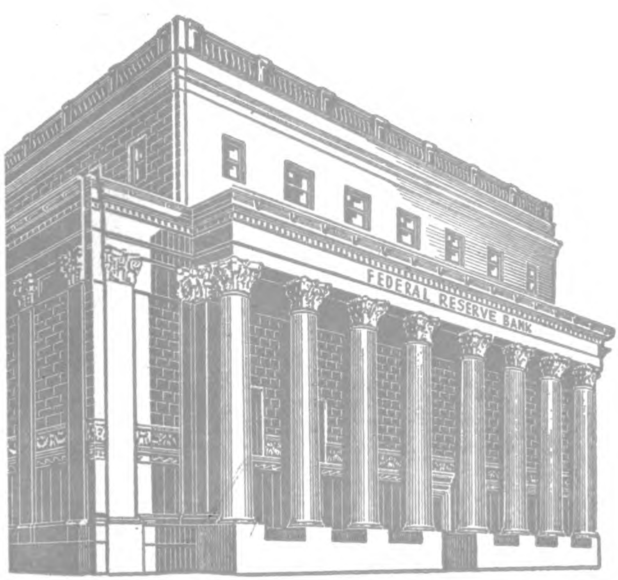
ANNUAL STATEMENT 1954



FEDERAL RESERVE BANK OF MINNEAPOLIS

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LESLIE N. PERRIN
Chairman of the Board
Federal Reserve Bank of Minneapolis

FOREWORD

IT IS a pleasure to present the report of this Federal Reserve Bank to its stockholders, covering events of the year 1954. During the past year the bank commemorated its Fortieth Anniversary, for on November 14, 1914, it commenced operations.

During the intervening years a tremendous amount of history was written by the United States, much of which directly affected the operations and growth of this bank. Through it all, the bank has developed not only in size, but in the quality and scope of its services. Indeed, several new activities were embarked upon during the latest year. Its efficiency has continued to improve in line with the best traditions of American business.

In closing this letter of transmittal, we particularly wish to congratulate our staff on the high morale which has been maintained in spite of badly cramped quarters. In spite of these handicaps, the bank has operated with a low turn-over of employees and an increasing individual level of efficiency, which is most gratifying and for which the staff, collectively and individually, have our sincere thanks.

Leslie N. Perrin
Chairman

O. S. Powell
President

The Transition Examined

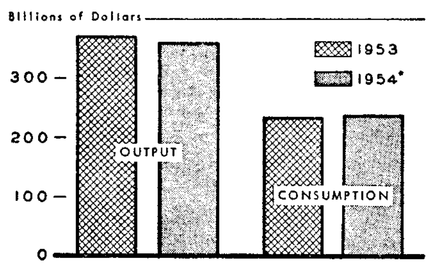
A PROBLEM which has been rare in America for many years, a fairly large volume of unemployment, eclipsed all others confronting the national economy in 1954. The threat of excessive spending and inflation had vanished; it was replaced by the threat of inadequate spending and deflation. The economic intelligence and instruments of the government and monetary authorities were brought to bear in an effort to relieve the evidences of distress which were associated—in a large measure—with the transition from a wartime to a more nearly peacetime economy.

Workers are likely to be laid off when business sales fall, and business sales fall when spending is curtailed. Spending was curtailed for such items as war material, business inventories and equipment, and automobiles in 1954. While spending for some other things increased, the declines exceeded the gains with the result that total spending for output was lower than in 1953.

A reduction in spending can produce either lower prices or lower physical output and employment. Since overall prices changed very little in 1954, the spending cutback was translated into fewer jobs. Unemployment, however, did not reach as high a level as in 1950, considered by many to be a good year. The comparison suggests that the magnitude of the employment problem in 1954 was not great, or that measures taken to correct the problem were successful, or both.

Perhaps the most remarkable feature of the reduction in output was the absence of damage to consumption of the goods and services which constitute the "standard of living." Americans removed from the markets a larger total quantity of such goods and services than ever before in history. With an enlarged population, consumption per person was maintained at the record 1953 level. This was accomplished by allocating a lesser share of output to government and to private capital formation.

OUTPUT AND CONSUMPTION



*Preliminary estimates.

Government Spent Less

Purchasers of the nation's output are classified by the Department of Commerce into three major groups—consumers, government, and business—in order of their importance as spenders. Smaller budgets in government and in business were responsible for the reduced flow of spending in 1954.

The federal government—as the largest single buyer of the nation's product—exerted the most depressing influence on economic activity by paring expenditures for national security. This action was permitted by the end of fighting in Korea and by the changing character of warfare; also, the military buildup of recent years is nearing its goal in terms of weapons, airplanes, etc., so that purchases of such items have slowed.

A reduced need for military goods, by permitting a smaller federal claim on output, released men, materials and factories from production for war and made them available to satisfy the needs of our growing population. The foundation was thereby laid for an accelerated growth of living standards by reducing the economic waste associated with expenditures for war. The benefits of the transition from war to peace were realized almost immediately by many people who found the amount of federal tax withheld from the pay envelope had been reduced. Government expenditures other than those for defense were little changed.

The amount of spending by all government did not fall as much as did federal spending owing to larger budgets at the state and local level. Indeed, spending by non-federal governments was higher than ever before. Evidence of larger outlays by state and local governments was visible throughout the nation in the form of schools, highways, bridges, sewers, and other public wealth new to the landscape.

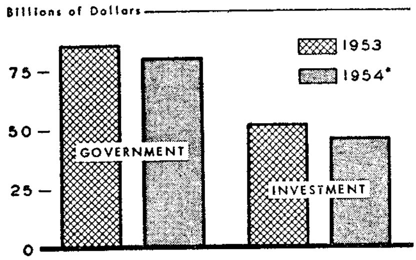
Such expenditures have been occasioned in part by the virtual explosion of population in America since World War II. More and better transportation facilities are being built to cope with the mounting number of automobiles on the roads. More sanitary facilities are being constructed to service the unparalleled movement of population to the suburbs. The high postwar birth rate —which confounded the experts— has created a demand for school space which is still intense despite the large number of schools erected since the end of the war. And more babies were born in 1954 than in any other year—more than 4 million— so the tide of population growth does not yet appear to have ebbed.

But additions to state and local spending amounted to only a fraction of the cutback in federal spending so that purchases by all government—at an annual rate—fell from $85 billion in the third quarter of 1953 to $75 billion in the same quarter of 1954.

