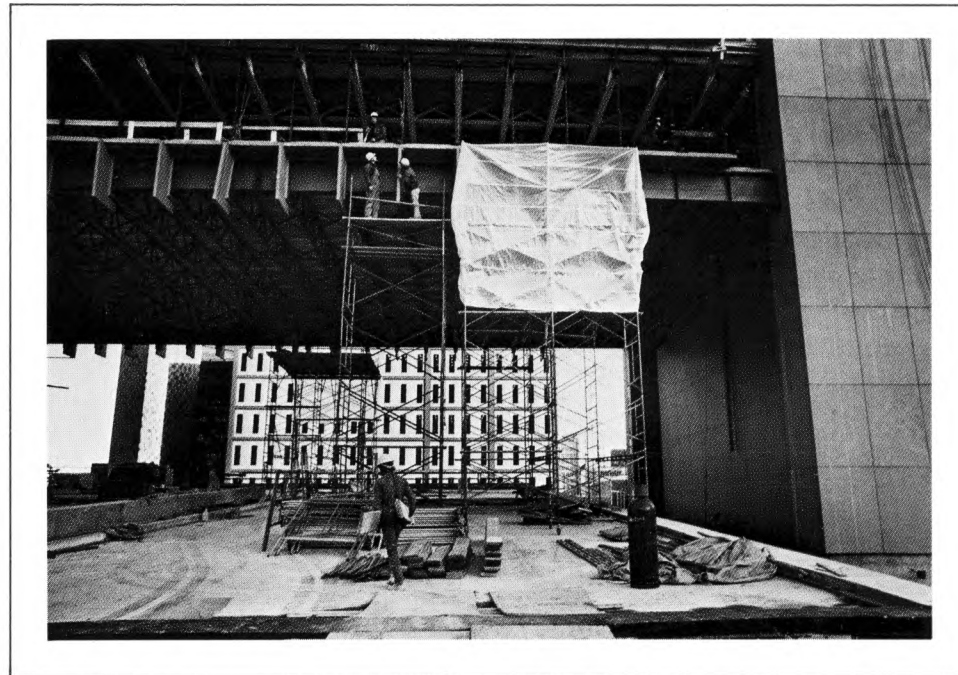


Federal Reserve Bank
Minneapolis

Annual Report
1971



Federal Reserve Bank Minneapolis

Head Office Directors

Class A – Elected by Member Banks

	Term Expires
John Bosshard, Executive Vice President, First National Bank, Bangor, Wisconsin	December 31 1972
Philip H. Nason, President, The First National Bank, Saint Paul, Minnesota	1973
Roy H. Johnson, President, The First National Bank, Negaunee, Michigan	1974

Class B – Elected by Member Banks

David M. Heskett, President, Montana-Dakota Utilities, Inc., Bismarck, North Dakota	1972
Dale V. Andersen, President, Mitchell Packing Company, Mitchell, South Dakota	1973
John H. Bailey, President, The Cretex Companies, Inc., Elk River, Minnesota	1974

Class C – Appointed by Board of Governors

David M. Lilly, Chairman of the Board, The Toro Company, Minneapolis, Minnesota	1972
Russ B. Hart, President, Hart-Albin Company, Billings, Montana	1973
Bruce B. Dayton, Chairman of the Board, Dayton Hudson Corporation, Minneapolis, Minnesota	1974

Officers

Bruce K. MacLaury, President; Maurice H. Strothman, Jr., First Vice President; Earl O. Beeth, Assistant Vice President; Carl E. Bergquist, Assistant Vice President; Christopher E. Bjork, General Auditor; Melvin L. Burstein, Assistant General Counsel and Assistant Secretary; Frederick J. Cramer, Vice President; Ralph J. Dreitzler, Vice President; Leonard W. Fernelius, Vice President; Lester G. Gable, Vice President; Thomas E. Gainor, Assistant Vice President; Roland D. Graham, Vice President and General Counsel; Harold O. Hallin, Emergency Operations Officer; Richard C. Heiber, Assistant General Auditor; Douglas R. Hellweg, Vice President; Richard J. Herder, Assistant Research Director; Ronald O. Hostad, Assistant Vice President; LeRoy G. Hughes, Building Officer; Arthur I. Lee, Assistant Vice President; John A. MacDonald, Senior Vice President; David R. McDonald, Vice President; Clarence W. Nelson, Vice President and Director of Research; John P. Olin, Vice President and Secretary; Herman M. Slind, Accounting Officer; Richard B. Thomas, Assistant Vice President; Clement A. Van Nice, Senior Vice President; Joseph R. Vogel, Chief Examiner; Robert W. Worcester, Vice President.

