Necessary also is soundness of our financial institutions.

Money is the core of the financial structure, and the Federal Reserve System has been entrusted by Congress with responsibilities regarding its management which need public recognition and understanding. But these matters are complex; they are difficult to understand. Yet, all complex problems basically have a simple substance.

The substance of inflation is that the rate of money creation and money use has outrun the supply of goods and services for which money may be expended. Conversely, deflation consists of a declining rate of money expenditures on goods and services.

The Federal Reserve System is concerned with forestalling inflationary and deflationary movements insofar as that desirable objective can be achieved by monetary measures. The instruments

which may be used are explicitly defined by legislative acts and clearly delegated by Congress under the Constitution to the Federal Reserve with the purpose of promoting growth and stability in the economy.

Thinking on these matters, I have been led to devote my annual letter to them. They are uppermost in my mind, more salient at the beginning of this new year than the general business situation in the Ninth district. Accordingly, I shall give you briefly my impressions of the organizational structure of the Federal Reserve System, its place in the banking system, and the record of its policies in 1951.

### ***Federal Reserve is Both a Private and Public Institution***

Congress wisely provided that the Federal Reserve System should be a semiprivate and semi-governmental institution. This was accomplished by building a structure of twelve regional Federal Reserve banks, each owned by the member commercial banks of its district, over which the Board of Governors of the Federal Reserve System, an instrumentality of the federal government, exercises general supervision.

Clearly, it was the intent of Congress that the central bank for the United States should be a

decentralized organization for certain purposes and centralized for other purposes. It is a decentralized structure—broken down into the twelve regional banks—in order to assure that regional considerations would be taken into account in the formulation of national policy and to provide for the adaptation of national policy to local conditions.

It is chiefly through the Federal Open Market committee, on which five presidents of the Federal Reserve banks and the seven members of the Board of Governors serve, that national credit policy, under authorization of Congress, is formulated and implemented. The presidents of the Federal Reserve banks have the benefit of the views of their boards of directors as a basis for their own views presented in the meetings of the Open Market committee and in discussions with the Board of Governors. The Board of Governors also has the benefit of the opinions of the Federal Advisory Council, on which serve twelve persons, one from each district, who are appointed by the boards of directors of the Reserve banks.

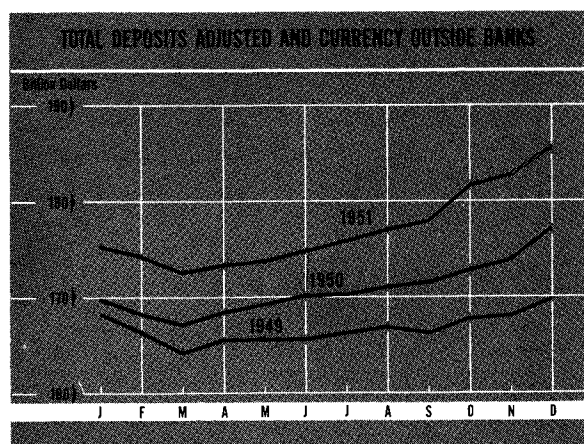
Thus is provided a body for centralized decision-making in which is reflected the thinking of people from all regions of the country—a body which is able to weld this thinking into a national monetary policy.

This regional arrangement agrees with the political, economic, and social institutions built up in this country and stands approved by our people in sharp contrast with their disapproval of a completely bureaucratic determination of national policy.

### ***Federal Reserve Fits Commercial Banking Structure***

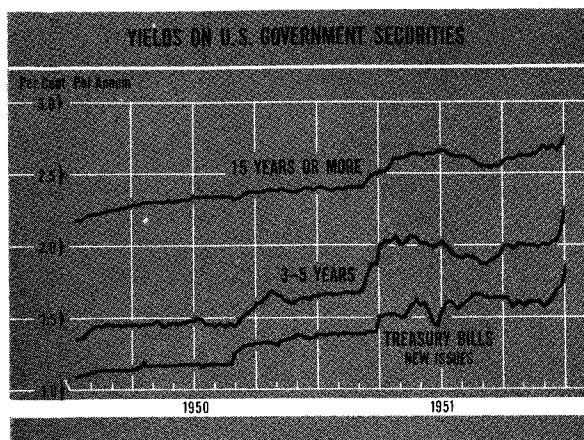
The structural arrangement and procedures of the Federal Reserve System were designed to fit the monetary system which had been developing prior to the passage of the Federal Reserve Act in 1913. The chief form of money had become bank deposits, whereas previously currency was the main form of money. Slowly it became recognized that commercial banks were the creators of the bulk of the money supply.

Prior to the establishment of the Federal Reserve System, no control was exercised over the quantity of the main form of money (bank deposits), ex-



● The privately held money supply increased \$8.7 billion in the year ended December 31, 1951. Demand deposits were up \$5.9 billion, time deposits \$1.7 billion, and currency outside banks \$1.1 billion.





● Following the Treasury-Federal Reserve accord in March, yields on government securities rose sharply. After a 3rd-quarter drop, yields on all maturities rose to new postwar highs late in the year when commercial banks increased their loan rates.

cept for a regional gold reserve; that is, no deliberate inhibiting measures were taken to discourage undue expansion or contraction of bank credit. In periods of prosperity, bank credit was freely allowed to promote further expansion and, in periods of recession, to accelerate and accentuate contraction.

While Congress was preoccupied in the last half of the nineteenth century and the early years of the present century with problems relating to coinage, a new monetary system, with a new dominant form of money, was fast developing. Taking a careful look at this phenomenon when prodded by the Panic of 1907, Congress decided to establish a central banking system that would effect a compromise between a legislatively determined and a privately determined money supply.

The result of the deliberations was the Federal Reserve System, under which the commercial banking system was permitted to continue to create money and yet be subject to the restraining measures which the new central banking system, using the instruments of control specifically prescribed by legislative acts, might take.

Under this compromise, the Congress neither directly through legislative prescription nor indi-

rectly through the agency of the Federal Reserve System interferes with the individual commercial bank's function as the allocator of funds. Each bank receives and disposes of applications for credit with little or no interference.

The Federal Reserve System, however, can exert influence upon the over-all volume of bank credit and its general availability through the use of its instruments of control. Moreover, it can on its own initiative serve as a creator of money when offering to convert bank assets into cash or credit, and it can decrease the money supply by retiring money from private circulation paid to it in exchange for its assets.