Business Budgets Were Cut Too

Aggravating the disturbance produced by retrenchment at the federal level was a business policy of inventory liquidation. Besides spending much less for inventory replacement, business also purchased less durable equipment such as machinery, than in 1953. To a minor degree, these cutbacks were offset by larger business expenditures for construction, but the construction industry was less in need of new orders than were the industries from which inventory and durable equipment originate.

Government and Investment Spending



*Preliminary estimates.

Part of the decline in business inventories can be traced to shutdowns at factories which had produced war goods. Too, with markets for many products weakened, sellers were anxious to dispose of raw materials and stocks of goods in an effort to minimize the danger of inventory depreciation from price declines.

Industries which produce the things that go into inventories then, suffered the most from the cutback in business spending. Producers of the durable equipment used by business also received fewer orders, while contracts received by the construction industry from business amounted to somewhat more than earlier.

Public capital, business facilities and residential housing were all constructed in larger volume during 1954 than in 1953. The record spending for public and private facilities brought more construction activity than ever before. Since most construction is financed with borrowed money, and since the cost of borrowing fell after 1953, a changed credit picture figured importantly in this one notable exception to the general down trend in the economy.

Consumption Spending Moved Up

That tremendous group of spenders known as consumers buys a larger proportion of total output than government and business together; approximately two thirds of everything produced has been removed from the marketplace by consumers in recent years. These people stepped up their spending moderately between 1953 and 1954 and thus helped to overcome the depressing influence on the economy which originated in the business and the government sectors.

Several developments operated in 1954 to raise the level of disposable income made available to Americans, despite the growing unemployment. Out of this enlarged flow of income, stepped up consumption expenditures were financed and the previous high rate of saving was maintained almost unchanged.

The total of wages and salaries received by workers did not fall in proportion to the decline of employment because rates of pay continued to rise as they have in other postwar years. Larger paychecks received by those who continued to work offset in part the loss of wages suffered by those who became unemployed.

Federal income taxes were reduced with the result that incomes after taxes (disposable income) did not fall in proportion to incomes before taxes. The tax reduction, associated with the reduced federal budget, permitted taxpayers to substitute their own spending for that of the government—concrete evidence to the contrary for those who believe that war brings prosperity.

The unfortunate workers from industries with a scarcity of customers—those who became unemployed—drew larger cash unemployment benefits than in any other year, thereby helping to break the dangerous chain reaction of fewer jobs and lower spending. The liquidation of unemployment reserve funds thus provided more cash to consumers than would otherwise have been available.

Hence, well-heeled consumers were in a position to buy more—not less—than in 1953. The same phenomenon—rising consumption with falling employment—occurred in the recession of 1949. The behavior of consumers is tremendously important in the determination of economic activity since they absorb such a large fraction of all production.

But the drop in outlays by government and by business was greater than the gain in consumer spending so that unemployment was larger in 1954 than in 1953. The fact that many who lost jobs were formerly producing instruments of war, which add nothing to living standards, did not mitigate the distress suffered by them from being out of work. While historical comparisons suggest that unemployment had not assumed extremely serious proportions, the amount was regarded as serious enough so that its reduction became one of the most important objectives of national economic policy.

Some Unemployment is Normal

The level of unemployment which should be regarded as dangerous is a matter of controversy. The resolution of this controversy has serious implications for monetary policy. This is because the danger that additional spending will produce inflation rises as the proportion of the labor force which is unemployed falls. Thus, measures aimed at relieving unemployment by encouragement to spending may produce rising prices. The behavior of prices is, of course, a matter of great concern to the monetary authorities.

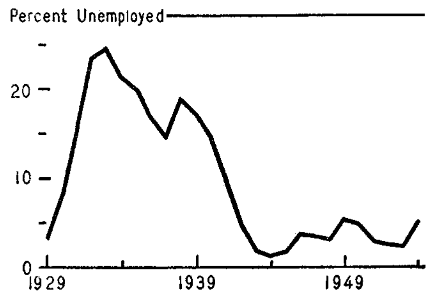
The economic history of the United States since 1940 demonstrates the effectiveness of high spending in eliminating all but transitional unemployment; but it also demonstrates the effectiveness of high spending in reducing the value of money by raising prices. A level of spending which is neither so high as to produce inflation nor so low as to induce serious unemployment is one object of monetary policy.

Some unemployment is the necessary price of economic freedom. So long as people are free to produce and consume what they choose, errors of judgement by producers will occur which necessitate cutbacks in some industries and expansion in others. One of the most important functions of an economic system is to transfer resources from the production of things less wanted to the production of things more wanted. Such transfers cannot be accomplished without layoffs and unemployment in some industries. Changes in consumer preference are painful to firms confronted with reduced demand, but the problem of weakness in particular markets will always be with us if consumers are allowed to "call the tune" as everyone agrees they should.

Last year, for example, industries producing durable goods suffered not only from a scarcity of military contracts, but also from a decision by consumers to acquire fewer automobiles, appliances, and other hard goods. At the same time, consumers decided to buy more homes, soft goods, services, and other things. Each year brings changes in the composition of total demand. Some of the unemployment last year or in any year can be traced to these changes. Estimated movements in the composition of purchases by consumers are indicated by the table which covers a number of years.

However, when unemployment rises beyond the "transitional" amount associated with the normal

PROPORTION OF NATION'S WORKERS UNEMPLOYED



DISTRIBUTION OF PERSONAL CONSUMPTION EXPENDITURES

(Percent)

	1929	1944	1948	1949	1950	1951	1952	1953	1954
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Durable Goods	11.7	6.2	12.5	13.1	14.7	13.0	12.3	12.9	12.3
Automobiles and parts	4.1	.7	4.1	5.2	6.4	5.2	4.8	5.7	5.3
Furniture and household equipment	6.0	3.5	6.5	6.0	6.7	6.1	5.7	5.6	5.4
Other durable goods	1.5	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.6
Nondurable goods	47.7	59.5	55.6	53.6	51.7	53.3	53.1	51.7	51.5
Clothing and shoes	11.9	13.3	11.1	10.3	9.5	9.5	9.2	8.6	8.4
Food & alcoholic beverages	24.7	34.1	32.3	31.3	30.3	31.9	32.0	31.2	31.3
Gasoline and oil	2.3	1.3	2.4	2.6	2.6	2.7	2.7	2.9	3.0
Semidurable housefurnishings	.9	1.3	1.3	1.2	1.2	1.2	1.1	1.1	1.1
Tobacco	2.1	2.5	2.3	2.4	2.3	2.3	2.3	2.3	2.2
Other nondurable goods	5.8	7.0	6.3	5.9	5.8	5.8	5.7	5.6	5.6
Services	40.6	34.3	31.9	33.3	33.5	33.7	34.6	35.4	36.2
Household operation	5.1	5.3	4.5	4.7	4.8	5.0	5.1	5.2	5.2
Housing	14.5	10.8	9.9	10.8	11.0	11.2	11.7	12.0	12.6
Personal services	2.3	2.4	2.2	2.1	2.0	2.0	1.9	1.9	1.9
Recreation	2.1	2.4	2.2	2.1	2.0	2.0	1.9	1.9	1.9
Transportation	3.2	3.4	3.3	3.2	3.0	3.1	3.1	3.1	3.1
Other services	13.3	10.0	9.9	10.4	10.6	10.5	10.8	11.2	11.5