Helena Branch Directors

Appointed by Board of Governors

	Term Expires
Warren B. Jones, Secretary-Treasurer, Two Dot Land & Livestock Company, Harlowton, Montana	December 31 1972
William A. Cordingley, Publisher, Great Falls Tribune Company, Great Falls, Montana	1973

Appointed by Board of Directors, Federal Reserve Bank Minneapolis

E. Lowry Kunkel, President, First National Bank, Butte, Montana	1972
Robert I. Penner, President, Citizens First National Bank, Wolf Point, Montana	1972
Richard D. Rubie, Chairman, Bancorporation of Montana, Great Falls, Montana	1973

Officers

Howard L. Knous, Vice President; Bruce J. Hedblom, Assistant Vice President; John D. Johnson, Assistant Vice President

Member of Federal Advisory Council

Chester C. Lind, President, First American National Bank, Duluth, Minnesota

January 1, 1972

Statement of Condition

Assets

	Dec. 31, 1970	Dec. 31, 1971
Total Gold Certificate Account.....	\$ 160,661,886	\$ 24,759,230
Special Drawing Rights Certificate Account.....	7,000,000	7,000,000
Federal Reserve Notes of other Federal Reserve Banks.....	30,853,250	31,038,700
Other cash.....	6,424,132	8,047,404
Discounts and advances		
Secured by U.S. securities.....	500,000	550,000
Other.....	—	—
Federal Agency obligations bought outright.....	—	8,799,000
United States Government securities.....	1,218,595,000	1,251,650,000
Total loans and securities.....	1,219,095,000	1,260,999,000
Foreign currencies.....	—	—
Cash items in process of collection.....	466,578,833	709,111,725
Bank premises.....	11,503,438	18,732,132
Other assets.....	16,947,483	16,785,103
Total Assets.....	1,919,064,022	2,076,473,294

Liabilities

Federal Reserve Notes in actual circulation.....	\$ 875,075,663	\$ 914,426,971
Deposits:		
Member banks-reserve accounts.....	623,255,884	681,598,332
Due to other Federal Reserve Banks—Collected funds.....	—	442,884
United States Treasurer-general account.....	48,641,969	66,461,106
Foreign.....	2,750,000	6,440,000
Other deposits.....	5,575,318	4,567,821
Total deposits.....	680,223,171	759,510,143
Deferred availability cash items.....	320,269,838	355,796,580
Other liabilities.....	11,899,350	12,949,300
Total Liabilities.....	1,887,468,022	2,042,682,994

Capital Accounts

Capital paid in.....	15,798,000	16,895,150
Surplus.....	15,798,000	16,895,150
Total Liabilities and Capital Accounts.....	1,919,064,022	2,076,473,294

Ratio of gold certificate reserves to Federal Reserve Note liabilities.....	18.4%	2.7%
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Earnings and Expenses

Current Earnings

	1970	1971
Discounts and advances.....	\$ 1,387,356	\$ 87,784
United States Government securities.....	74,457,250	72,376,648
All other.....	1,127,708	131,202
Total Current Earnings.....	76,972,314	72,595,634

Current Expenses

Operating Expenses.....	12,530,328	14,501,960
Assessment for expenses of Board of Governors.....	476,800	737,700
Federal Reserve Currency.....	414,201	688,852
Total Current Expenses.....	13,421,329	15,928,513
Less: reimbursement for certain fiscal agency and other expense.....	863,575	848,144
Net Expenses.....	12,557,754	15,080,368

Current Net Earnings

Net Additions to Current Net Earnings		
Profits on sales of U.S. Government securities (net).....	165,029	2,032,385
All other.....	80,772	-185,523
NET EARNINGS BEFORE PAYMENTS TO UNITED STATES TREASURY.....	64,660,361	59,362,128
PAYMENTS TO U.S. TREASURY.....	62,925,367	57,273,629
DIVIDENDS PAID.....	929,244	991,349
TRANSFERRED TO SURPLUS.....	805,750	1,097,150
SURPLUS January 1.....	14,992,250	15,798,000
SURPLUS December 31.....	15,798,000	16,895,150

Volume of Operations*

	Number		Dollar Amount	
	1970	1971	1970	1971
Discounts and advances	700	180	\$ 1,352,157,000	\$ 165,235,000
Currency received and counted	87,912,316	88,907,833	613,174,846	652,426,390
Coin received and counted	270,427,398	256,748,777	28,263,503	29,448,698
Checks handled, total	358,372,947	418,500,377	77,852,735,345	101,154,960,474
Collection items handled	845,230	860,358	1,268,434,167	1,444,777,673
Issues, redemptions, exchanges of U.S. Government securities	5,760,058	5,435,548**	15,601,359,115	20,506,791,384**
Securities held in safekeeping	337,309	355,880	2,475,131,569	3,096,370,983
Transfers of funds	271,090	300,717	260,568,120,527	273,598,869,000

*All figures are for Minneapolis and Helena combined.