I have a firm conviction that the nation should not without serious consideration disturb this unique part-private and part-governmental nature of our central banking system. The existing system has proved workable and reasonably satisfactory. Since the most realistic alternative to a central banking system such as we have in this country is one in which private control is weaker or altogether lacking and government control is stronger, the public should deplore and resist any move in the direction of such an alternative.

### ***World War II Provided Background for Inflation***

From the end of December 1941 to the end of 1945, the privately held money supply (deposits and currency) increased from \$76.3 billion to \$150.8 billion. The increase of \$74.5 billion in the money supply is approximately the same as the rise of \$75.8 billion in bank holdings of government securities.

Two factors made possible these larger holdings—namely, the large volume of excess reserves held by the banks at the beginning of the period and Federal Reserve purchases of government securities in the period under survey. Of the \$22 billion of government securities purchased by the Reserve banks, over \$17 billion was offset by an increase in money in circulation.

After the war a period of great bank credit expansion developed. In the six-year period from the end of 1945, bank loans increased about \$36 billion, which compares with a rise of approximately \$33 billion in deposits and currency.

This great expansion in bank credit, which was continuous in half-year periods, except for the first half of 1949, provoked great discussion over measures which might be taken by the Federal Reserve to discourage further credit expansion. The central issue became the support of government securities at set values by Federal Reserve open-market purchases.

### ***Treasury, Federal Reserve Reached Accord in March 1951***

The chief considerations involved in the debate over the maintenance of government security prices by the Federal Reserve were, on the one side, that the purchases incident thereto in a period of full employment created a highly inflationary credit base and, on the other, that a need existed to maintain confidence in the government credit and that low borrowing rates are desirable.

The fast-moving events and announcements regarding open-market policies of the Federal Reserve System are well known. The first step toward a change in policy was the announcement in August 1950 by Federal Reserve authorities that they were prepared to use all available powers to restrain further inflationary credit expansion consistent with the policy of maintaining orderly conditions in the market for government securities.

Following this announcement, discount rates at the Reserve banks were raised, but substantial Federal Reserve purchases of government securities were made to support Treasury refunding operations and also the long-term bond market. Non-bank investors, chiefly institutional investors, continued to sell bonds in large volume as a means of obtaining funds to acquire higher-yielding assets.

In this process, commercial bank deposits and reserve balances rose to higher levels, intensifying the already intense inflationary pressures caused by the outbreak of military hostilities in June.

Under the Defense Production Act of 1950, consumer installment credit regulations were imposed under Regulation W, and a new regulation covering credit in the real estate field, Regulation X, was instituted.

Late in December, the Board of Governors announced higher reserve requirements on member

bank deposits, effective in January 1951, and higher margin requirements on trading in stocks were imposed.

In January and February 1951, events and announcements confirmed the intention of the Federal Open Market committee to change its policy in support of government securities under which a great volume of investor holdings of the federal debt had been monetized.

On March 4, a historic announcement was made by the Treasury and the Federal Reserve that they had reached an accord with respect to debt management and monetary policies which would assure successful financing of the government's requirements and at the same time minimize further monetization of the public debt.

Thereupon, market prices on government bonds declined to levels considerably below par, and yields on short-term issues also rose to levels higher than had prevailed for many years.

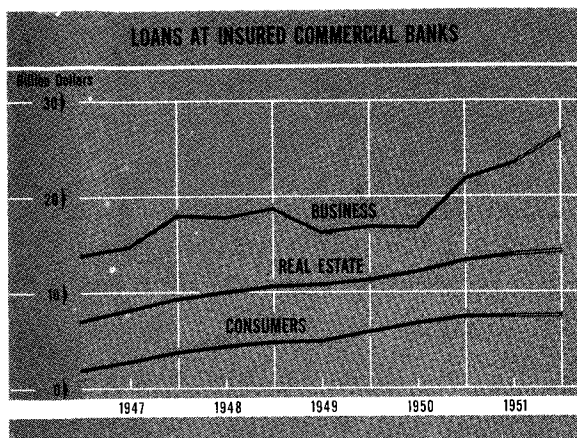
### ***Monetary Policies of 1951 Had Anti-inflationary Results***

One effect of the virtual cessation of Federal Reserve purchases of government bonds was that institutional lenders were no longer able to monetize their holdings by sale to the Federal Reserve without causing a decline in the market prices of government securities.

That being the case, they were induced to adjust new loans into closer balance with funds received from new savings and repayments of old loans. Since institutional investors could no longer convert bonds into new money without penalty of lower prices, commercial banks were no longer the recipients of additional reserve balances, as had been the case when the Federal Reserve bought freely the bond holdings of those investors, or those of the banks at set prices.

Thus by the same stroke, the refusal to purchase government bonds from institutional holders so freely was a refusal to create bank reserves so freely—reserves on which additional commercial bank loans might be based, and new money made available for lending by institutional lenders.

There was another aspect of the drop in government bond prices (higher market yields) and the



● Bank loans increased at a steady rate in 1951, with the increase for the year less than for the last half of 1950. Loans for defense-supporting industries figured importantly in causes of the increase.

higher yields on short-term securities in 1951. Banks, which no longer gained ample reserve balances as was the case when the Federal Reserve purchased large amounts of government securities, found it advisable to borrow from the Reserve banks in order to adjust their reserve positions. This development can have a restraining effect on bank loan expansion because banks are reluctant to expand loans when they have outstanding bills payable.

### ***Reversal of Open Market Policy Was Necessary Step***

These somewhat technical observations, and others that might have been made, can be reduced to one; namely, that the reversal of open market policy as it affected government securities was a necessary step toward a free market—one in which prices more nearly reflect supply and demand forces. In a free market for government securities, dissatisfaction over prevailing rates relative to returns on alternative investments leads to selling of government securities, whereupon their market yields rise and they again become more attractive investments.

It is in the prosperity phase of the business cycle when the demand for credit is great that the volume of government securities offered for sale

is most likely to increase. If instead of allowing their prices to decline, they are kept at a fixed level, such as par, by Federal Reserve purchases, no automatic restraint on further sales exists, as is the case under free market conditions. In fact, such fixed prices induce sales to the Federal Reserve which, as we have seen, add to the public's money supply and to bank reserve balances. Thus, high fixed government security prices heighten inflationary pressures—especially at times when inflation is most strong.