functioning of free markets, the public, through its government, looks to ways of correcting the disorder. The presence in 1954 of stable prices and of unemployment averaging twice as much as in 1953 suggested that spending could be stimulated without the danger of inflation which accompanies additional spending when unemployment is at a minimum. The failure of overall price indexes to register gains vindicates this judgement.

Perhaps the most important stimulus to spending was afforded by a substantial increase in the lending power of the nation's commercial banks. The increase resulted from a reduction of reserve requirements for member banks of the Federal Reserve System. The effectiveness of this device in promoting credit expansion and deposit creation was demonstrated as the year ended with more debt lodged at the commercial banks of the nation than ever before. At the same time, more debt than ever before was lodged with the nation's insurance companies, mutual savings banks, savings and loan associations and pension funds. The total of all debts in the country—public and private—established a new record as it has in most recent years. Spending by borrowers was encouraged with a substantial decline in the cost of credit which in turn was produced by the large addition to its supply.

Sources of Lendable Funds

Despite a weakened demand for some types of loans in 1954, commercial bank credit grew faster than in any year since the end of World War II; this growth supplied America with the largest stock of money in history. The earning assets which were acquired by banks through credit expansion were mostly U. S. government securities. In contrast, during 1953, loans constituted the most important addition to commercial bank assets.

The reserves of the banking system at the end of 1954 were lower than at the beginning. The ability to expand credit in the face of diminishing reserves arose from a reduction in the ratio of reserves to deposits which the banks are required by law to maintain. This reduction in reserve requirements was the most important measure taken by the monetary authorities to make credit more plentiful.

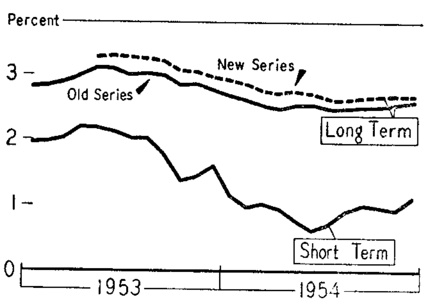
In the summer of 1954, reserve requirements against net demand deposits were lowered from 22 percent to 20 percent at central reserve city member banks, from 19 percent to 18 percent at reserve city member banks, and from 13 percent to 12 percent at country member banks. Requirements against time deposits were lowered from 6 percent to 5 percent at all member banks. Since member banks of the Federal Reserve System hold approximately 85 percent of the nation's commercial bank deposits, the lending power of the banking system was greatly augmented.

Also, twice in 1954, the discount rate or cost of borrowing at Federal

Reserve Banks was lowered. In February the discount rate was dropped from 2 percent to 1¾ percent, in April from 1¾ percent to 1½ percent. The reduction of discount rates was not, however, accompanied by more loan applications at Reserve Banks; rather, the contrary was true, as member banks in need of cash had alternative sources of funds available to them at much lower interest rates than in 1953.

The yield on Treasury bills, for example, remained below the discount rate in 1954, so that banks in need of cash found it less costly to liquidate bills than to borrow. At times in 1953, bill yields were higher than the discount rate.

Yields on Long and Short Term Government Securities*



*Old Series—Fully taxable, marketable 2½ percent bonds first callable after 12 years; New Series—The 3¼ percent bonds of 1978-83, issued May 1, 1953. Short term series represents bill yields.

The decline of interest rates which attended the expanding supply of credit last year is best illustrated with reference to the market for U. S. government obligations, the valuation of which does not reflect the variable credit risk carried by other securities. Government bonds of the longest maturity declined in yield from 2.93 percent early in the year to 2.58 percent in the summer, as lenders bid up the price, competing for a limited supply. Short term governments, characterized by 91 day bills, fluctuated even more widely in yield from 1.5 percent early in the year to less than .7 percent in the summer. The yield on other governments traced a similar path.

Besides commercial banks, financial institutions in the market looking for investments included the intermediaries which channel the savings of individuals into the market for loans. The life insurance industry, for example, enjoyed such an inflow of cash that total assets owned grew faster than in the boom year of 1953. The same was true for savings and loan associations, for mutual savings banks, and for pension funds. American savers provided these institutions with the wherewithall to finance expeditions to the market in search of loans. The search, of course, helped to keep the market value of loans (securities) high and the yields low.

More important, financial intermediaries accomplished a gigantic transfer of funds from owners of money unwilling to spend, to spenders anxious for loans. Without such transfers, total spending would have suffered, and the problem of unemployment would have been aggravated.

The most important kind of *direct* lending by individuals, purchases of

U. S. Savings Bonds, was also conducted in large volume. A larger amount of E & H bonds was purchased than in any other peacetime year. But because of redemptions and a large concentration of maturities, the total of all savings bonds outstanding was little changed for the year and did not constitute an important net source of lendable funds.

Demand For Lendable Funds

The identity of the net borrowers in our economy last year is fairly well known. Some lending and borrowing circumvent the principal financial institutions or are not publicized so that not all debt lends itself to accurate measurement. But the largest components of total debt in the United States can be measured. Such measurements indicate that total debt last year set a new record, as in other recent years.

Largest single borrower, of course, was the U. S. Treasury. The national debt rose by almost $4 billion in 1954. Despite important cutbacks in federal spending, Treasury deficits continued as tax collections fell in response to reductions provided by the new tax law and in response to a shrunken base of taxable income. Legislation was passed during the year which lifted temporarily the $275 billion limitation previously imposed by Congress on the size of Treasury debt.

U. S. government debt at the end of 1954 was not strictly comparable with the total of other years. To a greater extent than formerly, government agencies were operating on funds derived from their own borrowings rather than on Treasury funds. Except for this development, Treasury debt would be higher.

