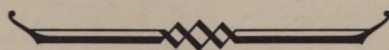


# MONETARY POLICY FOR 1976— A PRIMER



*1975 Annual Report  
Federal Reserve Bank  
of Minneapolis*







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## *I. Introduction*

**H**ow fast should money grow? The Fed recently has been seeking to encourage, or accommodate, a growth rate for the money supply that would average between 5 and 7½ percent over the subsequent four-quarter period. In this discussion, we shall attempt to explain the case for that “target” range. Our case will be built on a discussion of three related questions: First, how fast should money be allowed or encouraged to grow over the longer run? Second, what are the key economic relationships that must hold if money growth is to do the desired job? Third, what factors justify a departure from the longer-run path of money growth at the moment?

It's clear enough that in the final analysis our answer to those questions will depend on how we believe the economy works and, particularly, how we believe it is influenced by money. In the light of recent research, both theoretical and applied, we have lost some of our earlier confidence in our ability to pinpoint a "best" target through refined econometric analysis. Rather than attempting to resolve conflicting theories about the role of money in our economy, we will discuss our questions within a framework that is largely independent of beliefs about how the economy "really" works. This framework, which we discuss in Section II, focuses on a few selected relationships which are true by definition because of the particular bookkeeping system used to record our economic life.

In Section III, this framework will be used, together with observations about the recent and historical performance of certain key economic variables (such as productivity and money velocity) and a consensus view of likely economic performance in 1976, to show why it's reasonable *under current circumstances* to target growth of the money supply in the range of 5 to 7½ percent. We shall argue that a key requirement necessary to validate this policy prescription is that wage settlements in the aggregate not exceed 9 percent. Average wage increases in excess of 8 to 9 percent would likely cause prices to rise more than allowed for in this policy stance, and thus frustrate or retard the momentum of economic recovery.

This discussion is intended only to illustrate analytically one way of looking at the relationships between money and the performance of the economy. It is not intended to represent predictions of what will actually happen. Nonetheless, it serves to illustrate that the choice of a money growth target not only implies some view of the possible balance between rates of growth in real output and prices, but also depends importantly on private sector decisions for the particular outcome attained.

## *II. Historical Experience and the Analytic Framework*

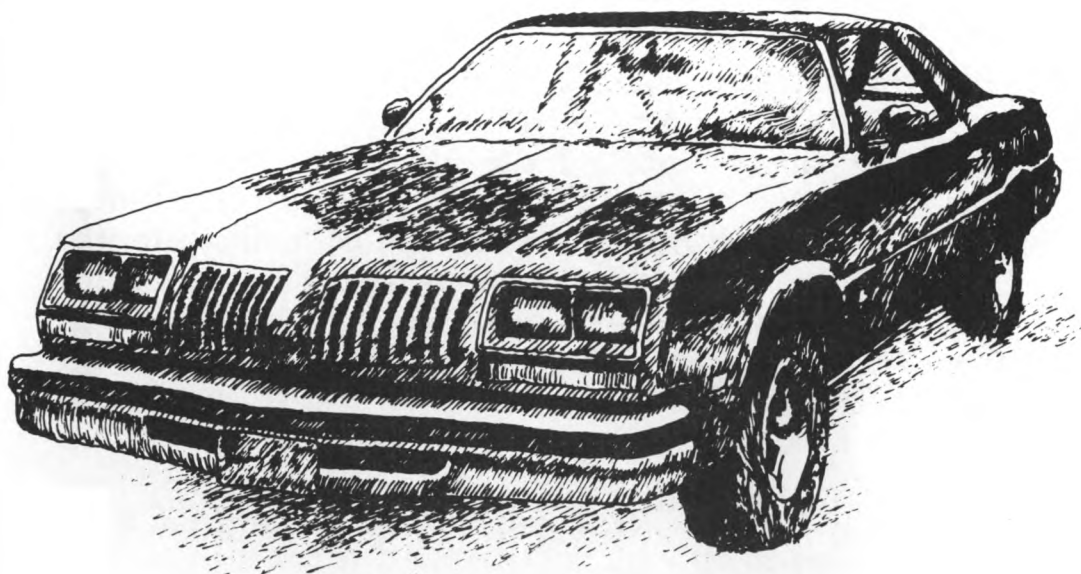
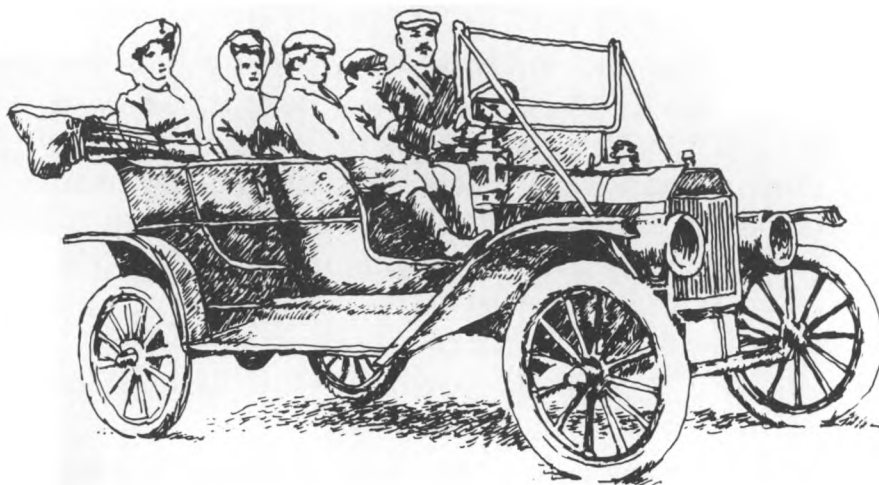
**T**he economy's long-term rate of growth can be mechanically represented as the sum of two elements: the rate at which real, physical output grows and the rate at which the general price level rises. Since World War II, for example, real output of goods and services as measured by the Gross National Product (GNP) has increased at an average rate of 3.7 percent per year, while the price level implicit in GNP has increased at an average rate of 3.1 percent per year.\* That means that dollar GNP, which is the product of price and real output, has grown at the sum of those two rates; namely, 6.8 percent per year on average.

