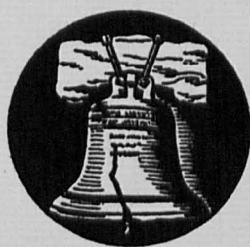


THE
ECONOMY
AT
MID-CENTURY



THE THIRTY-FIFTH

ANNUAL REPORT

OF THE FEDERAL RESERVE BANK OF PHILADELPHIA

1949

A Review of Fifty Years
of Growth and Change

FEDERAL RESERVE BANK
OF PHILADELPHIA

April 30, 1950

This year, midway between the beginning and the end of the twentieth century, the ANNUAL REPORT of this Bank reviews briefly some of the trends and events of the last fifty years. This seemed appropriate not on the grounds of convention alone, but because current controversies most often have their roots in the past. An understanding of long-run developments is essential to a solution of today's problems.

I am pleased to present to our stockholders the thirty-fifth Annual Report of the Federal Reserve Bank of Philadelphia.

Alfred H. Williams

President.

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THE ECONOMY AT MID-CENTURY

WITHIN the last year a national magazine pictured on its cover an artist's conception of the automatic digital computer, an electronic calculating machine of the greatest complexity, that solves mathematical problems and their physical counterparts heretofore considered insoluble. Such a machine contains hundreds, perhaps thousands, of vacuum tubes, each of which operates thousands of times a second in its work as part of a computing unit. Numerical data and operational orders are put into the mechanism by means of a kind of teletypewriter. The machine stores this information in its "memory," consisting of mercury tubes or magnetic tape. Once started, the machine recalls the numbers assembled in its memory, in the sequence demanded by the orders its operators have given it. It puts the results of intermediate calculations back into its memory for future use. It can make simple comparisons of numbers and undertake alternate courses of action depending upon the results. When the computation is finished, the machine types the answer and its human operators read it off the ticker-tape.

A half-century ago this was the stuff of which fantastic adventure stories were made. Even today it seems a little unreal to most of us—unreal and somewhat frightening. For here is a machine which at first glance seems to threaten our status as the planners and directors of worldly affairs. Actually, the machine does nothing of the kind; nor, by the same token, does it provide much in the way of immediate relief to those who would like to relinquish their responsibilities for human welfare. The machine does not think; men have built into it an extremely limited degree of judgment of a low order, but it cannot do more than it is told to do. Its technical powers are huge, yet its capacities are completely limited by the ability of its operators to command it. The

machine cannot originate ideas. By itself it cannot define physical, much less human, problems and set up the mechanism for their solution. And that is by far the most difficult task of all.

In many ways the automatic digital computer is the symbol of our age. The technical progress of the last fifty years has been great, as this report shows. Innumerable problems of production remain to be solved, but we in the United States can feel reasonably sure that their solution is within reach. Confidence in our technical ability is unbounded, once we know what we want to do. In comparison with former years and other nations, our economy is a marvelously efficient productive machine. In like manner, financial techniques have been perfected to the point at which the functioning of much of our monetary machinery has become routine; and in addition, historical circumstance has combined with design to give us a financial system that may prove to be more stable than ever before—less subject to the violent contractions of credit and money supply which accompanied the panics of former years.

As in the case of the automatic digital computer, however, technical proficiency and material wealth do not solve the most important economic and social problems. They grant a wider and richer range of alternatives, but they do not necessarily help to choose the right ones; they cannot set goals. They can help to produce greater income, but they cannot settle the question of who gets what; they cannot resolve conflicts among groups and individuals. The magnificent productive and financial machine built during the first half of this century can do only what its masters are able to direct it to do. Thus far our ability to guide the machine has lagged.

The most troublesome economic problem of recent years has been that of dealing with business fluctuations. In the course of several decades many stopgaps have been tried and some permanent institutions of real value have been developed. These have been less than perfect, however, and economic stability is still far from being guaranteed. There is little doubt that we shall be able physically to produce enough goods and services to assure a high

and rising standard of living for the nation. But, in the past, lack of economic balance has led to periods of unemployment which wasted productive resources and brought actual want to many. Even after many years of prosperity the fear of depression still casts a long shadow. Confidence in our ability to avoid large-scale unemployment is not complete.