In addition to Treasury debt and the debt of federal government agencies, state and local government debt was issued in large volume during 1954. The increase in state and local debt outstanding was the largest in history, amounting to $7 billion, or 25 percent more than the 1953 increase. This statistic, of course, is directly related to the record level of public works, mentioned earlier.

Individuals borrowing money to purchase homes added more to their debts than did state and local governments. In 1954, home mortgage debt went up by $8.7 billion; this compares with a gain of $7.6 billion in 1953. Near the end of 1954 the seasonally adjusted rate of home building was higher than in 1950 when more homes were built than in any other year. The construction of these new homes is one component of private capital formation which partly offset the decline in business inventories, another component.

An immense stimulus was provided to home building when Congress passed the Housing Act of 1954. This law lowered the downpayment and amortization rate requirements for government insured mortgage loans, thereby adding to the number of people who could qualify for such loans. Applications for mortgage insurance at the offices of the Federal Housing Administration subsequent to passage of the new legislation were more numerous than ever before.

Also, government insured and guaranteed mortgage loans were more attractive to lenders last year than in 1953. While interest rates on alternative investments were falling, the return on F.H.A. and G.I. loans was unchanged, making such loans relatively more attractive to investors.

In the capacity of consumers for other things than housing, individuals were less willing to incur debt last year. The total of consumer debt leveled off; it had been rising rapidly since the removal of Federal Reserve controls on such debt in May, 1952. Late in 1954, with the advent of a business recovery movement, consumer debt once again moved upward, possibly reflecting confidence that incomes could be maintained.

Corporations, too, were competing for lendable funds in 1954. While a lower volume of corporate stocks and bonds was marketed for new money than in 1953, it is likely that when all the figures are in, they will show an increase in corporation stocks and bonds outstanding approximating the addition to state and local debts.

It is not surprising to find corporate flotations falling when sales of the things corporations produce are falling. Too, the accumulation of business plant and equipment—the chief purpose of such flotations—has proceeded at such an uncommonly high rate since World War II that future needs for such capital may be less, in proportion to total output, than formerly. Much of the postwar industrial capital formation represented the replacement of plant and equipment depreciated in the war years.

The demand for short-term business loans weakened in 1954. Much of this debt is incurred for inventory financing, and since inventory liquidation was the rule last year, there was a downward pressure on short-term business debt. Reflecting this was the largest drop in commercial and industrial loans of banks since 1949, when inventory liquidation was also the rule.

Debt Formation—Spending

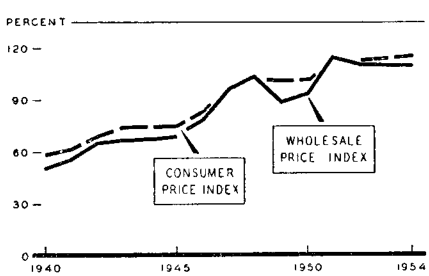
With the major sources of supply and demand in the market for loans having been examined, the role of debt formation and monetary policy in the determination of spending is easier to appreciate. Without the stimulus to credit expansion provided by the Federal Reserve in 1954, interest rates would doubtless have been higher with the result that spending financed by borrowings would have been discouraged. The reluctance to borrow when interest rates are high was demonstrated in 1953 when plans for many debt-financed projects were abandoned owing to the high price charged by lenders or investors for accommodation.

Many such projects, delayed earlier, were undertaken in 1954 after the level of interest rates had fallen.

Thus, the influence of the Federal Reserve System on the cost of credit served to discourage spending in early 1953, when the danger of inflation was great, and it served to stimulate spending in 1954, when the danger of deflation and unemployment from lack of spending was present.

The remarkable stability of prices in America since a flexible monetary policy was adopted in 1951 is a tribute to the effectiveness of the central bank in providing an environment where spending is neither so great as to depreciate the dollar nor so small as to induce serious unemployment.

PRICE INDEXES



Base period 1947-49.

The principal instruments of monetary control—open market operations, reserve requirements, and the discount rate—have all been employed since the economic decline originated to insure that inadequate credit would not intensify the spending cutbacks. Response to the use of these instruments has been gratifying, thanks to the presence of a strong demand for credit in almost every sector of the economy.

The analogy between pushing on a string and increasing the lending power of commercial banks in time of recession had no relevance to economic conditions in America during 1954. The condition which gave rise to the statement of this analogy was the failure of easy credit to promote recovery after the bank holiday in 1933. The experience of the Thirties did much to undermine confidence in the usefulness of monetary policy in promoting economic stability. The experience of 1954 should do much to restore that confidence.

The year witnessed a combination of developments which has been absent for years, that is, the total of debts was rising while interest rates fell and prices were stable. The simultaneous occurrence of these movements had been a rare event since 1940.

As 1955 opened, considerable evidence was present that output was rising, in contrast to a movement in the other direction a year earlier. More encouraging, the increments to output were not in the form of weapons and such, which add nothing to the standard of living, but consisted of such things as autos and homes which make life more pleasant for everyone.

Interest Rates Moved Up At Year End

At the same time, signals from the marketplace indicated that conditions of supply and demand were changing in a way which threatened to raise prices. Too, unemployment, after allowance for seasonal variation, showed signs of falling. These traditional indicators of excessive spending prompted the monetary authorities to allow the great demand for credit to express itself partly through higher interest rates rather than through credit expansion. Thus, the level of market interest rates at the end of the year was higher than at mid-year but lower than at the beginning of the year.

This effort to defend the purchasing power of the dollar while at the same time providing sufficient credit to maintain a level of spending compatible with high employment illustrates the way in which flexible instruments of monetary control can contribute to economic stability.

It is doubtful that the transition from an economy dominated by the needs of war to a more peacelike economy could have been accomplished with much less disturbance than in fact occurred. The unhappy feature of economic conditions in 1954 was not the lowering of armaments production, it was the failure to substitute more completely the production of consumer goods and capital goods.

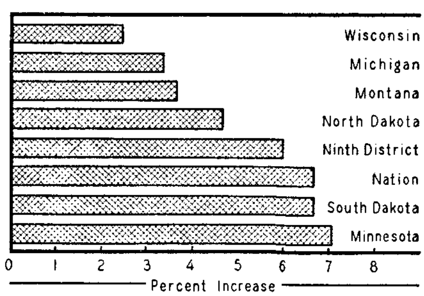
Ninth District Statistics Encouraging

The cutback in spending for defense and for other things was not without repercussions in the area served by the Minneapolis Federal Reserve Bank. But spending for the district's most important product—agricultural commodities—was well maintained with the result that economic conditions in the district compared favorably with the rest of the nation.