It is significant that inflationary pressures in the economy declined beginning in the second quarter of 1951 coincident with the unpegging of government security prices. Doubtless this action contributed to the abatement of previously strong inflationary forces at that time.

It has been demonstrated, I think, that monetary policy can be effective in the arsenal of weapons for defense against inflation. To be sure, other measures to fight inflation are important. Taxation, price and wage controls, and selective credit controls can be helpful if they are wisely conceived and administered, but the burden placed on them is unnecessarily great if the monetary factor in a period of intense inflationary pressures is allowed to contribute to further inflation.

Monetary policy can contribute mightily to the maintenance of strength and stability in our economy—and can do so without compromising the freedoms we cherish.

*J. H. Peyton*

## OPERATIONS REPORT

# *Advances in Check Collection and Coin Facilities Highlighted Bank's Year*

ONE picture, it has been said, is worth one-thousand words. One statistic can be equally meaningful.

Business figures, for example, can tell a story of prosperity or depression, inflation or recession. Banking statistics also are eloquent story tellers, because they reflect the business conditions of the communities which the banks serve.

Since the Federal Reserve Bank of Minneapolis is a clearinghouse for many of the banking transactions in the Ninth Federal Reserve district, figures indicating the Fed's work volume often reflect the general level of district business activity.

If business is good, the number and dollar volume of checks, bills, and coins handled by the Reserve bank should be high, because money payments

- **Record 81.6 million checks were processed, for an 18 per cent increase.**
- **Special unit handled 5 million of new bankable postal money orders.**
- **New coin vault promoted efficiency in operation of the coin department.**
- **Outgoing currency shipments increased 10 per cent, coin 19 per cent.**
- **Rediscounting operations, for years about dormant, revived significantly.**

are larger and more frequent. If business is poor, the Fed's work load should decline.

What do the figures show for 1951? The over-all picture, as shown by the volume figures for Reserve bank operations, is one of business at a record level.

In number and dollar value, checks flowing through the Fed's collection department during the year far outdistanced those of any previous 12-month period. When the totals were added at year-end, it was found that the Federal Reserve Bank of Minneapolis and its Helena (Montana) branch had handled in 1951 a record-smashing 81.6 million checks and other cash items with a face value of \$25.9 billion. This exceeded the 1950 total of 69.3 million items by 18 per cent and compares with a 1949 figure of 65.2 million.

The increased work load in the Fed's check collection department led to several changes at the Minneapolis head office during the year, including expansion and complete rearrangement of the de-

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- Pictured at the left is one of 10 specially designed machines used for listing the new bankable post office money orders. Note how operator reads the faces of the checks as they drop into lighted slot.





● Dubbed the "penthouse" because it was built atop the bank's five-level vault, the new coin vault is lined with 60 tons of 1-inch steel and has a capacity of 100 tons, or \$2,000,000 worth of small coin. A labor-saving feature is an electric fork lift which hoists skids of coins as high as 11 feet into the steel bins. At left, an operator is engaged in wrapping coins—which totaled over 58,000,000 in 1951—and at right is one of three sorting machines which ran through more than 110 million pieces during the year.

partment's working space—with a reorganization of the work flow for greater efficiency, increased use of machines for check handling, and enlargement of the departmental staff.

For the first time, a late night shift from 10:30 p.m. to 6:30 a.m. was inaugurated.

For the first time, also, check sorting and proving was made almost entirely a mechanized operation—going from 100 per cent manual to about 90 per cent processing by IBM proof machines. With these increased in number from 20 to 80, the Minneapolis Fed came to have the largest installation of its kind in the Upper Midwest.

Not all of the 1951 increase in check volume was due to expanding business activity, however. More than five million of the new, bankable postal money orders were processed by the Fed in the last six months of the year. The new money orders, which were placed in use July 1, are of the punch-card type, and it was necessary to install a battery of proof machines with specially designed card-punching attachments to handle them.

Part of the increased volume was the result, too, of changed check-handling procedure by commercial banks. Nevertheless, a good share of the Fed's increased work must be attributed to higher prices and a continuing high level of business activity. This conclusion would seem to be supported by bank debits figures which for 134 cities in the district were up an average of 10 per cent from 1950.

### ***Currency and Coin Totals Exceeded 1950 Volume***

The Reserve bank's currency department also experienced a growth in work volume in 1951. As the public called on commercial banks for more cash with which to do business, shipments of currency to member banks from the head office and branch rose to \$446 million, 10 per cent above the 1950 figure.

Coin, which was so much in demand in late 1951 that it looked for a time as if the Fed might have trouble in fully supplying member bank needs, showed an even greater rise in dollar volume of outgoing shipments. The 1951 figure of \$15.4 mil-

lion topped the previous year's figure by 19 per cent. Fortunately, in March a new coin vault and added mechanical facilities for handling coin were placed in operation at the head office.

The dollar amount of coin wrapped during the year was also higher than in 1950. The increase in dollar value was 26 per cent.

The rise in volume of work so far as incoming cash was concerned was not as great. Incoming currency counted and sorted totaled 71.2 million pieces, 1 per cent above 1950's total. Their dollar value of \$475 million was up a little less than 3 per cent.

In the course of the year, the sorters also removed 28 million pieces of unfit currency worth \$112 million from the stream of paper money, while \$158 million in new bills were placed in circulation by the head office and branch.

Incoming coin sorted and counted also increased, but again the rise was not as much as that of outgoing coin.

Note circulation of the Federal Reserve Bank





● In the interests of greater efficiency, extensive changes were recently completed in the Check Collection department. Working arrangements were revamped to establish a better flow of the work and operations were almost entirely mechanized. The view above shows part of the administration section, which extends back in the first bay, and some of the proof machines (increased from 20 to 80 in the extensive mechanization) in the second bay.

● Shown on the opposite page is the Mail department, where cash letters from direct-sending member banks in and out of the Ninth district are broken down into immediate and deferred groups of city ←and country items. These go to the incoming proof division. Board on wall is placard of simplified alphabetical unit sort by states. Note slots for consolidated mail at rear. (More views on pages 14-15.)

of Minneapolis increased \$21.3 million during 1951. The total of notes in circulation on December 31 stood at \$632 million, down \$4 million from the year's high on December 24 and short of the 1948 all-time record by only \$6.4 million.