A classical view in economics is that money ought to increase roughly in line with the amount of activity that needs to be financed in the economy. This view rests on the reasonable proposition that real growth possibilities for the economy ought to be fully accommodated. Assuming the 3.7 percent postwar annual growth rate for real GNP is a measure of our economy's long-term potential, then we should want to see, on average, 3.7 percent annual money growth merely to support the physical transactions needs of the economy.

But it's also true that we need to have some additional money growth to accommodate a normal upward drift in the measured price level of 1 to 2 percent per year. This upward drift is quite consistent with the notion of "stable prices" since general price indexes do not sort out all of the

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\*The long-term growth rates used in this section are calculated from data for the years 1947 and 1974 presented in the 1975 Economic Report of the President.



*“...general price indexes do not sort out all  
of the quality improvements and innovations  
occurring in a dynamic economy...”*


quality improvements and innovations occurring in a dynamic economy with its changing mix of output. Thus, a measured creep of 1 to 2 percent a year in the general price index is probably equivalent to zero inflation in a world where technology is static. Assuming, on those grounds, that we should be prepared to accommodate, say, a 1½ percent per year price level growth, we would arrive at a figure of about 5.2 percent a year (3.7 percent real plus 1.5 percent price) as the annual growth in the amount of “work” money has to do in the economy.

If a dollar of money didn’t vary in its ability to finance economic transactions from year to year, then our answer to the first question—how fast should money grow?—would be simple: We should want to see the money supply expand at a long-term average rate of about 5 percent a year in order to accommodate normal real growth and price drift. Much more than 5 percent would by this reasoning simply result in undue inflation, while much less money growth would cause undue deflation.

Having said that, we hasten to acknowledge that money itself does indeed increase in efficiency over time, and such changes represent a third element that we need take into account in deciding on a long-term desired rate of money supply growth. The efficiency of money (or the “velocity” of money), defined as the amount of GNP a given dollar of money stock will support, has increased at an average rate of about 3 percent per year over the post-war period. If we could count on such a continuing trend in efficiency of money, then our long-term “target” rate for money growth should be reduced by about 3 percentage points, since each dollar would do about 3 percent more work each year.

In short, the foregoing argument leads us to the conclusion that over the longer term, we should aim toward money growth at an average rate of about 2½ percent per year. We can summarize these results for the long term as follows:

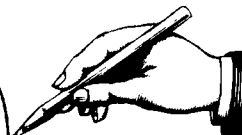


$$\begin{array}{ccccccc}
 \left( \begin{array}{c} \text{Preferred} \\ \text{money} \\ \text{supply} \\ \text{growth} \\ \text{rate} \end{array} \right) & = & \left( \begin{array}{c} \text{Prospective} \\ \text{rate of} \\ \text{growth in} \\ \text{real output} \end{array} \right) & + & \left( \begin{array}{c} \text{Rate of} \\ \text{price level} \\ \text{increase to} \\ \text{be} \\ \text{accommodated} \end{array} \right) & - & \left( \begin{array}{c} \text{Prospective} \\ \text{rate of} \\ \text{increase in} \\ \text{the efficiency} \\ \text{(velocity)} \\ \text{of money} \end{array} \right) \\
 2.5\% & & 3.7\% & & 1.5\% & & 2.7\%
 \end{array}$$


where we have used for our velocity projection the slightly reduced 2.7 percent trend it appears to have been following since 1960.

There's obviously nothing very precise about the 2½ percent rate we've described as a hypothetically preferred target. The actual average money growth rate since World War II has been a somewhat larger 3½ percent rate. But it's not surprising that actual historical experience shows money growth somewhat larger than that of classical prescription—the difference reflecting some net inflationary bias over the postwar period. Either figure, though, tells us that however appropriate may be the Fed's recent target of 5 to 7½ percent money growth, sooner or later we shall need to get back to a rate considerably lower.

There exist other well-defined relationships among economic variables that lie behind those we've just talked about. Consider first what contributes to growth in real output. One approach is to identify three factors: the number of workers, average hours per worker, and average real output per hour of work. As any of these three items gets larger, real output grows. On this reasoning, we can split the rate of growth of real output into three elements as follows:

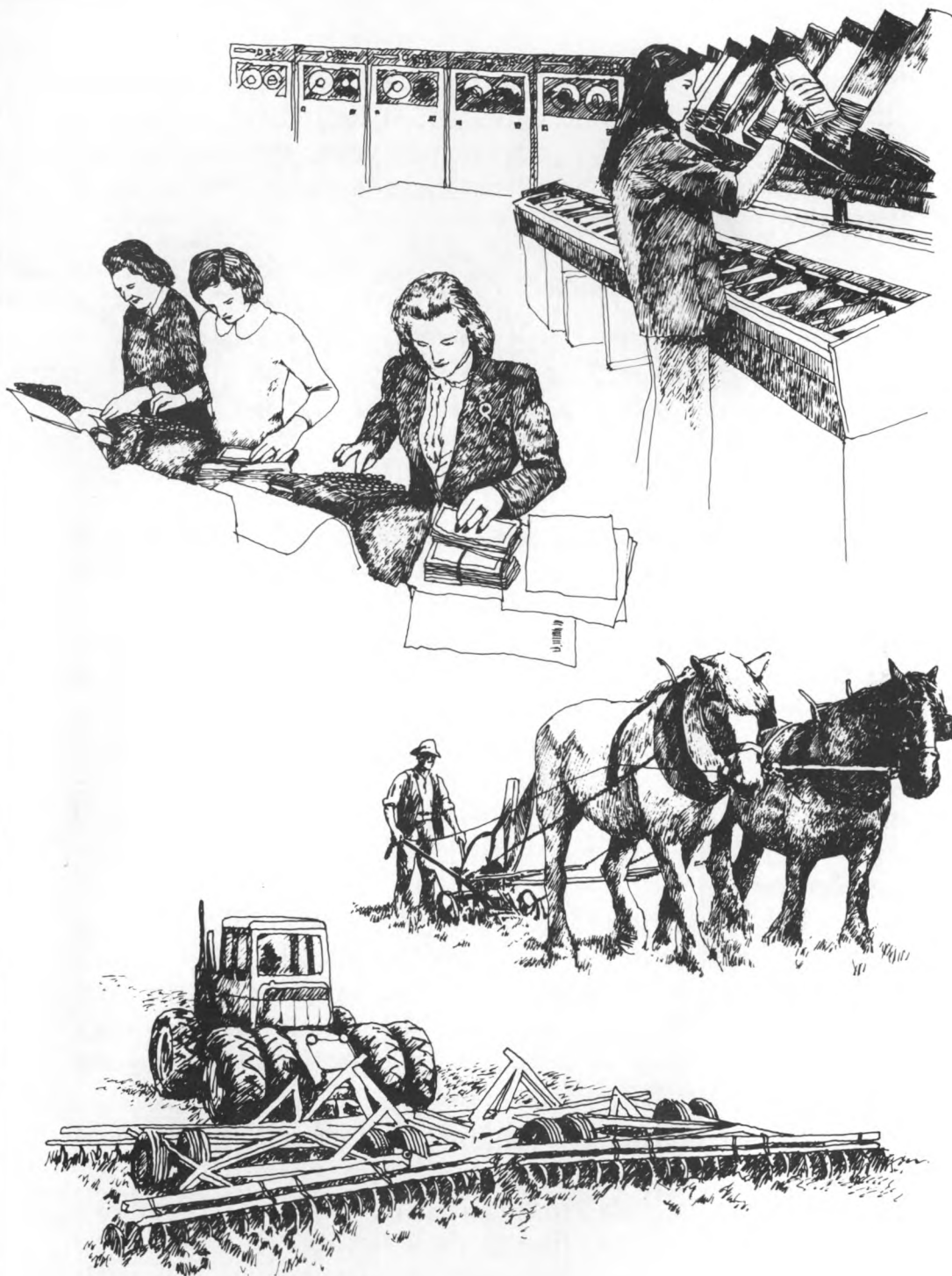
$$\begin{array}{ccccccc}
 \left( \begin{array}{c} \text{Rate of} \\ \text{growth} \\ \text{of real} \\ \text{output} \end{array} \right) & = & \left( \begin{array}{c} \text{Rate of} \\ \text{growth of} \\ \text{employment} \end{array} \right) & + & \left( \begin{array}{c} \text{Rate of} \\ \text{growth of} \\ \text{hours} \\ \text{per worker} \end{array} \right) & + & \left( \begin{array}{c} \text{Rate of} \\ \text{growth} \\ \text{of output} \\ \text{per hour} \end{array} \right) \\
 3.7\% & & 1.5\% & & -0.5\% & & 2.7\%
 \end{array}$$


The first element, growth in number of people employed, is pretty much determined (from a policy point of view) by demographic trends in population and labor force. That is, in order that unemployment not persist at rates over its frictional minimum, the rate of employment growth has got to nearly match the long-term growth in labor force. For the postwar period the latter figure averaged a fairly steady 1.5 percent per year. Hours per worker has trended very slightly downward, and this factor by itself acts as an offset to growth in real output. While changes in hours per worker have only a relatively small impact on growth of output over the long run, cyclical swings in hours worked can make a substantial difference in output, plus and minus, in the shorter run.

But as the above figures indicate, the mainspring of real output growth is the change in output per hour or *productivity* growth. The indicated 2.7 percent per year postwar average annual gain in productivity may possibly be close to the economy's basic potential to expand its efficiency.


Whatever the actual potential, it's important to understand the sources of productivity growth and what we must do to keep productivity advancing. Obviously, that's a major topic in itself. For our present purposes, we'll merely observe that the gains are in a real sense caused by not only social and private investment in education and training of individuals, but also by the development and application of new technology. The heavy involvement of the private sector in these "progress-generating activities," as they've been called, means that profit prospects must continue to appear attractive, or the necessary flow of new investment will eventually dry up. This implies that there are some definite and real limitations on wage settlements if the economy is to operate without excessive inflation.

We can illustrate this point with one additional relationship that identifies the connection between unit labor costs, wage rates, and productivity. Since prices and unit labor costs (i.e., labor cost per unit of output) tend to rise at



*"...the mainspring of real output growth is the change  
in output per hour or PRODUCTIVITY growth."*

the same rate, if the long-run policy objective is to keep inflation at or below 2 percent, and if long-term productivity growth averages 2.7 percent per year, the average increase in wage rates over time cannot exceed the sum of those two:

$$\begin{array}{c} \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in wage} \\ \text{rate} \end{array} \right) = \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in unit} \\ \text{labor cost} \end{array} \right) + \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in} \\ \text{productivity} \end{array} \right) \\ 4.7\% \qquad \qquad 2.0\% \qquad \qquad 2.7\% \end{array}$$


Wage claims greater than this over the long run will simply result in more rapid inflation, and/or reduced profit margins and profit's share of GNP.

If growth in dollar wage rates averages 4.7 percent per year, given the assumption of 2 percent inflation and a decline in average hours per worker of 0.5 percent, growth in real wage income (purchasing power) *per worker* will average about 2.2 percent per year. Even though 2.2 percent per year may not sound like much, it represents more than a *doubling* of living standards during a normal working lifetime.


Thus, what ought to be done by way of supplying money to the economy is heavily influenced by the capacity of the economy to produce added real output. In turn, any set of objectives for growth in real output and prices is very much at the mercy of a consistent relationship between pricing and wage bargain decisions.