Sales at department stores, for example, moved up slightly in our area, while in the rest of the nation a slight decline was reported. Although the magnitude of these movements was not large, their direction does not suggest distress in the district.

Nor do the year-end statements of our banks suggest distress. In common with banks throughout the nation, member banks in the Minneapolis Federal Reserve District saw their deposits and earning assets rise to the highest level in history during 1954. Also, the most recently tabulated profit and loss statements submitted by our members show the highest earnings ever.

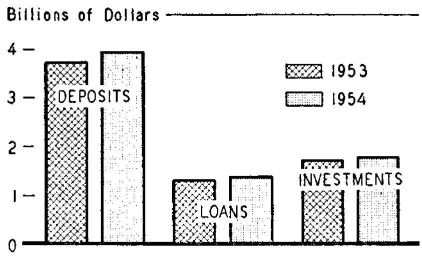
MEMBER BANK DEPOSIT GROWTH
November '53 to November '54



A sample of district banks reports that a larger dollar volume of checks was drawn in 1954 than in 1953; the gain was larger in the rest of the nation suggesting that, relatively, district bank customers practiced restraint in spending despite the larger volume of checks drawn.

The average amount of loans held during the year moved up proportionately more—compared to the previous year—at district banks than at banks elsewhere. The opposite was true for holdings of investment securities. This development should make for earnings' comparisons favorable to district banks.

Deposits and Earning Assets
Ninth District Member Banks*



*Amounts represent averages of balances reported for last Wednesday of each month during the respective years.

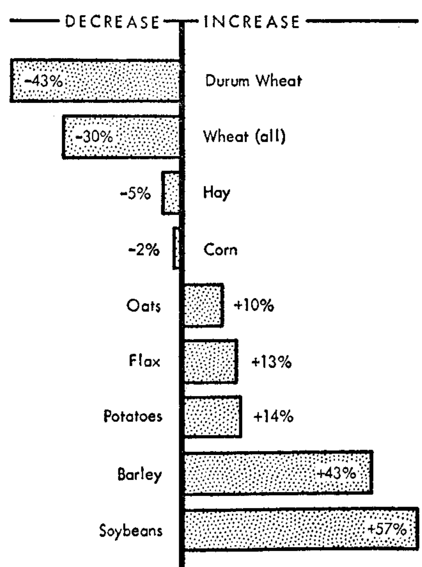
The demand for commercial and industrial loans was stronger here than in other districts; this strength accounted for much of the interdistrict difference in the behavior of total loans. Mortgage loans on residential property were granted in large amounts in the district, as well as in the rest of the country. The continued growth of mortgage loans at our banks is due in part to the high level of residential building activity reported by district communities.

The dollar value of building permits issued by a sample of such communities was 15 percent higher in 1954 than in 1953. Gains were reported in every state except North Dakota. Permits are issued for many kinds of work, but residential construction makes up an important part of the total.

Statistics of employment indicate that slightly fewer people were at work in the district during 1954 than a year earlier. On the Iron Range and at Duluth, employment suffered from a weakening in demand for products made of steel, such as weapons and automobiles and farm machinery.

Adverse weather conditions stunted agricultural production in a few district localities, but in general the weather was favorable. In contrast, serious damage to crops and livestock was produced by drought in other parts of the nation.

Ninth District Crop Production
Percentage Change, 1953 to 1954



Source: U. S. Department of Agriculture.

The government's cutback in expenditures for national security was felt in the Twin Cities as a large number of men was laid off at the local ordnance plant. But since our area is much less industrialized than other parts of the nation, the unemployment problem here was less serious than in those other areas.

Food processing, an important district activity, was aided by the large amount of products moving off the farms. The physical volume of grain produced was the third largest on record and cattle shipments may have established a new record.

Price trends were not the same for everything produced on district farms. Hogs, wheat and corn averaged somewhat higher in price during 1954 than in the previous year. Most other commodities averaged somewhat lower in price. Incomes on dairy farms in particular were pinched as the price support level for milk products was lowered.

Estimates by the U. S. Department of Agriculture place cash farm income for the district approximately 3 percent lower in 1954 than in 1953. A larger drop was estimated for farmers outside the district.

Operations and Management

CHANGES in banking, as in other economic affairs, often occur so gradually that they come about almost unnoticed. It is only when one pauses now and then to add up the totals and to make comparisons that the full impact of change is visible. Yearends seem to be good places to stop and take a backward look, for the events of even a single year may, in retrospect, represent significant happenings.

The year 1954 was somewhat of a milestone in the history of the Federal Reserve Bank of Minneapolis in that it not only marked the fortieth anniversary of the bank's opening on November 14, 1914, but it also saw the launching of plans for greatly expanded and modernized banking quarters. Preliminary plans for the new construction, approved early in 1954, call for eight stories to be added to the present four-story bank building at Fifth Street and Marquette Avenue, plus an extensive remodeling of existing facilities. Detailed plans for the proposed expansion have been drawn, and work is scheduled to begin in the spring of 1955.

An inspection of the volume statistics for the bank's operating departments reveals the need for larger quarters. The number of checks, for example, which flowed through the check collection department in 1954 was three times larger than twelve years earlier. The tempo of activity in the currency and coin department has understandably quickened too, with the public now holding four times as much paper money and coin as was true before World War II and with more currency services now being provided. The scope and volume of services rendered to the U. S.

Treasury by the bank's fiscal agency department have also been greatly enlarged. Non-cash collections, safekeeping, and educational services are just a few of the other bank functions which have been expanded.

Federal Reserve Banks are constantly seeking to improve efficiency and thereby reduce the cost of operations. The introduction of new machinery in many departments of the bank has accomplished a great deal in this respect. But costs have also been reduced in other ways, a good example being the new procedure for paying out currency.

An amendment to the Federal Reserve Act in July allowed Federal Reserve Banks to pay out the notes of other Reserve Banks without penalty. The purpose of this legislation was to eliminate in large part the shipping and handling costs which had been unavoidable so long as Federal Reserve notes could be paid out only by the bank of issue.

One result of the legislation, so far as the Federal Reserve Bank of Minneapolis was concerned, was a drop in the total amount of its Federal Reserve notes outstanding. From June 30, 1954, to December 31, 1954, the bank's note circulation fell from $622 million to $584 million or 6 percent, although the total note circulation of the twelve Federal Reserve Banks combined increased approximately 3 percent for the same period. A second result of the legislation, as it affected the Minneapolis Reserve Bank, was the piling up of used currency in the bank vaults at an unprecedented rate. These particular effects of the amendment on the Minneapolis bank resulted from the fact that the Ninth District regularly receives a greater volume of notes of other Federal Reserve Banks than those banks receive in notes issued by the Federal Reserve Bank of Minneapolis.