In the search for security from economic distress—in seeking ways to make the production machine work at capacity—groups and individuals have called upon Government to an increasing extent. The separation between the functions of business and Government has become less distinct, particularly during the last twenty years. Where the free market mechanism produced results that were not acceptable to labor or business or to the consumer or to agriculture, efforts have been made to modify it, and legislative or institutional controls have been substituted. Collective bargaining, price supports, fair trade agreements, and deposit insurance are examples of now familiar terms that were little known a generation ago.

The proper role of Government in economic life is the subject of continuing controversy, but there can be no doubt that the American people's conception of that role has been enlarged. While Government intervention seems to have solved some pressing problems, it has created others which, although they may be somewhat different in nature, are just as serious. Indeed, many of the measures taken to eliminate economic fluctuations may prove to be the basis for future instability. As each economic group seeks security or advantage through Government support, and as Government strives to maintain a high level of employment by bolstering the economy wherever weakness appears, the path of least resistance is likely to be continual concession and compensation. It is easier to make competing upward adjustments than to face squarely the need for choosing among alternatives. And that path leads to chronic inflation and all of the dislocations which that condition creates.

One of the most important questions facing us now as the result of the developments of this half-century is how to avoid

the chronic inflation which may threaten as a consequence of the great public zeal for economic security and the requirements of national defense. The answer lies in one of two general directions. The first involves further public action of a type tending toward detailed economic planning and direct control—control over prices, production, perhaps investment. The second way points toward the more impersonal regulation of the flow of expenditures via monetary-fiscal policy. To the extent that we are unwilling to impose the latter we may be forced to adopt greater restrictions of the free market and individual initiative. Our great factories and production know-how cannot tell us how to make this choice. Only hard thinking and courageous effort will enable us to control the production machine and make it do our bidding.

MATERIAL PROGRESS

To those of us who have lived through this half-century or, at least, the greater part of it and have gradually absorbed its material offerings into everyday living, the nature of the advance that has been made since 1900 is seldom noticed as the spectacular thing it really was. If one could stand apart from his times and compare this period with others of equal length—in the United States or elsewhere—achievements in the production of goods and services would be revealed as quite unique in the world's history. The economic environment in which business and banking have been carried on has been one of great technological change and unprecedented physical expansion.

While the fact of material progress is obvious, its precise measurement over long periods of time is impossible. The most important changes in our productive plant have not been those which merely permitted us to do things faster and bigger and in larger quantity, but those which have given us entirely new things and have changed standards and modes of living. Material progress, in other words, has been qualitative as well as quantitative. It would seem to be relatively easy to measure gains in the production and consumption of basic commodities such as wheat or coal. Yet the bare statistics, while significant for those particular goods, are

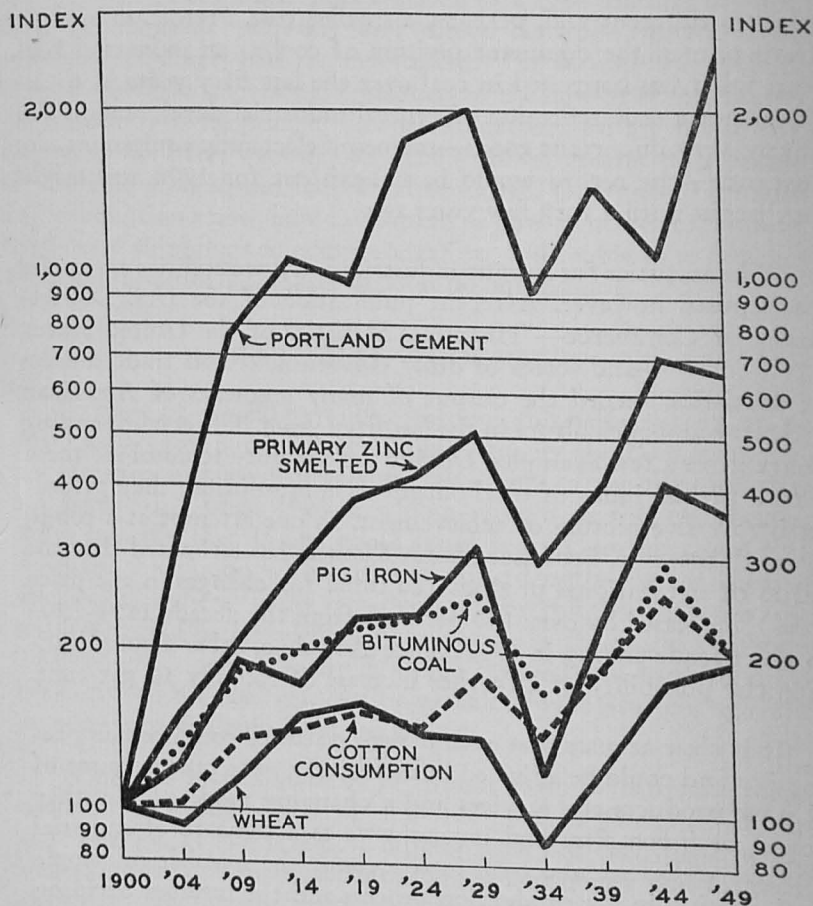
hardly meaningful for determination of a general rate of material progress without a great deal of subjective modification. In the case of wheat, for instance, the ability to transport and preserve fresh fruits and vegetables has changed habits of diet, and wheat plays a different and, perhaps, a smaller role. Petroleum and gas have altered the dominant position of coal as an industrial fuel, and what has happened in coal over the last fifty years is, therefore, not a true reflection of general industrial development. For many very important goods—radio and electronic equipment, for instance—the record would be nonexistent for 1900 and might not begin until a very few years ago.