We've talked in this section in terms of long historical averages. But in trying to use long-term averages, we suffer from the same disadvantage as the traveller who knows that a stream he would like to cross is, on average, three feet deep: we are hard pressed to know how to use such information when faced with a specific crossing. On that note, let's see how we may apply the relationships discussed above to the situation the economy currently faces.



### III. Prospects for 1976

At this writing the prospect for the economy over the next year appears to be one of continuing recovery from recession. Let's attempt to organize our thinking about these prospects using the relationships discussed earlier in which we identified three potential growth components in the calculation of a money supply growth target:

$$\begin{array}{ccccccc} \left( \begin{array}{c} \text{Preferred} \\ \text{money} \\ \text{supply} \\ \text{rate} \end{array} \right) & = & \left( \begin{array}{c} \text{Prospective} \\ \text{rate of growth} \\ \text{of real output} \end{array} \right) & + & \left( \begin{array}{c} \text{Rate of} \\ \text{price level} \\ \text{increase to} \\ \text{be accommodated} \end{array} \right) & - & \left( \begin{array}{c} \text{Prospective} \\ \text{rate of} \\ \text{increase of} \\ \text{efficiency} \\ \text{of money} \end{array} \right) \\ 6.0\% & & 6.0\% & & 6.0\% & & 6.0\% \end{array}$$


As the numbers above indicate, real growth for 1976 is likely to be about 6 percent, according to a consensus of major forecasts published at this time. Reflected in the estimate is a turnaround in the economy from last year's 2 percent decline. The forecasts also indicate that the rate of inflation should diminish from last year's 8.7 percent to around 6 percent.

On the basis of those figures, the dollar value of transactions the money supply would be required to accommodate in 1976 will rise by 12 percent. Our preferred monetary growth rate would then be in the neighborhood of 12 percent, less the increase we expect in the efficiency of money use (velocity). We've already indicated that velocity has risen on average by about 3 percent per year over the postwar period. However, money efficiency or velocity in-

creases more rapidly during business-cycle recoveries (just as does labor productivity), and growth of around 6 percent over a four-quarter span is quite characteristic. If anything, the pickup in velocity during the current recovery phase (beginning in spring of 1975) has been more rapid than usual.

If we take the 6 percent figure as a reasonable expectation for growth in money efficiency in 1976, we may subtract that amount from our projected 12 percent increase in work to be done by money and derive a figure of 6 percent as the needed growth in the size of the money stock for the year. Thus, the argument we've sketched ends up with a number that falls within the 5 to 7½ percent range announced by the Federal Reserve System.

The exercise outlined above is instructive and, perhaps, a bit reassuring in that it indicates how the announced policy targets are consistent with the current outlook. But the consensus forecasts of the various components are obviously open to question and uncertainty. For example:

- (1) Can we depend on the 6 percent increase in money efficiency we are forecasting? One thing we know is that money efficiency is in part dependent upon the level of interest rates: the higher are interest rates, the greater the incentive to reduce idle cash balances, and the greater the efficiency with which the money stock is used.
- (2) Can we be sure that the inflation rate we've used in our computation is the minimum consistent with acceptable growth in real output?

Causes for uncertainty in choosing a money growth rate, of course, do not end there. There's plenty of room for differences of view about the rate of growth in real output. As we noted earlier, three factors underlie growth in real output projected for 1976 at a 6 percent rate: (a) employment is expected to increase at about a 2 percent rate in this recovery (versus a long-run average of 1.5 percent)—


modestly faster than the anticipated labor force growth, so that unemployment should decline gradually; (b) hours worked per employee may grow by about 0.5 percent (versus a long-run decline of 0.5 percent) as recession-shortened workweeks are further restored; and (c) productivity may grow by at least 3½ percent (versus a long-run average of 2.7 percent) as the usual recovery-phase rise in productivity takes place.

It's the 3½ percent figure forecast for productivity growth that is key in determining what kind of wage settlement pattern is consistent with stated monetary policy objectives and gains in real income per worker. Productivity gains act as a direct offset to wage increases in terms of the impact on unit labor costs.

Given our previous forecast figures, we can explore the implications of any assumed rate of advance in average wage rates for 1976. Let's start with the proposition that wages per hour will go up 9 percent, which is not out of line with assumptions in many published forecasts. That means unit labor costs would increase 5.5 percent as indicated by our earlier formula:

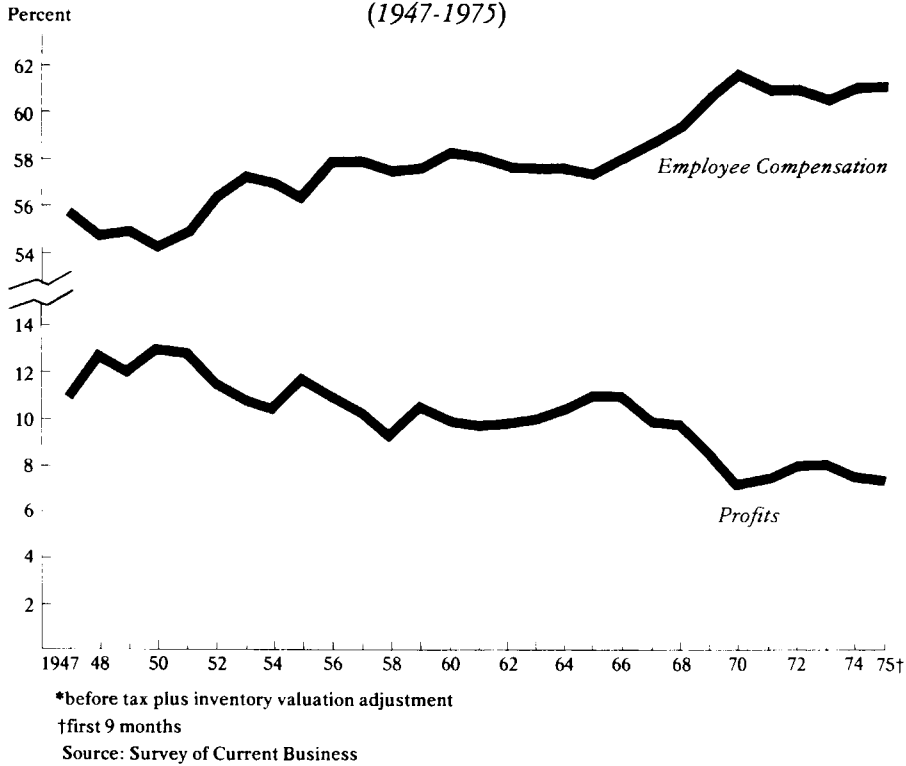
$$\left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in unit} \\ \text{labor} \\ \text{costs} \end{array} \right) = \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in wage} \\ \text{rates} \end{array} \right) - \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in} \\ \text{productivity} \end{array} \right)$$