### ***Advances to Member Banks During 1951 Up Sharply***

Transfers of funds also showed a sharp rise. Total dollar volume of transfers for 1951 reached a record-breaking \$14.3 billion, one-fifth again as much as 1950's record figure. Noncash collections

were also up. Grain drafts, which make up more than two-thirds of such collections, rose 10 per cent in number and 21 per cent in dollar amount.

One of 1951's largest and most interesting gains percentage-wise was in the number and dollar volume of advances to member banks secured by United States government obligations. Four hundred and twenty such loans were made in 1951 compared with 332 in 1950, and the aggregate dollar amount of \$1.7 billion was up 90 per cent. Of course the amount outstanding at any one time was not nearly so great. The high point was \$56,010,000 on June 28.

Even more noteworthy, perhaps, was the fact that for the first time in years three advances were made to member banks on collateral other than governments, even though the total amount involved was only \$300,000. Evidently some banks had reached a point where they no longer had government securities available to use as loan collateral.

Volume of securities owned by commercial banks and held in custody by the Fed was also up 4 per cent. The year-end total was \$1.4 billion.

The only 1951 volume figures which showed significant decreases were those involving work of the fiscal agency department. Savings bond sales in the district (not including post office sales) dropped an impressive 48 per cent in dollar volume and 8 per cent in number. Redemptions of savings



bonds were also down 12 per cent in number and 14 per cent in dollar volume from 1950's figures.

Total sales in the district amounted to \$134.6 million compared with redemptions of \$214.7 million. These figures are not strictly comparable, however, since the sales figure does not include post office sales.

Also down were purchases and sales of government securities cleared through the Fed for the account of Ninth district banks. These showed a year-to-year decline in dollar amount of 24 per cent.

### ***Staff Goes Over 700; Flodin, Zelle New on Board***

The increase of work at the Fed made necessary an expansion in the bank's staff, as could be expected. For the second consecutive year the number of employees on December 31 at head office and branch was larger than on that date the previous year. There were 714 on the staff at the end of 1951 compared with 673 in 1950 and 1949's postwar low of 633.

Effective January 1, 1951, all Federal Reserve employees were blanketed under the provisions of the federal Social Security program.

The bank was saddened during the year by the death of two of its directors, Arthur H. Quay, who

died September 26, and W. D. Cochran, who passed away December 5. F. A. Flodin, president of the Lake Shore Engineering Co., Iron Mountain, Michigan, was appointed to fill Mr. Cochran's unexpired term, and Edgar F. Zelle, chairman of the board of the First National Bank of Minneapolis, was elected to fill the vacancy left by the death of Mr. Quay.

At the regular November election of directors, C. W. Burges, vice president and cashier of the Security National Bank, Edgeley, North Dakota, and Ray C. Lange, president of the Chippewa Canning Co., Chippewa Falls, Wisconsin, were re-elected to three-year terms beginning January 1, 1952.

Roger B. Shepard, St. Paul, Minnesota, was re-designated chairman of the board and Federal Reserve agent for 1952, and Paul E. Miller, director of the University of Minnesota's agricultural extension division, St. Paul, was reappointed

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● This view of Check Collection shows the battery of Recordak machines at the rear of the third bay where items are microfilmed after the letters have been proved and sorted into units. In the foreground are adding machines used at various times during the day for certain manual listing operations. ↓







● Located in the fourth and fifth bays is the outgoing proof division. Along the sides are racks used for assembling the proved checks by banks. After the items are recapped by banks as to amount, the work flow takes the cash letters to the consolidated mail section for enclosure to the respective banks.

to a three-year term as director and named deputy chairman for 1952.

The Helena branch received a new director with the appointment of A. W. Heidel, vice president of the Powder River County Bank, Broadus, Montana, to a two-year term beginning January 1, 1952. G. R. Milburn, manager of the N-Bar Ranch, Grass Range, Montana, was reappointed for a similar two-year term and was made 1952 chairman of the branch board.

### ***Educational Features Continued During Year***

The Federal Reserve Bank of Minneapolis during 1951 continued its program of conferences, short course classes, forums, clinics, and other meetings designed to further its educational objectives. It also participated in the educational programs of other banking, business, and agricul-

tural organizations. New in 1951 was a two-day Montana Forum sponsored by the Helena branch and attended by more than 100 bankers in that state.

Also a part of the Fed's program of education was promotion of its movie, *The Federal Reserve Bank and You*, produced in 1950. By year's end, 1951, well over a quarter-million persons, not including television audiences, had seen this film. More than 7,000 copies of the bank's picture booklet also were distributed during the year, mostly to schools. A new 11-frame currency exhibit, completed in May, was in constant display use by Ninth district member banks during the rest of the year.

In addition to the reorganization and expansion of the check collection department and the addition of new coin vault facilities, an improvement made at head office saw installation of an entirely new fluorescent lighting system in the bank lobby.

For the year ahead, the Federal Reserve Bank of Minneapolis pledges its efforts to promote the welfare of banking, business, agriculture, and the general public in the Ninth district in performing its service functions and in carrying out the monetary policy of the Federal Reserve System.

# *SERVICE STATION...*



## *...for Your FOLDING MONEY*

**Besides Keeping Currency in Circulation Fit, the Reserve Banks Can Convert Acceptable Bank Assets into Currency**

**I**F YOU found yourself on a radio or television quiz program, how would you fare if the emcee asked you, "How much money is in circulation in this country today?" Would you "strike it rich"?

Suppose the quiz-master wanted to know: "What denominations of bills are favored by counterfeiters?" Would you "break the bank"?

If the emcee asked, "What is the average life of a one-dollar bill?", would you "double your money"?

Maybe you'd find some of these questions easy, but would you be a loser or a winner on this 64-dollar stumper: "What percentage of the nation's

currency is made up of Federal Reserve notes?"

More than likely those who work in the currency departments of Federal Reserve banks would come up with a greater number of right answers in this sort of quiz. However, if all of us could take a look at how the currency department operates, even "the big payoff" might come our way.

### ***Federal Reserve Notes Give Currency Elasticity***

Issuance of currency is a function that Federal Reserve banks were charged with performing by the original act of Congress which created the

Federal Reserve System. The preamble wordage "... to furnish an elastic currency, to afford means of rediscounting commercial paper . . ." gets to the heart of the matter.