The statistics for specific industries and commodities are useful guideposts, however. A recent publication of the U.S. Department of Commerce—"Historical Statistics of the United States, 1789-1945"—and scores of other Government and trade sources of statistics, record the output of many segments of American industry and agriculture in the last fifty years. The accompanying chart gives a few examples. Despite our inability to combine them into a precise index of total output or consumption, they present an impressive picture of achievement. In one attempt at a rough over-all measure, Professor Simon Kuznets has estimated that the value of net national product (adjusted for changes in the price level) increased by over 140 per cent from the decade 1894-1903 to the decade ending in 1938. Since that time, other figures indicate the possibility of a further increase of roughly 50 per cent.

It is clear at once that even if such statistics could be comprehensive and could be adjusted in such a way as to take account of all new products and services and a changing mode of life, they would be incomplete and inconclusive as a measure of material progress unless we also took into account the number of people participating in the production process and the number dividing up the product. For, ultimately, our progress must be appraised in terms of what it has meant for the individual consumer. Minimum support of a growing population is, in itself, something of an achievement for an economy, even if the individual producer makes barely enough for the subsistence of his family. Such a

A HALF-CENTURY OF PHYSICAL OUTPUT

(1900 = 100)



Sources:

- U.S. Department of Agriculture
- U.S. Department of Commerce, Bureau of the Census
- U.S. Department of the Interior, Bureau of Mines
- The Iron Age

situation prevails in some parts of the world, though total output there may be increasing. This was so far from being the case in the United States during the first half of the twentieth century that to most Americans the social attitudes, institutions, and living conditions of a subsistence economy seemed to exist only in a world of unreality along with Tarzan stories and South Sea Island technicolor movies. In the United States, the natural course of events, interrupted for a relatively brief though shocking period during the Great Depression of the 'thirties, seemed to be ever-increasing worker productivity and ever-increasing per capita consumption.

Population and the labor force.

The population of the United States has doubled since 1900. This was the result of a large natural rate of increase and, in the early years of the century, a high rate of immigration. In the decade ending in 1910, for instance, more than half of the increase in population was due directly to a record influx of immigrants seeking new homes in a new, free land. Immigration almost stopped in the 'thirties, but not before it had had a profound effect on rapidly expanding American industry.

As population grew and industry developed, the United States became a predominantly urban civilization. In 1900 most Americans lived in the country. By 1920 this was no longer the case. In 1950 nearly 60 per cent of our population lives in cities and towns, and most of these people live within the crowded "metropolitan areas" adjacent to a comparatively few large cities. Population in the Third Federal Reserve District, as in many of the older population centers of the East, was already urbanized in 1900. In such areas, population has become even more concentrated, though it has not grown so rapidly as in those parts of the country which were less fully developed.

Family units of 1950 are smaller than those of a generation or two ago and, although marriage and birth rates jumped considerably during the war and post-war years of the 1940's, the trend

in the *rate* of population growth during the entire half-century has been slightly downward. These facts have important implications for the future, but they should not obscure the dominant population trend of the past fifty years—that of continuous and, for most periods, rapid growth. That growth has been of such nature that it, too, has made for qualitative changes in our economy in addition to mere changes of degree. The difference between the population of 1900 and 1950 does not consist solely in a change of generations or in varying national origins. Large concentrations of people make for a type of living and for productive capacities that are different from those possible for small groups and a small work-force.