Since the currency thus accumulated was still "fit-for-use," even though it had been in circulation, member banks were asked to fill their currency needs by ordering used currency rather than new bills wherever possible. Just what will be the full effect of the legislation on the bank's operations will not be known until there has been at least a full year's experience with the new procedure.

July also saw another important change in the bank's operations when it began for the first time to receive direct deposits from more than three thousand Ninth District post offices. The Federal Reserve Bank of Minneapolis, along with the other Federal Reserve Banks, had been asked to assume this additional responsibility for the Post Office Department in order to effect economies in its operations. More than 150 thousand post office deposits with a total value of over $100 million were received at the head office in the last six months of 1954. Of this total, almost $18 million was in cash; the new operation added an estimated 1,500 thousand pieces of currency and 35 thousand coins to the work volume of the currency and coin department. It also boosted the total items handled by the check collection department by 350,000 checks, money orders, stamp albums, etc., and helped in a minor way to swell the volume of work handled in that department to a new high. Total checks and money orders handled at the Minneapolis head office and Helena branch reached almost 112 million and topped 1953's record volume by more than 5 percent.

August 1 saw still another alteration in the bank's operations. This one affected the fiscal agency department. On that date the Federal Reserve Banks, at the request of the Treasury, discontinued the examination of paid savings bonds received from banks and other paying agents and began forwarding such bonds to regional offices of the Treasury for examination and audit. The purpose of this move was to effect economies of operations through consolidation of Treasury Department machine operations and personnel.

These and other developments helped to increase the efficiency of bank operations. The bank continued in 1954 to make changes in and additions to its equipment. An interesting addition was a new currency shredding machine. This machine is used

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

(Dollar amounts in thousands)

	Amount		Number	
	1953	1954	1953	1954
Advances to member and non-member banks secured by U. S. Government obligations	$ 2,854,009	$ 945,901	860	480
Currency counted during year			71,571,988	70,753,488
Coin counted during year	11,347	13,609	118,727,234	140,871,465
Coin wrapped during year	7,041	9,450	86,007,500	107,398,500
Currency shipped and paid out	431,919	385,066		
Coin shipped and paid out	17,979	17,430		
Unfit notes sent to Treasury for redemption	169,019	140,352	35,106,336	30,624,376
U. S. Government checks handled*	3,026,195	3,041,667	26,410,052	26,803,214
Other checks handled	25,053,779	26,625,232	79,899,840	85,100,579
*Includes Postal Money Orders as follows	178,466	175,753	10,663,513	10,481,216
Grain drafts handled	624,080	697,211	778,376	792,967
Country and other city collections	128,712	152,605	342,961	400,857
Securities held in custody for banks on last day of year	1,527,704	1,674,664		
Coupons cut from securities held for banks			289,507	281,900
Coupons paid from U. S. Government direct obligations	32,236	31,691	333,748	264,813
Issues, redemptions and exchanges of U. S. Government direct obligations	3,992,943	5,103,303	3,861,662	4,327,137
Purchases and sales of Government securities, and Government securities cleared through the Federal Reserve Bank for the account of banks in the Ninth Dist.	1,136,208	1,680,735	4,748	4,891
U. S. Savings Bonds sales (also included in U. S. Government direct obligations)	173,825	236,600	1,409,597	1,693,829
U. S. Savings Bonds redemptions	212,557	233,046	2,314,659	2,457,058
Number of employees at end of year			710	676

to facilitate the destruction of worn-out silver certificates and United States notes. These types of currency have been destroyed on bank premises since July 1, 1953, thereby saving the cost of shipment to a central destruction point.

Volume Figures Continue Up

In general, the volume figures for the operating departments at Minneapolis and Helena show a work load for 1954 slightly above that for 1953. The increase in check collection volume has already been mentioned. Other departments showing substantial increases in the volume of work handled were the non-cash collection department, which had a gain of approximately 16 percent in the dollar volume of grain drafts and other collections handled; the wire transfers division with a 17 percent rise in the dollar amount of funds transferred; and the coin division which counted 20 percent more and wrapped 34 percent more coin (dollar value) than in 1953.

Although the fiscal agency department lost some small part of its duties with the change in procedure which became effective August 1, its work volume increased in several areas. For example, there was a 28 percent rise in the dollar value of issues, redemptions, and exchanges of government obligations handled by the bank. There was also a 48 percent increase in the dollar amount of purchases and sales of government securities made for Ninth District banks. Savings bond transactions also increased as savings bond sales in the district rose 20 percent in number and 36 percent in dollar value over 1953. Redemptions of savings bonds were also up slightly. Another department showing increased volume was the safekeeping department which on December 31, 1954, held in custody for member banks, securities totaling $1,675 million, up 10 percent from the December 31, 1953, total.

On the other hand, some phases of the bank's work showed modest declines. Currency and coin department figures showed an 11 percent drop in the dollar amount of currency shipped out and a 3 percent decline in outgoing coin. Currency received and counted during the year added up to almost 71 million pieces, but that was still 1 percent less than the 1953 total. In the discounts and credit department advances to member banks were down roughly two-thirds from a total of $2,854 million in 1953 to $946 million in 1954.

While the overall work load was probably somewhat above that of 1953, total employees on the staffs of the head office and Helena branch dropped from 710 at year-end 1953 to 676 at the end of 1954. The reduction in personnel, at a time when work volume was undiminished, speaks well for the new methods adopted in the never ending struggle to boost efficiency.

New Directors and Officers

The year witnessed several changes in the membership of the boards of directors of both the bank and its Helena branch. The bank suffered a heavy loss with the death in February of Mr. Charles W. Burges, Class A director from North Dakota. Mr. Burges had been vice president and cashier of the Security National Bank of Edgeley. This vacancy was filled in May through a special election, with Mr. John W. Scott, president, First State Bank of Gilby, North Dakota, being named to serve out Mr. Burges' unexpired term ending December 31, 1954.

In August, Mr. Paul E. Miller, Chairman of the Board and Federal Reserve Agent, resigned as Class C director to accept appointment as a member of the Board of Governors of the Federal Reserve System. Mr. Miller's place was filled by designation of Mr. Leslie N. Perrin, Deputy Chairman, as Chairman and Federal Reserve Agent for the remainder of the year. Mr. Perrin is a director of General Mills, Inc., Minneapolis. Later in the year he was redesignated Chairman and Agent for 1955. In October, only a few weeks after Mr. Miller had begun his new assignment in Washington, the bank was saddened by his death.