By far the most important kind of currency is the Federal Reserve note. More than \$24 billion of the record \$29.4 billion of currency and coin in circulation in late December 1951 was this kind of money. Twenty-four billion dollars is a lot of cash. If it were all in dollar bills, for instance, it would make almost 29,000 stacks as high as the Washington monument.

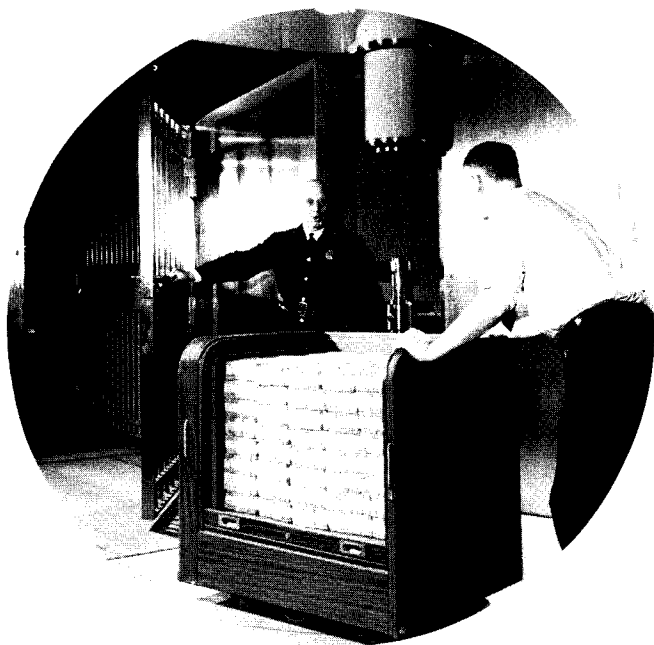
Since Federal Reserve notes, however, are printed in denominations of from \$5 to \$10,000 and many

of the bills are in the large denominations, the actual notes in circulation would make a considerably smaller pile.

Federal Reserve notes are important not only because they make up such a large part of our total cash supply, but also because they are the only type of United States currency which is elastic; that is, currency which can automatically expand or contract in supply according to the needs of the nation's economy. As stated before, such an elastic currency was one of the chief objectives of the Federal Reserve Act of 1913.

The importance of this elastic quality in Federal Reserve note issue can be appreciated when one realizes that the needs of business and individuals for currency vary widely from season to season and from year to year.

From the seasonal standpoint, currency is particularly needed at harvest time and during the pre-Christmas buying period. It is least needed, ordinarily, in January and February. In 1951 there was a typical holiday expansion in the nation's currency and coin circulation in the four weeks ending December 26. In this period, currency and coin in use rose \$660 million to set an all-time record. In the two weeks following Christmas there was a sharp drop in currency and coin circulation amounting to \$600 million by January 9, 1952.



● Currency sorters at the Minneapolis Fed counted and sorted more than 70 million bills during 1951. On the facing page are pictured half of the department's 16 units, where sorters detected 126 counterfeits while also removing 28 million pieces of unfit currency from the stream of paper money in 1951.

● Internal audits are regularly made of currency. At right, two auditors are shown using tickometers for a rapid check of bills which were part of the post-holiday influx. In the circle a bin of counted bills is being trundled into the bank's lower vault.



## ***Seasonal Demands Met, Money Panics Averted***

Before the Federal Reserve System was established, whenever depositors asked for more cash than usual from the commercial banks the smaller banks would draw on their accounts with big city banks, known as correspondents. Because the city banks had no way of enlarging their own supply of currency as needed, the cash situation often became very tight at those times of the year when many small banks were asking for extra cash at the same time.

The result was a sharp rise in interest rates, particularly during the crop-moving season, at which time the demand for money exceeded the available supply.

At times—when there existed a widespread fear that property values might fall — there would develop an abnormal, more than a seasonal, demand for cash. At the beginning of a movement of this type, a few people would sell property to gain cash. Thereupon, others seeing the decline in prices and fearing further weakening of prices would offer property for sale. Lenders would insist on repayment of loans. In short, everyone would want cash at the same time.

There was no method, however, by which more cash could be injected into the economy to supply the demand. Panic would ensue as individuals and business firms competed for the limited supply of coins and currency in existence. At such times there was always the danger that some banks might be forced to suspend currency payments. Should a number of banks fail, panic conditions would be intensified.

The rigidity in the currency supply which brought about or intensified such situations was due to the fact that all of the various types of currency existing prior to 1914 were limited as to total issue—either by the value of specific government securities, of which there was a relatively small amount, or by the value of the country's gold and silver.

The Federal Reserve note was designed to satisfy seasonal demands for currency and to prevent recurrences of money panics which, strangely enough, had occurred at fairly regular intervals.



● Here you see registered mail receipts of incoming currency shipments from member banks being opened and verified by package count in a cage by a currency teller. Messengers from the local banks bring in deposits of their surplus currency.

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## ***Gold Certificates and U. S. Securities Back Notes***

Originally it was provided that Federal Reserve notes should be backed by a 40 per cent gold reserve and by a 100 per cent collateral of so-called "eligible paper," which consisted of certain short-term customers' notes and acceptances discounted by commercial banks with the particular Federal Reserve bank which issued the Federal Reserve notes. (Discounting, as bankers know, is a procedure by which banks' paper arising from loans may be converted into cash or reserves at the Federal Reserve banks.) In 1917 the 100 per cent requirement on eligible paper was reduced to 60 per cent.

By providing a currency based on this particular type of commercial bank asset, the framers of the Federal Reserve act believed that the supply of cash would automatically increase during the periods when it was most needed and automatically decrease when the need was past. This belief proved to be substantially correct during the early years of the Federal Reserve System, but in the period following the crash of 1929 the country had a rude awakening.

While ordinarily the demand for currency is greatest at times of heavy borrowing from commer-

cial banks, the situation in the early 1930's was just the reverse. In the face of a long and severe price decline, the public began hoarding currency as the safest and most profitable possession they could hold. The demand for currency increased by leaps and bounds at the very time that the supply of commercial paper was declining.

In such circumstances, the Federal Reserve note lost its cyclical elasticity—the property of expansibility and contractibility in connection with the long-term waves in business activity. They were tied to requirements concerning collateral, the supply of which contracted at times when the demand for currency was extremely heavy.