The labor force—that portion of the population available for and seeking gainful employment—has increased along with population. Young people and old people are now a smaller proportion of the working population than formerly, but between 1900 and the present time the percentage of women who work outside their own homes has grown. As the trend toward urban living implies, the proportion of the labor force engaged in agriculture, forestry, and fishing has declined drastically—from nearly 40 per cent at the turn of the century to well under 20 per cent now. Manufacturing has increased its share of the labor force somewhat as we have come to depend more and more on mechanical devices for both production and everyday living, and this is now the largest single group. Transportation, communication, and trade employment, as well as professional services, have become increasingly important. But perhaps the most significant commentary on the change that has taken place in the nature of production and on the growing complexity of our mode of life in these United States during the last fifty years has been the expanding proportion of labor in clerical occupations. Only 2.5 per cent of the labor force was in this category in 1900. Today, perhaps as many as 10 per cent—6 million workers—help keep the economy's accounts and records. The "middle class," of which most of these workers consider themselves a part, far from being ground into nonexistence according to the Marxian formula, has grown in size and importance.

The growth of efficiency.

The increase in the number of people at work has been much greater than that in total working time. In 1900, the ten-hour day, six-day week was standard. Today the average work-week is not much over 40 hours, even if the longer work-week of agriculture is taken into account. A Twentieth Century Fund survey estimates, in fact, that although the rate of production had climbed by 80 per cent between 1910 and 1940 the total man-hours worked hardly ever, except during war, exceeded that of the former year. This is simply another way of saying that the productivity of the American worker has been greatly increased. The introduction of new processes and massive investment in plant and machinery—on the farm and in offices as well as in mines and factories, the technique of mass production, scientific management, and work rationalization, all developed in this half-century—have made it possible for us to work much less and produce much more.

Increases in output per man-hour and per worker varied considerably among industries and trades, with the greatest gains being made in manufacturing and smaller ones in construction and "white collar" trades. On the average, it is estimated, output per man-hour has been increasing at a rate of slightly under 2 per cent a year. Actually, the rate has not been steady. The introduction of new techniques has made for periods of accelerated improvement, and progress sometimes has been interrupted by war and adverse economic conditions. But confidence in our physical ability continually to produce more, more efficiently, for more people has never waned.

THE SEARCH FOR SECURITY

The great achievements of this half-century have not been without their costs—costs over and above those of the working and saving of men and women who have helped bring the United States to a position of world leadership. These costs are principally

of two kinds. The first is quite concrete. It consists of the using up of natural resources, much of which cannot be recaptured. The second involves a consideration of the economic fluctuations of the last fifty years. Unemployment and its concomitant ills and the under-utilization of existing capacity during successive business depressions represent a serious offset to long-term gains.

Resource costs.

America's productive machine has chewed up acres of forests, mountains of metallic ores, and huge quantities of other raw materials that were available inside our own borders in seemingly inexhaustible amounts at the turn of the century. New discoveries were made, substitutes were adopted, and changing technology called forth new patterns of resource use. Petroleum and aluminum, for instance, assumed much greater importance. More recently ores containing fissionable materials, the ingredients of the atomic bomb, have become important. But despite these developments which extend the boundaries of our natural wealth, attitudes toward use of our resources have changed. Americans gradually have become more "conservation-minded." The Western "dust bowl," dramatized by the plight of the "Okies" in the 'thirties, and wartime shortages recently have underlined the need for more care in the use of both soil and minerals. Our reserves of most raw materials are adequate for years to come; but for many of them continued use at current rates will mean the working of lower-grade, higher-cost areas. For iron, certain non-ferrous metals, and for petroleum, the end of low-cost domestic supplies is in sight and we shall have to rely on imports to a greater extent in the coming generation. Undoubtedly, these developments have contributed in no small measure to a change in our attitude toward participation in the world-wide economy.

Business fluctuations.

By far the most important and costly stumbling blocks in the march of progress during the last fifty years have been those

which attended recurring business depressions. Since 1900, American business has experienced at least five well-defined periods of curtailed and declining activity, varying in duration from less than a year, as in 1937-1938, to almost four years, after the crash of 1929. Unemployment, accompanying these slumps in varying degrees and, occasionally, financial panics have caused real hardship and social dislocation. More than anything else, they have called forth questions as to the superiority of our way of doing business. Even after years of unequaled progress, in times of economic stress and strain doubt arises as to the desirability of democratic living. In such times even those who benefited greatly from the gains of the past may be susceptible to false promises of quick panacea.