5.5%                      9.0%                      3.5%



We argued earlier that a particularly crucial matter is the effect pricing and wage bargain decisions might have on profit margins. Looking both ahead and to history, it appears to be not merely a question of profits holding their own as a share of national income, but of restoring profit's share from the reduced levels of recent years. Without some recovery of profit shares over the next few years, the private sector will not likely be willing to make the needed investment to support future productivity gains.

*Profits\* and Employee Compensation  
as a Percentage of Gross National Product  
(1947-1975)*



Profits tended to average around 10 percent of GNP for at least a decade before 1969, hitting 11 percent in a couple of years. But since 1970, profit's share of GNP has held at levels of 7 percent to 8 percent. For the first three quarters of 1975, profit's share of GNP was close to 7.5 percent.

In 1976, our calculations indicate that with a 9 percent increase in wage rates, before-tax profits rise by about 16 percent, but profit's share of GNP increases only slightly from 7.5 percent in 1975 to 7.8 percent in 1976.\* With the same assumptions, real wage income per worker rises by 3.5 percent, or considerably more than the 2.2 percent long-term sustainable average described in Section II.

Some observers see pressures for even higher wage settlements, which might push the average to 10 or 11 percent. If we try an 11 percent wage increase in our calcu-



lations, other assumptions the same, profit's share of GNP would fall below 7 percent. The further erosion of profit margins implied by this outcome would almost certainly generate efforts on the part of business to raise prices faster than the 6 percent increase assumed. For example, if the price level could be raised enough to retain a profit margin of 7.8 percent, the inflation rate implied would then be 7.8 percent for 1976. Given a policy of money growth directed at accommodating no more than a 6 percent rate of price increase, any higher rates of inflation would result either in increased velocity (and higher interest rates) or slower growth in real output and employment, or some combination of the two.

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\*Price can be thought of as the sum of three components: labor cost per unit, nonlabor cost per unit, and profit per unit (which is what's left over). Therefore, the rate of change in price can be written as a weighted sum of the rates of change in these three factors where the weights are the fraction of the price attributable to each factor. In our aggregate calculations, the weights can also be interpreted as the factor's share of total GNP. Thus, the basis for our calculations in this section is the formula:

$$\left( \begin{array}{c} \text{Rate of} \\ \text{Growth} \\ \text{of Price} \end{array} \right) = .610 \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in unit} \\ \text{labor} \\ \text{cost} \end{array} \right) + .315 \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in non-} \\ \text{labor} \\ \text{cost} \end{array} \right) + .075 \left( \begin{array}{c} \text{Rate of} \\ \text{increase} \\ \text{in profit} \\ \text{per unit} \end{array} \right)$$

where the numerical weights are the GNP shares of each factor during the first nine months of 1975. Note that these shares will change from year to year depending on the growth rates of each factor relative to the total inflation rate. We assume that nonlabor costs will rise at the same rate as the general price level.

## *IV. Conclusions*

**T**he essence of the argument that we have tried to make in the preceding pages is that 1976 holds the potential for an economic recovery that could lay the ground work for sustainable long-term growth of our economy. As indicated, the decline in the historical share of profits in total income has impaired the prospects for adequate growth in our "progress-generating activities." Nineteen hundred and seventy six holds a reasonable prospect for a small, but significant, turnaround in the profit picture. Fortunately, it appears that a growing economy can engineer this turnaround with a growth in real earnings per person that is above its long-term sustainable trend.

The key element in this optimistic scenario is the prudence of business and labor in their price and wage decisions. If business attempts to recoup its profit share too quickly with unreasonable price increases, the higher inflation rate could abort the recovery at a premature stage. Similarly, if labor demands at the bargaining table are inconsistent with the inflation and unemployment rates which are facts of life today, then the balance in our economic recovery could be seriously fractured.

Finally, the case for a 5 to 7½ percent target range for the rate of growth in the money supply depends importantly upon the strong cyclical increases in efficiency expected in 1976. Both production efficiency, as reflected in productivity, and money efficiency, as reflected in velocity, are expected to increase this year at rates significantly above their trend rates of growth. It is only the strong growth in these factors during a cyclical upswing that permits a wage increase as large as 9 percent to be accommodated within even a 6 percent inflation rate.

Since the improvement in efficiency that typically accompanies economic recoveries cannot be expected to persist over the longer run, wage increases in the years beyond 1976 will have to more closely approximate gains in real productivity if we are to avoid continuing inflation. Similarly, with the economy moving back toward its long-term growth potential and the rate of inflation apparently moderating, it may well be possible—indeed essential—to reduce the targeted rate of growth of the money supply in the quarters ahead without in any way strangling rates of growth in output and real wages.

*Bruce K. MacLaury*

Bruce K. MacLaury  
President

*Federal Reserve Bank  
of Minneapolis*

*1975 in Review*

*Financial Statement*

*Directors and Officers*



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## 1975 in Review

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This is the second year we are using our Annual Report to review the year's performance in terms of the objectives we said we wanted to achieve.