The Glass-Steagall Act of 1932, which temporarily allowed government securities as well as eligible paper to be used as backing for Federal Reserve notes, was designed to remedy this situation. In 1945 this authority was made permanent, and the required gold reserve (now consisting of gold certificates) was reduced from 40 per cent to 25 per cent. In recent years government securities have almost entirely replaced eligible paper as backing for Federal Reserve notes.

### ***Fed's Total Note Circulation Increased \$21 Million in '51***

On December 31, 1951, the Federal Reserve Bank of Minneapolis had \$647 million of its notes outstanding. The year's high of notes in actual circulation—in the hands of the public and in banks—totaled \$636,138,000 on December 24, close to the record \$638,351,000 in circulation December 12, 1948.

Collateral held against the \$647 million notes outstanding December 31 consisted of \$150 million in gold certificates and \$505 million in government securities. These securities were part of those purchased by the Federal Reserve System in the open market.

Incidentally, note circulation rather than the reserve accounts of member banks, as some persons believe, is the largest single liability of the Reserve banks. Total note circulation of the Minneapolis Reserve bank increased about \$21 million during 1951, which was in line with the general increase in the use of currency and coin.

It is difficult to imagine how the United States

could have managed during World War II without the use of the expandable Federal Reserve note. Currency and coin in circulation showed an almost four-fold increase from 1939 to 1946, and most of this expansion was in Federal Reserve notes.

Today, when a member bank needs more currency it simply draws on its reserve account at the Federal Reserve bank, knowing that if this account falls below the legal minimum required it can be replenished by the member bank's borrowing from the Reserve bank against a pledge of any sound assets.

When the need for cash slacks off and currency returns to a member bank, it will ordinarily send such currency to its Reserve bank for credit to the member's reserve account or for repayment of borrowing. The actual bills may then be retired from circulation and replaced with new paper money when there is again a call for additional currency.

No Reserve bank can (without penalty) pay out the notes issued by any other Reserve bank. Such notes, if fit for further use, must be returned directly to the bank of issue. Unfit notes are also sorted as to the issuing bank but are returned direct to the Treasury department for redemption. Since there are 12 Federal Reserve banks issuing notes, this requirement means many additional sorts for Federal Reserve currency handlers.

In 1951 the Minneapolis bank and its Helena branch shipped to other Reserve banks approximately \$50 million dollars worth of fit notes which had gravitated to the Ninth Federal Reserve district from other parts of the nation.

It may be said that the Federal Reserve note has endowed all forms of the nation's currency with elasticity, since all kinds of paper money are freely exchangeable and the public is hardly conscious of the fact that there are different kinds in use.

### ***Some Civil War Greenbacks Still in Circulation***

Silver certificates, second in importance in the major types of currency, rank far behind Federal Reserve notes in circulation with a total of a little more than \$2.3 billion in late 1951. The backing for these bills is the metal from which they get

their name. For each dollar issued in silver certificates there is deposited with the U. S. Treasury 371.25 grains of pure silver.

United States notes, with a maximum authorized issue of approximately \$347 million, are backed by a gold reserve of \$156 million. This is nominally a redemption fund, although, of course, it covers only 45 per cent of the total value of the outstanding notes—and none of our currency has been redeemable in gold domestically since 1934.

From a historical standpoint, it is interesting to note that these notes are a remnant of the Civil War “greenbacks.” Their total circulation remains virtually static, since the notes which wear out are constantly being replaced.

We have come a long way in our currency system since 1863, when there were more than 7,000 kinds of bank notes in use—of which 1,700 were issues of the spurious wildcat banks. In such monetary chaos, business must of necessity have been carried on in a most leisurely manner. This situation was further complicated by the existence of more than 3,000 kinds of counterfeit notes.

### ***Secret Service Keeps Close Tab on Counterfeits***

The counterfeiting problem is not one of historical interest only, however. The detection of spurious money is still one of the important jobs of Federal Reserve currency sorters. Counterfeits are usually recognized from their appearance, although the feel of the paper is occasionally the giveaway.

Detection of spurious currency has become an increasingly difficult job in the last few years—this because of the greater number of counterfeits in circulation and because of the improved quality of workmanship they reveal.

When “funny money” is discovered by a Federal Reserve bank currency sorter, it is immediately turned over to the United States Secret Service, which has the responsibility of suppressing attempts by private enterprisers to interfere with Uncle Sam’s “monopoly” in the field of currency production.

In 1951, currency sorters at the Federal Reserve Bank of Minneapolis picked up 126 pieces of coun-

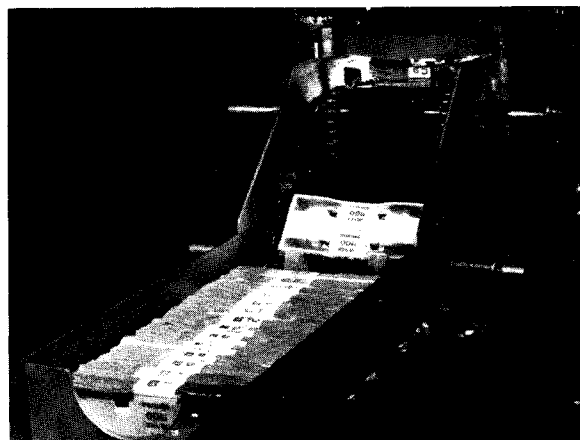
terfeit money, purporting to have a value of \$1,471. The banks which sent them in for deposit suffered the loss—unless they were able to determine from whom the bogus bills were received.

Almost all of these counterfeits were tens and twenties, the denominations favored by counterfeiters. Since very large denomination bills are seldom counterfeited, a person can feel reasonably confident of the authenticity of any \$10,000 bill he finds in his pocket.

### ***Millions of Pieces Sorted and Counted During Year***

Servicing the nation’s currency is a big job and, as is already evident, the Reserve banks deal in big figures so far as currency is concerned. Every safeguard must be thrown around these large amounts of cash, not only while they are in the Federal Reserve bank but also during shipment to and from member banks.