In the early years of the half-century, periodic economic breakdowns were regarded either as an inevitable part of the process of development or as just punishment for periods of over-expansion. According to either view, if depression was a serious cost, it was nevertheless an unavoidable one and justified by the results. To some extent, the plight of those who were unfortunate enough to be caught and broken by the downswing was regarded as a necessary sacrifice, though in many quarters the feeling persisted that economic well-being was an individual responsibility and that anyone could get on who tried hard enough.

These attitudes, though prevalent, were by no means universal and after the first world war they began to break down. The President's Conference on Unemployment in 1921, led by then Secretary of Commerce Herbert Hoover, recognized that the depression of that year and the unemployment incident to it were a community, as well as an individual problem. It recognized, by implication at least, a social responsibility for economic distress. Scholars in the field of economics shifted their attention somewhat from developments "in the long run" to problems of short-run adjustment. In the reports that followed and in the investigations of research agencies during the 'twenties, the causes of business cycles were intensively sought and means of mitigating them were discussed. It was felt that booms and depressions might not be completely unavoidable after all, and that measures designed to

stop them once they got started, including the planning of public works, were appropriate and even necessary. Government's responsibilities in limited fields had been recognized long before the 1920's and those responsibilities had been growing. But the prevailing mood had been unquestionably that of *laissez faire*—a rather strict separation of Government and business, with interference the exception rather than the rule. The growing belief that unemployment was not due to personal fault but instead to the faulty operation of the economic system, and a better understanding of business fluctuations and their causes gradually wore away the basis for unqualified opposition to Government intervention in economic affairs. Decisive impetus to the development of a positive program to stabilize business activity and employment arose out of the Great Depression of 1929-1933.

The Great Depression.

The depression beginning in 1929 marks a great divide in the economic development of the United States during the first half of the century. Judgments may differ, but it now appears that the impact of the depression was more profound and had more lasting effects than the great upheavals of the first world war. The events of the dismal years of the 'thirties so burned themselves into the consciousness of Americans that even a long war-prosperity could not obliterate the scars. Unemployment reached 12 million or more at the low point, manufacturing output fell almost to half the 1928 level, and from 1930 to 1936 the loss of national income amounted to two years of normal production. Standards of living fell and insecurity reached into almost every home.

The intensity and, most of all, the duration of the Great Depression were shocking, especially to people who had allowed themselves to believe that a "new era" of permanent prosperity had arrived. It is not surprising that the depression touched off what was considered a revolution in economic thinking and attitudes. In contrast with great confidence in our physical ability to improve living standards, the idea gained that the nation had

reached "maturity" and that faulty institutions would prevent full utilization of our productive plant in the future. Government was forced into large-scale relief activities early in the depression. Building upon knowledge of the causes of business cycles and the newer ideas of John Maynard Keynes and others in the field of fiscal policy, mere relief finally gave way to positive action by Government to move the flywheel of the economic machine off dead center. The Administration began by making vain efforts to balance the budget in orthodox fashion. It soon resorted to "pump priming" by deficit spending, to the NRA codes, and to farm policies designed to circumvent the rigors of the free market. Few wanted to wait until "things worked themselves out." Most wanted security at the expense of the *laissez-faire* tradition.

The search for security.

It is not possible here to chronicle the legislation growing out of the search for security which received its main impetus during the depression. Regardless of one's opinion as to their necessity or desirability, there can be no doubt that the controls and non-market incentives which that legislation created have become gradually more numerous and more firmly imbedded in the framework of our economy. Many of the dictates of the free market became unpalatable and their modification was demanded. It is significant that at the end of the second world war there was a tendency to retain certain "emergency" measures as necessary for the maintenance of post-war prosperity.

While some observers in 1945 correctly gauged the danger of inflation in the immediate post-war period, the majority of those contributing to public policy and, probably, the majority of the general public, believed that in the longer run the big danger to be avoided at all costs was depression and unemployment. The Employment Act of 1946 was the answer to this concern. It formalized the broad economic objectives behind the piecemeal programs and expedients of the fifteen years preceding. It made

explicit one of the primary goals of the Federal Reserve System. With that Act the promotion of maximum employment, production, and purchasing power within the framework of a free competitive enterprise system became an objective of national policy. The Employment Act and the governmental mechanism it created have become part of the basic architecture of Government's program in the search for economic security. Other measures designed to deal with particular problems include farm price support, credit guarantees, public housing, and social security, including unemployment insurance.