Experience with the objective-setting process has taught us to concentrate at the Bank management level on a few significant accomplishments, which we review here. As part of this process, we build a multilevel structure of subobjectives in the various departments of the Bank which support these management level priorities.

For 1975, we aimed at just five *Bank Objectives*. There was an implicit sixth objective which may have been more important than those explicitly set forth: the *Budget Objective*.

Bank management set a budget target for 1975 of keeping the increase in total Bank expense to not more than 7.1 percent above total expense in 1974. Our actual expense increase for the year was 5.3 percent. Salary and related personnel expense, which was budgeted to increase 10.5 percent, in fact increased by 8.3 percent. Total controllable expense, scheduled to rise by 11.7 percent, went up by only 8.1 percent.

Part of this accomplishment was fortuitous in that volume of operations did not increase as much as expected, the rate of inflation subsided somewhat, and the rate of personnel turnover was lower than normal. The results also reflect in good part, however, consciously planned increases in productivity and reductions in costs. For example, expenses in our largest operating function, the Check department, were held to the 1974 level in the face of a 4 percent volume increase and rising costs.

Reductions from overall budget projections were achieved despite the unscheduled addition of a System Purchasing Service responsibility to our functions, and unanticipated increases in retirement system and building maintenance costs.

The five stated *Bank Objectives* for 1975 and a summary review of their achievement are set forth below:

### *To develop five-year scenarios on the effects of EFTS (Electronic Funds Transfer System).*

Subobjectives under this principal objective called for a study of potential EFTS effects on this Bank, on Ninth District commercial banks and other financial

institutions, on various nonfinancial groups, and on regulatory and monetary policy and procedures. The underlying purpose for developing this matrix of study projects was to make the Bank a source of long-range planning information on EFTS as well as to prepare for its impact on Bank operations.

Although this objective is well on its way, it will not be completed until early in 1976. A study of the Automated Clearinghouse is being written, and a series of studies on both the in-Bank and the external effects of EFTS is under way. Two task forces, one devoted to evaluating the internal effects of EFTS and the other its external impact, are preparing papers on such aspects of EFTS as (1) its historical development and its potential for the district and the nation, (2) defining its current and future technology, (3) its current legal framework, (4) an analysis of public and private participation in EFT, and (5) its possible competitive impact on Minnesota banks and thrift institutions.

***To improve internal Bank operations through further implementation of management planning, organization and control.***

This objective had a number of facets. We sought first to make a significant contribution to the further development by the Federal Reserve System of a new system of planning, accounting, controlling, and measuring performance in the Reserve Banks. This system, based on management-by-objectives principles, has been in development since 1973 and is known as PACS (Planning and Control System).

Phase I of the PACS project (study and analysis) was completed in 1974, and Phase II (planning and design) was completed by midyear, 1975. This Bank furnished one member of the seven-person System task force that coordinated development of Phase II, and members of our staff served on various study teams that contributed to the development process. The president of this Bank, as chairman of the Conference of Presidents' Committee on Management Systems, Budgets, and Planning, was involved in evaluating Phase II and in launching the program's implementation phase (Phase III) which began late in 1975.

Although the PACS idea is not new to this Bank, the integration of our concepts into the more broadly based and complex System-wide plan represents a significant commitment of Bank resources. This integration began in 1975 with the naming of an internal group to assess the impact of PACS on our operations, determine its budget and resource implications, and take responsibility for insuring that all requirements anticipatory to implementation of the expense accounting and reporting components of the system are met.

In addition to the development resources assigned to PACS, we were able in 1975 to complete an on-line safekeeping records system and make progress in establishing an on-line money data base capability.

Also in 1975 a set of internal performance indicators was developed, and an evaluation was made of a productivity index produced by another Reserve Bank to see if it can be adapted for use by this Bank.

***To reinforce organizational strength through a program of identifying management personnel needs and of training and development programs.***

Early in 1975, with assistance from a management consultant, senior management of the Bank undertook to assess the Bank's organizational and personnel needs for the next five years at the officer level. Development of a target organizational structure and assessment of possible alternatives for specific assignments led to substantial changes in assigned officer responsibilities.

Special emphasis was placed on programs for minority awareness and for supervisory and management training. In addition, previous training programs were continued—some in-Bank and some outside—for improving banking, technical, and professional competence.

The Personnel department during 1975 introduced a new performance evaluation plan, completed about 75 percent of the work required for a revised job evaluation structure, and had partially completed a new salary administration program which will be introduced early in 1976.

The goals of the affirmative action plan, achievement of which was in 1975 made primarily a departmental rather than a staff responsibility, were met for both handicapped employees and for minorities and women with the exception that the number of minorities in lower grades, although up almost a percentage point from a year earlier, missed our minimum goal of 8 percent by .2 percent.

Still needed is a more structured approach to management development at the nonofficial level, including more in-Bank rotation of assignments and greater exposure of our personnel to the operations of other Reserve Banks and the Board of Governors. A statement of objectives for such a rotation program was under way at year end. The Personnel department is also in process of preparing a revised training and educational plan for all Bank employees.

Also completed during the year were (1) a job enrichment project in the Check department and (2) the transition to altered work schedules, including adoption of staggered and flexible hours in several departments.

***To make significant contributions to System positions on bank market structure, capital adequacy, liquidity, and liability management, and on tactics for monetary policy implementation.***

Two studies on Minnesota's banking structure have been completed by our Research department in 1975, although only one has been released thus far. A study of banking markets and the relationship between structure, prices, and non-price factors in rural banking was completed and will be published early in 1976. A project involving contingency planning and testing of bank liquidity has also been completed in draft form and is in the hands of selected banks for evaluation.