Incoming money shipments to the Federal Reserve Bank of Minneapolis arrive by registered mail and are picked up at the Minneapolis post office by the bank’s representatives in armored trucks. At the bank a receiving teller verifies the amount of each incoming shipment by package count. The packages of currency are then turned over to the currency sorters, who not only classify it as to kind, fitness, and genuineness, but also



● Unfit bills are cancelled by punching four holes in them in a pattern which identifies them as having been cancelled by the Minneapolis Reserve bank.

machine-count the bills in each package to verify its correctness. The electrically operated counting machines are so sensitive to the thickness of paper that if two bills are accidentally fed into one of them at the same time, the machine will jam.

Most persons don't care about the pedigree of a five-dollar bill so long as Mr. Lincoln's portrait is genuine and it is in their possession. Currency sorters, however, must be able to recognize instantly each of the different types of United States currency in general use.

The most obvious distinguishing feature of the various types is the color of the serial number and seal. On Federal Reserve notes this color is green, on silver certificates it is blue, and United States notes are red.

In addition to these major kinds of currency, there are still in circulation a limited amount of special bills issued for emergency use during World War II, a few national bank notes issued prior to 1935, and a hodge-podge of miscellaneous issues which intrigue currency collectors.

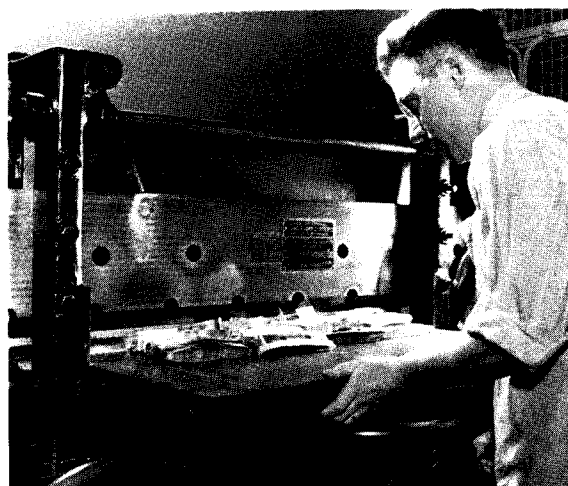
The war emergency currency consists of notes bearing the label "National Currency, Series of 1929", with brown seals and serial numbers; silver certificates having gold-colored seals instead of the usual blue (the so-called North African invasion currency); and notes of the San Francisco Federal Reserve bank on which the word "Hawaii" has been overprinted on face and back and having brown seals and serial numbers.

As indicated previously, each of these types of currency has different backing, although all, of course, are obligations of the United States government.

### ***Federal Reserve Supplies Member Banks with Currency***

One of the jobs of each Federal Reserve bank is to see that every piece of currency it receives is examined so that those which are soiled, limp, torn, and plain "beat" can be retired from public use and replaced with new.

Last year the Federal Reserve Bank of Minneapolis and its Helena (Montana) branch removed from the money stream some 28 million pieces of old paper money having an approximate value of \$112 million. Nor was this an all-time high.



● Before being sent to the Treasury for burning, the bills are "guillotined" into halves by this blade, and the halves are then sent in two separate shipments to Washington for complete destruction.

How do the Federal Reserve banks happen to have acquired the job of keeping our dollar bills crisp and clean? Well, Federal Reserve banks are "bankers' banks." Any commercial bank which is a member of the Federal Reserve System must keep funds on deposit with the Reserve bank of its district. These deposits are known as reserves, or reserve accounts.

When a member bank has more currency on hand than it needs or than is safe to carry in its own vaults, the currency is shipped to the Federal Reserve bank for deposit to the member bank's reserve account.

In the Reserve bank, currency sorters carefully inspect each incoming bill. Last year, sorters in the Federal Reserve Bank of Minneapolis and its Helena branch examined and passed judgment on 71 million pieces of currency, worth \$475 million.

A great many of these bills, of course, even though no longer new are still in good enough condition for another "tour of duty." Many of them, however, are deemed unfit for further use and marked for destruction. Some of them, in fact, have been so badly damaged by fire, water, decay, or other destructive forces that they cannot be identified. In such cases, the remnants or ashes

*Concluded on Page 26*

# EARNINGS AND EXPENSES

	1951	1950
Earnings from:		
Discounted Bills .....	\$ 190,320	\$ 81,248
United States Government Securities .....	12,258,370	8,441,067
Industrial Advances .....	7,784	8,581
All Other .....	8,425	5,988
<b>TOTAL CURRENT EARNINGS .....</b>	<b>\$12,464,899</b>	<b>\$ 8,536,884</b>
Expenses:		
Net Operating Expenses .....	\$ 2,850,014	\$ 2,359,069
Assessments for Expenses of Board of Governors .....	103,700	86,300
Federal Reserve Currency:		
Original Cost .....	163,454	138,749
Cost of Redemption .....	20,877	18,309
<b>TOTAL CURRENT EXPENSES .....</b>	<b>\$ 3,138,045</b>	<b>\$ 2,602,427</b>
<b>Current Earnings .....</b>	<b>\$ 9,326,854</b>	<b>\$ 5,934,457</b>
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities .....	0	1,113,176
All Other .....	71	116
<b>TOTAL .....</b>	<b>\$ 71</b>	<b>\$ 1,113,292</b>
Deductions from Current Net Earnings:		
Loss on Sales of U. S. Government Securities .....	51,867	0
Reserve for Registered Mail Losses .....	14,131	11,596
All Other .....	1,270	518
<b>TOTAL .....</b>	<b>\$ 67,268</b>	<b>\$ 12,114</b>
<b>Net Deductions to Current Net Earnings .....</b>	<b>\$ 67,197</b>	<b>\$ 1,101,178</b>
<b>Net Earnings .....</b>	<b>\$ 9,259,657</b>	<b>\$ 7,035,635</b>
Dividends Paid .....	314,934	294,034
Paid to U. S. Treasury (Interest on Federal Reserve Notes) .....	8,050,167	6,067,408
Paid to U. S. Treasury (Section 13b) .....	0	0
Transferred to Reserves for Contingencies .....	0	0
Transferred to Surplus (Section 13b) .....	0	0
Transferred to Surplus (Section 7) .....	894,556	674,193

## Surplus Account (Section 7)

Balance at Close of Previous Year .....	\$13,168,052	\$12,493,859
Transferred from Profits of Year .....	894,556	674,193
<b>BALANCE AT CLOSE OF YEAR .....</b>	<b>\$14,062,608</b>	<b>\$13,168,052</b>