Another change in the head office board came in November with the election of Mr. Harold C. Refling, cashier, First National Bank, Bottineau, North Dakota, as Class A director for a three-year term beginning January 1, 1955, to succeed Mr. Scott. Mr. Ray C. Lange, president, Chippewa Canning Company, Inc., Chippewa Falls, Wisconsin, was reelected Class B director for the same three-year term. One of the three Class C directorships on the head office board was vacant at year end. Mr. Joseph F. Ringland, president of the Northwestern National Bank of Minneapolis, was reappointed member of the Federal Advisory Council for 1955.

Mr. Carl McFarland, president, Montana State University, Missoula, Montana, Mr. J. Willard Johnson, financial vice president and treasurer of the Western Life Insurance Company of Helena, Montana, and Mr. George N. Lund, chairman of the board and president of the First National Bank, Reserve, Montana, were all reappointed directors of the Helena branch for two-year terms ending December 31, 1956. Mr. McFarland will serve as chairman of the branch board during 1955, and Mr. George R. Milburn, manager, N Bar Ranch, Grass Range, Montana, will be vice chairman.

Among the bank's officers, March saw the untimely death of Dr. J. Marvin Peterson, vice president and director of research. The vacancy caused by his loss was filled with the election in August of Mr. Franklin L. Parsons as director of research. Mr. Parsons had formerly been associate director of research. In October Mr. Harold C. Core, vice president in charge of personnel, retired from active service, and Mr. Frederick J. Cramer was named personnel officer, effective November 1. Also elected to the official staff, effective January 1, 1955, were Mr. Carl

E. Bergquist, assistant cashier, Mr. Roger K. Grobel, chief examiner, and Mr. Oscar F. Litterer, business economist.

A full program of bank and public relations activities was carried on in 1954, highlighted by the second Member Bank Directors and Officers Assembly in May. Other meetings held during the year included the sixth annual Money and Banking Workshop for college teachers of money and banking, and the eleventh annual Examiners' Conference for all Ninth District bank examiners.

Nine additional sessions of the ever-popular, one-week Short Course in Central Banking were held by the bank during the year with a total attendance of 150. This brings the grand total of member bankers who have completed the course since its inception in 1948 to more than 800.

Again, this year, as part of the bank's training program, a number of senior men spent one week each in member banks to become more familiar with commercial bank operations. Representatives of the bank also continued the practice of making calls on all banks in the district, attending bankers' conventions, group and clearing house meetings, clinics, and banking and credit schools. Speakers from the bank appeared before a wide variety of groups totaling nearly 13 thousand persons; the bank's own movie and other movies on the Federal Reserve System were in good demand; two currency displays were in almost constant use by banks for special occasions; almost 10 thousand copies of the booklet "Your Money and the Federal Reserve System" were distributed; and almost 4 thousand persons toured the head office and witnessed its operations.

One national bank went into voluntary liquidation during the year; one new national bank was organized; and one state bank converted to a national charter, for a net gain of one bank as far as Federal Reserve membership in the Ninth District was concerned.

With 40 years of central banking now history—many years which have seen great and constant change in the variety and scope of the services performed for the banks and people of the Ninth District—the Federal Reserve Bank of Minneapolis enters 1955 dedicated to the ideal of meeting the banking and credit needs of this district to the fullest extent and confident that that goal can be achieved.

Financial Statements

Reflecting the continued growth of member banks in the Ninth District was a gain of almost 7 percent in the capital stock account at the Minneapolis Federal Reserve Bank during 1954. The stock is issued to member banks as they enlarge the amount of their capital and surplus.

Notable among changes in the deposit accounts was a loss of member bank reserves which was only partly offset by additional balances in other accounts. As noted earlier, the reduction of reserve requirements made it possible for member banks to hold a larger amount of deposits with a lesser amount of reserves than formerly.

Outstanding notes issued by the Minneapolis Federal Reserve Bank declined in amount for the second consecutive year in 1954. Federal Reserve notes constitute the most important component of the nation's currency supply; the retirement of these notes accompanied a reduced demand for paper money by the public last year.

Also, legislation was passed authorizing Reserve Banks to pay out fit Federal Reserve notes without regard to the bank of issue. Deposits of fit notes issued by other Reserve Banks were thus employed to fill some requests for currency, whereas formerly these notes were returned to the bank of issue. By the same token, Minneapolis notes were paid out by other Reserve Banks. Unfit notes are destroyed and charged to the bank of issue.

A lower amount of securities was owned at the end of the year than at the beginning. This change resulted from a system move to reduce bank reserves by liquidating investments. The expansionary effect of lower reserve requirements was thus partly offset. A shift from bonds and notes into certificates of indebtedness reflects a Treasury refunding exchange.

Earnings from government securities were lower in 1954 than in 1953, partly because a lesser average amount of securities was held and partly because the average rate of return was lower. Similarly, earnings from discounts and advances were lower because a lesser average amount was held than in 1953 and because the rate of interest charged for such accommodation was reduced twice early in 1954.

The continued high level of activity in the operating departments of the bank permitted only a small decline in expenses so that net earnings fell by almost as much as earnings from loans and investments.

With a larger number of shares outstanding, dividends on our stock were somewhat higher in 1954 than in 1953. Payments to the Treasury as interest on Federal Reserve notes and transfers to the bank's surplus account were both reduced.

STATEMENT OF CONDITION

ASSETS	Dec. 31, 1954	Dec. 31, 1953
Gold Certificates	$ 421,327,504	$ 484,485,384
Redemption Fund for F. R. Notes	24,644,008	25,562,203
Total Gold Certificate Reserve	$ 445,971,602	$ 510,047,587
F. R. Notes of Other F. R. Banks	8,567,000	7,847,000
Other Cash	$ 8,848,300	$ 7,657,573
Bills Discounted	450,000	1,350,000
Foreign Loans on Gold	3,333,333	375,000
Industrial Advances	96,071	99,089
U. S. Government Securities:		
Bonds	68,802,000	89,868,000
Notes	148,257,000	327,360,000
Certificates of Indebtedness	340,909,000	143,558,000
Bills	53,215,000	64,080,000
Total U. S. Government Securities	$ 611,183,000	$ 624,866,000
Total Loans and Securities	$ 615,062,404	$ 626,690,089
Due from Foreign Banks	559	567
Other Assets	105,646,706	117,561,334
Total Assets	$1,184,096,571	$1,269,804,150
LIABILITIES		
Federal Reserve Notes in Actual Circulation	$ 583,511,365	$ 644,292,545
Deposits:		
Member Bank—Reserve Accounts	443,526,944	468,968,085
U. S. Treasurer—General Account	27,338,989	17,790,974
Foreign	12,050,000	10,230,000
Other Deposits	2,315,744	3,848,599
Total Deposits	$ 485,231,677	$ 500,837,658
Deferred Availability Items	86,437,796	96,521,780
Other Liabilities	346,672	703,064
Total Liabilities	$1,155,527,510	$1,242,355,047
CAPITAL ACCOUNTS		
Capital Paid In	$ 6,360,250	$ 5,952,400
Other Capital Accounts	22,208,811	21,496,703
Total Liabilities, Capital Accounts	$1,184,096,571	$1,269,804,150