Comprehensive study of monetary policy implementation, involving both members of our own staff and economic consultants from the University of Minne-

sota, was under way throughout the year and has already produced a substantial number of study papers which are of significant interest to monetary policy theoreticians. A summary paper on the Federal Open Market Committee decision-making process, with a critique and proposals for improvement, will be completed early in 1976.

The Research department also completed during the year a number of other studies involving regional, national and international aspects of banking, finance, banking regulation, energy resources, agriculture, employment, and a variety of other economic subjects.

*To make an educational impact on the region through bankers' meetings, seminars, publications, a new Bank film, teaching games, etc.*

Four educational meetings with a total attendance of approximately 400 bank officers and directors were held in Montana and North Dakota during the year, continuing a program begun in Minnesota in 1974. Meetings of bankers, lawyers, retailers and others interested in the Equal Credit Opportunity and Fair Credit Billing Acts were held in Helena, Montana, and Minneapolis for an estimated 850 persons. A conference for approximately 125 bank examiners from all bank regulatory agencies in the district and a seminar for about 235 instructors in economics and money and banking were also part of our 1975 program.

Members of our board met approximately 185 member bankers at three meetings in South Dakota as a part of our annual directors' outdistrict field trip. Three meetings on functional cost analysis were held for bankers, and a total of 108 member banks participated in the functional cost program. Four "Short Courses in Central Banking," each lasting three and one-half days, attracted a total of 137 bankers to the Bank, and a number of smaller in-Bank meetings for educators, bankers, and others were also held.

Bank representatives made upwards of 75 formal talks in and out of the district, and officers made approximately 300 visits to member banks during the year. Incidentally, we gained five state banks and one national bank as Federal Reserve members in 1975.

A newly-developed film on the role of a Federal Reserve Bank was released at midyear and has been shown to more than 4,000 people in 136 showings. At midyear an extensive historical exhibit of currency and coin was put on display in the Bank where it can be viewed by visitors who tour our building, of whom there were more than 10,000 in 1975. About 60,000 publications distributed during the year were also part of our educational program.

A special 1975 project in the educational area was to contribute to the economic development of native Americans in the district. Achievements in meeting this objective included publishing a summary and analysis of the Indian Finance Act, completion of a study on improving banking service on a North Dakota Indian reservation, participation in a flow-of-funds study for a South Dakota reservation (the results of which will be published by the Bank early in 1976), and completion of



a pilot project to improve the success potential of commercial recreation facilities on district reservations.

In addition to these specific annual objectives for 1975, the Bank also has established long-range, continuing *Goals* which, while subject to review and possible revision each year, are essentially an unchanging statement of this Bank's fundamental purposes and the reasons for its existence.

These *Goals* are:

- ☐ *To be an innovative component of the Federal Reserve System.*
  - ☐ *To make a significant contribution to the formulation and conduct of monetary policy.*
  - ☐ *To foster the growth and development of the Ninth District.*
  - ☐ *To improve services to government, banking, and the public.*
  - ☐ *To promote the strength and viability of the nation's financial institutions.*
  - ☐ *To develop a more effective work force and to provide leadership in the corporate community.*
  - ☐ *To improve the efficiency of Bank operations.*
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# Federal Reserve Bank of Minneapolis

## Financial Statement

### Statement of Condition

December 31	1975	1974
<i>Assets</i>		
Gold Certificate Account . . . . .	\$ 205,489,000	\$ 309,300,000
Interdistrict Settlement Fund . . . . .	302,139,000	—
Special Drawing Rights Certificate Account . . .	10,000,000	7,000,000
Federal Reserve Notes of Other		
Federal Reserve Banks . . . . .	43,486,000	27,249,000
Other Cash . . . . .	15,109,000	9,340,000
Loans to Member Banks . . . . .	41,875,000	1,550,000
Securities		
Federal Agency Obligations . . . . .	132,619,000	104,877,000
U.S. Government Securities . . . . .	1,894,025,000	1,785,563,000
Total Securities . . . . .	2,026,644,000	1,890,440,000
Cash Items in Process of Collection . . . . .	498,571,000	424,918,000
Bank Premises—Net . . . . .	32,399,000	33,965,000
Other Assets . . . . .	33,044,000	24,791,000
Total Assets . . . . .	<u>\$3,208,756,000</u>	<u>\$2,728,553,000</u>
<i>Liabilities</i>		
Federal Reserve Notes in Circulation . . . . .	\$1,586,070,000	\$1,412,036,000
Deposits		
Member Bank Reserve Accounts . . . . .	707,687,000	682,133,000
U.S. Treasury—General Account . . . . .	367,412,000	128,634,000
Foreign . . . . .	6,302,000	6,670,000
Other Deposits . . . . .	5,246,000	11,246,000
Total Deposits . . . . .	1,086,647,000	828,683,000
Deferred Availability Cash Items . . . . .	458,747,000	418,687,000
Other Liabilities . . . . .	25,106,000	25,685,000
Total Liabilities . . . . .	<u>\$3,156,570,000</u>	<u>\$2,685,091,000</u>
<i>Capital Accounts</i>		
Capital Paid In . . . . .	26,093,000	21,731,000
Surplus . . . . .	26,093,000	21,731,000
Total Capital . . . . .	52,186,000	43,462,000
Total Liabilities and Capital Accounts . . .	<u>\$3,208,756,000</u>	<u>\$2,728,553,000</u>