## Surplus Account (Section 13b)

Balance at Close of Previous Year .....	\$ 1,072,621	\$ 1,072,621
Transferred to Surplus (Section 13b) .....	0	0
<b>BALANCE AT CLOSE OF YEAR .....</b>	<b>\$ 1,072,621</b>	<b>\$ 1,072,621</b>



# STATEMENT OF CONDITION

Dec. 31, 1951

Dec. 31, 1950

## ASSETS

Gold Certificates .....	\$ 325,261,086	\$ 366,114,498
Redemption Fund for F. R. Notes .....	25,018,166	21,466,655
TOTAL GOLD CERTIFICATE RESERVE .....	\$ 350,279,252	\$ 387,581,153
Other Cash .....	7,055,811	6,060,199
Bills Discounted .....	0	0
Industrial Advances .....	133,731	185,301
U. S. Government Securities:		
Bonds .....	169,655,000	142,940,000
Notes .....	160,891,000	387,549,000
Certificates of Indebtedness .....	403,955,000	72,218,000
Bills .....	14,852,000	38,487,000
TOTAL U. S. GOVERNMENT SECURITIES .....	\$ 749,353,000	\$ 641,194,000
TOTAL BILLS AND SECURITIES .....	\$ 749,486,731	\$ 641,379,301
Due from Foreign Banks .....	705	590
F. R. Notes of Other F. R. Banks .....	7,727,500	5,612,500
Uncollected Items .....	96,788,956	113,210,107
Bank Premises .....	1,082,816	1,114,221
Other Assets .....	4,035,864	3,645,414
TOTAL ASSETS .....	\$1,216,457,635	\$1,158,603,485

## LIABILITIES

Federal Reserve Notes in Actual Circulation .....	\$ 632,028,690	\$ 610,642,820
Deposits:		
Member Bank—Reserve Accounts .....	464,389,342	391,854,990
U. S. Treasurer—General Account .....	8,308,750	22,613,859
Foreign .....	13,012,500	22,192,500
Other Deposits .....	4,434,515	4,909,573
TOTAL DEPOSITS .....	\$ 490,145,107	\$ 441,570,922
Deferred Availability Items .....	69,117,707	82,741,455
Other Liabilities .....	491,368	171,162
TOTAL LIABILITIES .....	\$1,191,782,872	\$1,135,126,359

## CAPITAL ACCOUNTS

Capital Paid In .....	\$ 5,362,650	\$ 5,073,700
Surplus (Section 7) .....	14,062,608	13,168,052
Surplus (Section 13b) .....	1,072,621	1,072,621
Other Capital Accounts .....	4,176,884	4,162,753
TOTAL LIABILITIES, CAPITAL ACCOUNTS .....	\$1,216,457,635	\$1,158,603,485

# FEDERAL RESERVE BANK OF MINNEAPOLIS

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Chippewa Falls, Wisconsin

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Presho, South Dakota

EDGAR F. ZELLE

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Minneapolis, Minnesota

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KYLE K. FOSSUM, *Assistant Cashier*  
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ARTHUR R. LARSON, *Assistant Vice President*  
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Credit Regulations

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Discount and Credit  
Credit Regulations

CLEMENT VAN NICE, *Assistant Vice President*  
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### BANK EXAMINATION DEPARTMENT

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### FISCAL AGENCY DEPARTMENT

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Government Securities

CHRISTIAN RIES, *Assistant Cashier*  
Government Securities

### LEGAL COUNSEL

SIGURD UELAND, *Vice President, Counsel, and Secretary*

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Minneapolis, Minnesota

## CURRENCY FEATURE

Continued from Page 21

of the bills are forwarded to the Treasury department for determination, if possible, of their value.

### ***Fed Cancels Unfit Bills; Destroyed by Treasury***

Currency determined to be unfit for circulation by our sorters is counted and packaged as carefully as the good currency. Instead, however, of being re-circulated or placed in the vault for later use, four rectangular holes are punched in each package of bills by a specially designed machine. Shape and position of these holes identifies the bills as having been cancelled by the Federal Reserve Bank of Minneapolis.

The next step is to slice the package of bills lengthwise. The bottom halves are then packaged and shipped to the currency redemption division of the Treasury department.

Identical packages of the top halves are retained at the Reserve bank until notification arrives from Washington that the bottom halves have been received and verified, whereupon the top halves also are shipped.

Final step in destruction of unfit bills is burning them in an oven whose temperature reaches 2,100 degrees. In an average year the Treasury burns more than \$8 billion in old currency, or about seven tons daily. Ninety per cent of this money is in \$1 bills.

Visitors are sometimes dismayed to see the destruction of paper money, but it is as necessary to the operation of the country's currency system as the printing and engraving of new bills. Even the best quality paper will wear out. The average dollar bill has a useful life of only six to nine months. Of course larger denominations, more sparingly used, last longer.

### ***Nearly Half-Billion in Bills Shipped to Member Banks***

To replace the currency consigned to the furnaces, each Federal Reserve bank maintains a stock of brand-new bills of all denominations. Last year the Minneapolis Fed and its branch placed in circulation nearly \$158 million in crisp, new paper money.

Currency fit for further use goes into temporary storage in the Federal Reserve bank's six-level vault, where it is protected by an intricate system of locks and two huge steel doors weighing nearly 40 tons each. The entire bank is guarded day and night by members of its 30-man protection force.

When currency orders are received from member banks, the Fed fills them by taking both new and used bills from the vault. Outgoing shipments to member banks during 1951 totaled approximately \$440 million. These shipments receive the same precautionary handling as do the incoming.

The next time you handle a \$10 or \$20 bill, take a good look at it. The chances are that it is one of the many thousands of Federal Reserve notes which make up roughly five-sixths of our currency and coin supply and which give it its elasticity.

The chances are, too, that your bill will be in reasonably good condition. If not, it's because it hasn't visited a Federal Reserve bank recently. The odds are in your favor that the bill is genuine, too. If it isn't, you can be sure that it has never seen the inside of a Federal Reserve bank.

From all this you can understand that the Federal Reserve Bank of Minneapolis and its Helena branch, together with the other Federal Reserve banks and their branches, have a big responsibility. The wheels of industry and commerce in the nation would come to a stop without "folding money." Whenever and wherever it is needed, the Federal Reserve's job is to see that currency is available—and if your credit is good, it always is.