**Includes December estimate.

When architect Gunnar Birkerts began designing the new Ninth District Reserve Bank building, he chose to dramatically separate the two different types of activities conducted by a Reserve Bank. Because these activities—administrative work and custody of large amounts of money and securities—



July 13, 1971

need little physical connection, Birkerts put the three-level secure area under a sloping plaza and suspended the 11-story office tower over the plaza. The largest and most complex part of the total building is actually under the plaza. This secure area houses a large high-security vault, truck ramps and loading docks, coin and currency handling equipment, an intricate electronic surveillance system and over 200 parking spaces. To avoid

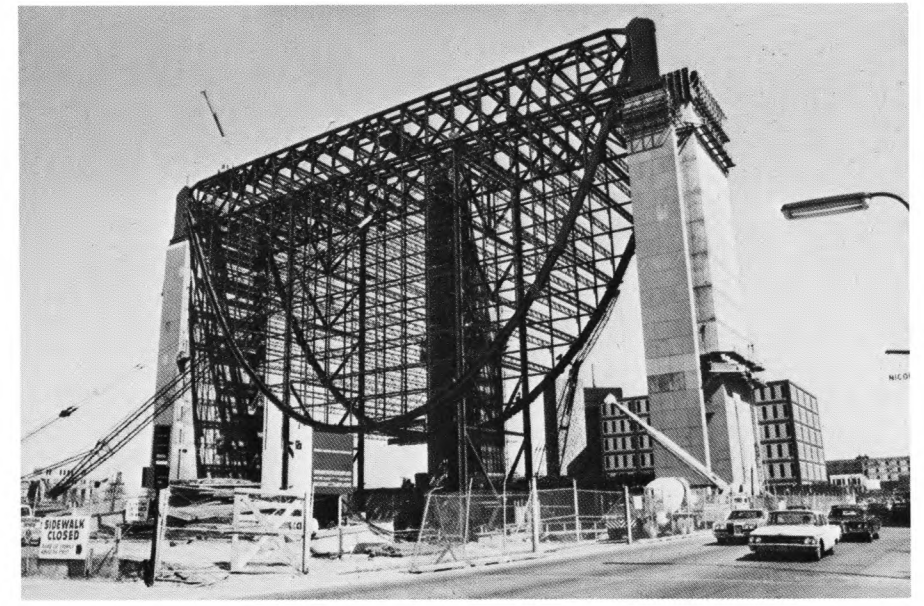
having columns come down through the complex arrangement of space below the plaza, the office tower “hangs” thirty feet above the plaza. It is supported by cables enclosed in a steel beam and hung from the towers at each end of the building to form a catenary. During 1971, the steelwork on the



February 9, 1971

office tower was completed, permitting removal of two temporary supports. Without these supports, the office tower became the first occupied structure ever to have a clear span of 275 feet. The concrete work was also completed during 1971 and the lower structure was closed in. Installation of the curtain wall, which covers the outside of the office tower, was begun this fall and will continue into 1972. The plans for the interior layouts are done and

the finishing work is under way. Early construction on the building—with three concrete towers, fragments of a steel skeleton, and three-level scaffoldings—only confused the casual observer. Progress made in 1972 will be primarily behind the scenes—finishing the interior of the office tower and



May 4, 1971

lower structure, building the vault and installing security systems, and landscaping the plaza. But 1971 was perhaps the most significant year of construction as the new Federal Reserve Bank took its place in the Minneapolis skyline; soon, it will be a functioning resource for finance, commerce and the public in the Upper Midwest.

Annual Report 1971

Federal Reserve Bank Minneapolis to the Directors and Member Bankers of the Ninth Federal Reserve District:

1971 was a year of sharp reorientation in the economic policies of the United States. Although the Administration had succeeded in damping the excess demand pressures that had plagued the economy in the late 1960s, it had met only with frustration in its efforts to slow the rise in prices and wages that continued to spiral despite the prolonged period of slack. Moreover, there seemed little prospect that further persistence in the policies of the past would bring any better performance in the near-term future. Thus, when capital outflows from the United States cumulated to the point of hemorrhage over the summer months, and action could no longer be deferred, the President wrapped into a single coordinated package strong measures to deal directly with our problems, both at home and abroad.

For some time, increasing concern had been expressed by Federal Reserve officials that traditional formulas and approaches were not achieving the desired results in terms of changing inflationary attitudes without an unacceptable increase in unemployment. The Board of Directors of the Federal Reserve Bank of Minneapolis likewise felt that something more needed to be done, and therefore issued their own statement early in the summer calling for an incomes policy. The voices of these respected bankers and businessmen were thus added to the growing chorus of calls for a new approach.