EARNINGS AND EXPENSES

	1954	1953
Earnings from:		
Discounted Bills	$ 144,803	$ 546,742
United States Government Securities	10,679,996	14,308,615
Industrial Advances	5,134	5,579
All Other	5,482	7,971
Total Current Earnings	$10,835,415	$14,868,907
Expenses:		
Operating Expenses	$ 3,218,110	$ 3,256,830
Assessment for Expenses of Board of Governors	105,500	103,700
Federal Reserve Currency:		
Original Cost	147,988	215,438
Cost of Redemption	17,143	28,306
Net Expenses	$ 3,488,741	$ 3,604,274
Current Net Earnings	$ 7,346,674	$11,264,633
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities (Net)	14,804	61,029
All Other	3,450	161
Total Additions	$ 18,254	$ 61,190
Deductions from Current Net Earnings:		
Reserve for Contingencies	$ 13,429	$ 19,930
All Other	421	77,276
Total Deductions	$ 13,850	$ 97,206
Net Addition to or Deduction from Current Net Earnings	$ 4,404	$ 36,016
Net Earnings before payments to U. S. Treasury	$ 7,351,078	$11,228,617
Paid to U. S. Treasury (Interest on Federal Reserve Notes)	6,287,237	9,791,772
Dividends Paid	365,163	348,774
Transferred to Surplus (Section 7)	698,678	1,088,071
Surplus Account (*Section* 7)		
Balance at Close of Previous Year	$16,219,368	$15,131,297
Transferred from Profits of Year	698,678	1,088,071
Balance at Close of Year	$16,918,046	$16,219,368

DIRECTORS OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

DIRECTORS

LESLIE N. PERRIN, *Chairman and Federal Reserve Agent*

Class A	Term Expires December 31
EDGAR F. ZELLE, *Chairman of the Board,* First National Bank of Minneapolis, Minneapolis, Minnesota	1955
HAROLD N. THOMSON, *Vice-President,* Farmers & Merchants Bank, Presho, South Dakota	1956
HAROLD C. REFLING, *Cashier,* First National Bank in Bottineau, Bottineau, North Dakota	1957
Class B	
HOMER P. CLARK, *Honorary Chairman of the Board,* West Publishing Company, Saint Paul, Minnesota	1955
J. E. CORETTE, *President and General Manager,* Montana Power Company, Butte, Montana	1956
RAY C. LANGE, *President,* Chippewa Canning Company, Inc., Chippewa Falls, Wisconsin	1957
Class C	
F. ALBEE FLODIN, *President and General Manager,* Lake Shore Engineering Company, Iron Mountain, Michigan	1955
LESLIE N. PERRIN, *Director,* General Mills, Inc., Minneapolis, Minnesota	1956
(*Vacant*)	1957

FEDERAL RESERVE BRANCH BANK

HELENA, MONTANA

DIRECTORS

CARL MCFARLAND, *Chairman*

GEORGE R. MILBURN, *Vice-Chairman*

	Term Expires December 31
A. W. HEIDEL, *President,* Powder River County Bank, Broadus, Montana	1955
GEORGE R. MILBURN, *Manager,* N Bar Ranch, Grass Range, Montana	1955
J. WILLARD JOHNSON, *Financial Vice-President and Treasurer,* Western Life Insurance Company, Helena, Montana	1956
GEO. N. LUND, *Chairman of the Board and President,* The First National Bank of Reserve, Reserve, Montana	1956
CARL MCFARLAND, *President,* Montana State University, Missoula, Montana	1956

OFFICERS OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

OFFICERS

OLIVER S. POWELL, *President*

ALBERT W. MILLS, *First Vice-President*

Banking Department

CARL E. BERGQUIST, *Assistant Cashier*

FREDERICK J. CRAMER, *Personnel Officer*

JOHN J. GILLETTE, *Assistant Cashier*

ARTHUR W. JOHNSON, *Assistant Vice-President*

ARTHUR R. LARSON, *Assistant Vice-President*

MILFORD E. LYSEN, *Operating Research Officer*

ORTHEN W. OHNSTAD, *Assistant Vice-President*

OTIS R. PRESTON, *Vice-President*

CHRISTIAN RIES, *Assistant Vice-President*

GEORGE M. ROCKWELL, *Assistant Cashier*

MARCUS O. SATHER, *Assistant Cashier*

MAURICE H. STROTHMAN, JR., *Vice-President*

CLEMENT VAN NICE, *Assistant Vice-President*

Audit Department

KYLE K. FOSSUM, *General Auditor*

Bank Examination Department

HAROLD G. MCCONNELL, *Vice-President*

ROGER K. GROBEL, *Chief Examiner*

Fiscal Agency—Government Securities

EARL B. LARSON, *Vice-President*

MELVIN B. HOLMGREN, *Assistant Cashier*

Legal Department

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

Research Department

FRANKLIN L. PARSONS, *Director of Research*

OSCAR F. LITTERER, *Business Economist*

Helena Branch

CLARENCE W. GROTH, *Vice-President assigned to Helena Branch*

HAROLD A. BERGLUND, *Assistant Cashier assigned to Helena Branch*

MEMBER OF FEDERAL ADVISORY COUNCIL

JOSEPH F. RINGLAND, *President*, Northwestern National Bank of Minneapolis, Minneapolis, Minnesota

INDUSTRIAL ADVISORY COMMITTEE

SHELDON V. WOOD, Minneapolis, Minnesota, Chairman

JOHN M. BUSH, Ishpeming, Michigan

A. H. DAGGETT, Saint Paul, Minnesota

A. B. HEIAN, Chippewa Falls, Wisconsin

WALTER M. RINGER, SR., Minneapolis, Minnesota