## Earnings and Expenses

<i>For the Year Ended December 31</i>	<i>1975</i>	<i>1974</i>
<i>Current Earnings</i>		
Interest on Loans to Member Banks .....	\$ 217,000	\$ 2,773,000
Interest on U.S. Government Securities and Federal Agency Obligations .....	132,326,000	125,727,000
All Other Earnings .....	347,000	428,000
Total Current Earnings .....	132,890,000	128,928,000
<i>Current Expenses</i>		
Salaries and Other Benefits .....	13,171,000	12,161,000
Postage and Expressage .....	2,702,000	2,610,000
Real Estate Taxes .....	1,796,000	1,564,000
Furniture and Operating Equipment—Pur- chases, Rentals, Depreciation, Maintenance .....	1,950,000	1,858,000
Depreciation—Bank Premises .....	1,566,000	1,566,000
Other Operating Expenses .....	3,212,000	2,821,000
Assessment for Expenses of Board of Governors .....	818,000	967,000
Federal Reserve Currency .....	715,000	1,076,000
Total Current Expenses .....	25,930,000	24,623,000
Expenses Reimbursable or Recoverable ..	(1,317,000)	(1,183,000)
Net Expenses .....	24,613,000	23,440,000
<i>Current Net Earnings</i> .....	108,277,000	105,488,000
Payments to U.S. Treasury .....	(97,610,000)	(100,438,000)
Dividends Paid .....	(1,387,000)	(1,262,000)
Net Profit or (Loss) .....	(4,918,000)	(1,705,000)
Transferred to Surplus .....	4,362,000	2,083,000
Surplus, January 1 .....	21,731,000	19,648,000
Surplus, December 31 .....	\$ 26,093,000	\$ 21,731,000

## Volume of Operations

	<i>Number</i>		<i>Dollar Amount</i>	
	<i>1975</i>	<i>1974</i>	<i>1975</i>	<i>1974</i>
Loans to Member Banks	290	1,386	\$690 million	\$2.0 billion
Currency Received and Verified	128 million	115 million	971 million	871 million
Coin Received and Counted	481 million	376 million	70 million	56 million
Checks Handled, Total	582 million	558 million	160 billion	152 billion
Collection Items Handled	.4 million	.7 million	1.3 billion	2.6 billion
Issues, Redemptions, Exchanges of U.S. Government Securities	7.6 million	7.3 million	28.4 billion	18.7 billion
Securities Held in Safekeeping	432,054	405,824	8.0 billion	6.3 billion
Transfer of Funds	627,347	529,423	495 billion	455 billion

\*Minneapolis and Helena combined.

*Directors of the  
Federal Reserve Bank of Minneapolis*

January 1, 1976

James P. McFarland, Chairman and Federal Reserve Agent  
Stephen F. Keating, Deputy Chairman

*Class A — Elected by Member Banks*

Charles T. Undlin, President (1976)  
First National Bank of the Black Hills  
Rapid City, South Dakota

William E. Ryan, President (1977)  
Citizens State Bank, Ontonagon, Michigan

John S. Rouzie, President (1978)  
First National Bank, Bowman, North Dakota

*Class B — Elected by Member Banks*

Warren B. Jones, Secretary-Treasurer (1976)  
Two Dot Land & Livestock Company, Harlowton, Montana

Donald P. Helgeson, Secretary-Treasurer (1977)  
Jack Frost, Inc., St. Cloud, Minnesota

Russell G. Cleary, Chairman and President (1978)  
G. Heileman Brewing Company, Inc., La Crosse, Wisconsin

*Class C — Appointed by Board of Governors*

Howard R. Swearer, President (1976)  
Carleton College, Northfield, Minnesota

Stephen F. Keating, Chairman (1977)  
Honeywell, Inc., Minneapolis, Minnesota

James P. McFarland, Chairman (1978)  
General Mills, Inc., Minneapolis, Minnesota

*Member of Federal Advisory Council*

George H. Dixon, Chairman and President  
First National Bank, Minneapolis, Minnesota

*Directors of the Helena Branch*

James C. Garlington, Chairman  
Reginald M. Davies, Vice Chairman

*Appointed by Board of Directors*

*Federal Reserve Bank of Minneapolis*

John Reichel, President (1976)  
First National Bank, Great Falls, Montana

George H. Selover, President and General Manager (1976)  
Selover Buick-Jeep, Inc., Billings, Montana

Donald E. Olsson, President (1977)  
Ronan State Bank, Ronan, Montana

*Appointed by Board of Governors*

James C. Garlington, Partner (1976)  
Garlington, Lohn & Robinson, Missoula, Montana

Reginald M. Davies, Secretary-Treasurer (1977)  
Davies Ranch Company, Chinook, Montana

*Term expires December 31 of indicated year*

*Officers of the  
Federal Reserve Bank of Minneapolis*

February 1, 1976

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Bruce K. MacLaury, President  
Clement A. Van Nice, First Vice President

Thomas E. Gainor, Senior Vice President  
Roland D. Graham, Senior Vice President  
John A. MacDonald, Senior Vice President

Melvin L. Burstein, Vice President and General Counsel  
Frederick J. Cramer, Vice President  
Leonard W. Fernelius, Vice President  
Lester G. Gable, Vice President  
Bruce J. Hedblom, Vice President  
Douglas R. Hellweg, Vice President  
Howard L. Knous, Vice President and General Auditor  
David R. McDonald, Vice President  
Clarence W. Nelson, Vice President  
and Director of Research  
Robert W. Worcester, Vice President

Sheldon L. Azine, Secretary and Assistant Counsel  
Earl O. Beeth, Assistant Vice President  
James U. Brooks, Assistant Vice President  
Phil C. Gerber, Assistant Vice President  
Gary P. Hanson, Assistant Vice President  
Richard C. Heiber, Assistant General Auditor  
William B. Holm, Assistant Vice President  
Ronald E. Kaatz, Assistant Vice President  
Michael J. Pint, Assistant Vice President  
and Assistant Secretary  
Ruth A. Reister, Assistant Vice President  
and Assistant Counsel  
Charles L. Shromoff, Assistant Vice President  
Colleen K. Strand, Assistant Vice President  
Richard B. Thomas, Assistant Vice President  
Joseph R. Vogel, Chief Examiner

*Officers of the Helena Branch*

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John D. Johnson, Vice President  
Ronald O. Hostad, Assistant Vice President  
Betty J. Lindstrom, Assistant Vice President









Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55480