On August 15, the President announced a New Economic Program aimed at stabilizing prices and wages at home, and restoring the strength of the dollar abroad. Many of the details of the program are still being worked out. But, already there is a consensus that the chances for more rapid economic growth over the months ahead have been considerably improved. At the same time, the recently announced agreement on new currency relationships seems to have diminished greatly the risk of growing restrictions and recriminations in international financial and trade arrangements.

The ultimate success of the New Economic Policy in speeding the return to high levels of employment at home will depend in large part on the degree of voluntary adherence to the various guidelines that all segments of the economy are prepared to give. In particular, it involves a willingness to accept less than what people have become accustomed to receive — as a necessary part of individual involvement in ending the inflationary psychology. This is as true of businessmen with respect both to personal compensation and to firm pricing policies as it is to union rank and file and the labor leaders. That there should be initial setbacks is probably to be expected. But what is important is that as Phase II unfolds, its application be general and not be undermined by those with enough political or economic power to derive short-term preferential treatment for limited sectors of the economy.

The ending of inflation requires increased responsibility on the part of business firms in planning future outlays, and the same is true for the public sector. Even before the President's announcement, the Board of Governors at mid-year stressed the need for all Reserve Banks to analyze carefully new and prospective programs, as well as ongoing activities, to limit rising costs and ensure efficient performance. As a result, some new programs have had their time schedules lengthened — in part, to spread investment costs over a longer period, but principally to permit a thorough analysis of alternatives. The Board of Governors policy statement on the payments mechanism, issued in the first half of this year, urged moving ahead rapidly toward a more modern system for making financial payments throughout the United States. At the Minneapolis Reserve Bank, studies had already been completed outlining the development of a computerized information system that would be able to meet expected future requirements of the System's payments policy. While we were prepared to proceed with plans by late summer, our implementation is awaiting a System review to assure that the various parts of the nationwide payments mechanism among the Reserve Banks are efficiently coordinated.

Another significant part of this payments mechanism program involves the possibility of regional clearing centers to speed checks to bank of payment. Alternative locations are being studied and analyzed locally for integration into the Systemwide check clearing system. Meanwhile a local SCOPE (Special Committee on Paperless Entries) is studying ways of providing for electronic transfer of preauthorized and other payments — supplementing the present check clearing system.

Other areas of increased responsibility were determined by the Congress. The Bank Holding Company Act amendments of 1970, for example, required the registration of 186 holding companies within the district during the year, as well as numerous discussions with many groups that were contemplating formation of bank holding companies. Regulation X, requiring that borrowers comply with margin requirements in securities transactions, was added to Regulations G, T, and U on November 1, 1971. While Regulation X, like the Fair Credit Reporting Act which became effective mid-year, does not add substantially to administrative or regulatory activities of the Reserve Bank, it illustrates that additional responsibilities and resulting expenditures may be added at any time.

During the year, further thought was given to defining and clarifying the role of the Federal Reserve Bank of Minneapolis as a regional institution. Understandably, most discussions of regionalism equate it with economic development — the stimulation of economic growth of a particular area through the redirection or redistribution of resources of one area at the expense of another. While this is a legitimate strategy for

legislative or political action, it is inconsistent with the traditional role of Reserve Banks. What is appropriate for a Federal Reserve Bank is the examination and exploration of how resources within the district can be made more efficient by identifying inefficient practices or inhibiting institutional structures. Also studies of the district's economy as a region can provide the means for identifying changes that have occurred and what new questions are developing out of the ongoing changes taking place. Another appropriate area of inquiry is to look at the various publics, be they agriculture, government, or education, etc., to determine how more efficient means might be developed to provide necessary financing in these areas — leaving to others the examination of how much is needed or the relative priorities that society should allocate to one or the other. Within appropriate budgetary limitations, we intend to identify and work further on some of these areas in the year ahead.

The course of events at the Minneapolis Fed during 1971 was altered not only by the required adaptation to changing economic conditions outside, but even more by the need to adjust to a change in leadership within as a result of the tragic death at the beginning of the year of Hugh D. Galusha, Jr., the Bank's president for the preceding five years. Inevitably, many programs and projects in which Hugh had such a vital and personal interest were delayed. Since July, with the wholehearted support of the officers and staff in the Bank, and the Bank's Board of Directors, I have been working to regain lost momentum and reinforce the innovative outlook that has characterized the Federal Reserve Bank of Minneapolis for some time.

Bruce K. MacLaury
President



The cables and steel beam of the catenary attracted the attention of a group touring the building site last fall. Included in the group were: President and Mrs. MacLaury, John MacDonald and Roy Hughes from the Bank; architect Gunnar Birkerts and several members of his staff; and two representatives from Knutson Construction Company.