While the Employment Act does not make definite recommendations in the field of fiscal policy the trend during recent years has been away from annual budget balance as a standard and toward a "compensatory" budget, allowing for a Treasury surplus or deficit as employment conditions indicate. Certain aspects of this change will be discussed in the following section.

The search for security has not been confined to Government action. Individuals and institutions have participated in it as well. One of its manifestations is the tendency for funds to seek debt rather than equity investment. In part, this is the result of growing "institutionalization" of savings—itsself a reflection of a desire for financial protection—and the legal restrictions on the investment policies of certain types of financial institutions, restrictions retained from an earlier period in which institutional operations were of less importance. In part, debt investment is sought to guard against the financial collapse of another, as yet imaginary, 1929. The depression left a heritage of mistrust of the stock market, of the promoter, especially among the middle-income groups who have grown in importance as savers and providers of funds. The entrepreneur, the taker of risks, seems to have lost some of his status and support as the central figure in the economic system.

The action of organized groups as well as individuals within the economy has been pointed toward security and has contributed to the departure from *laissez faire*. Organized labor, a minor force in 1900, grew in power during the half-century, especially after

1932. Unions have become influential factors—some would say determining factors—in the setting of wage rates and working conditions, modifying the “free” market as an economic regulator. The farmers, also highly organized, wield considerable political power and have succeeded in obtaining many special measures including, in recent years, price supports for major crops, which guarantee high agricultural prices independently of market conditions. The aged, growing in numbers, have become an articulate force and have been partially successful in their demands for increased benefits. Certain business groups have gained protection from foreign competitors and, in some cases, from out-of-state competitors by means of tariff and trade regulations, though many of these have been modified within the last decade or so. There has been a softening of competition in general.

The decline of competition since 1900 has taken a different form from that reflected by the growth of monopolistic trusts in the late nineteenth century. There has been little attempt to seize an entire market. Widespread efforts have been made to cut competition for a given product by the use of trademarks and slogans, and court records reveal attempts at collusion among producers of similar products. But the main influence leading to the softening of competition appears to have been the tendency among large producers and trade associations to eliminate what are called “cut-throat” practices, to share the available business rather than drive each other out, and to maintain prices at the expense of production and employment rather than the other way ’round, as would occur in a truly competitive situation.

In attempting to achieve security through protection against unlimited competition, labor, business, and agriculture have contributed to the erosion of the automatic market regulators of our economy. Government regulators have taken their place to an increasing extent, though at present they are of over-riding importance only in limited areas. Greater Government participation in business to combat or neutralize “monopoly” is frequently suggested.

FIFTY YEARS OF FINANCE

The tremendous strides which have been made in satisfying our material and physical wants during the half-century could not have been achieved without the growth and development of the financial system. Financial factors contributed not only to long-term economic growth but also at times tended to intensify business fluctuations. Growing comprehension of this twofold effect of financial developments has led to increasingly active efforts to maximize economic progress and to minimize economic instability through conscious control of the financial mechanism.

These efforts have been made, moreover, in recognition of the growing importance of financial considerations—notwithstanding the fact that our financial machinery in many ways has become a routine part of day-to-day living which the general public takes for granted. Not only do we now express financial phenomena in much larger numbers—a public debt of just barely a billion dollars in 1900, for example, now runs to a quarter of a trillion—but, as the major creditor nation, we make financial decisions which have world-wide repercussions. And we have moved further and further away from a barter economy toward a money economy. The volume and flow of money thus has become an increasingly important element in economic activity.

Our society has made increasing efforts to influence the financial environment and has become more reluctant to subject itself to immutable “natural forces” or automatic mechanisms. The growth of the economy has made it impossible for any one person to be intimately familiar with the workings of the entire financial system, and the more we learn the more we realize how much there is to know; yet, with study and experience we have gained a better idea of how our economy functions and how to help it work more effectively for the good of society.

One may question, of course, how thoroughly the functioning of the financial system and its role in the economy are understood. But undoubtedly more people are concerned more about finance

now than was the case in 1900. It is no longer "high finance" carried on by a select few. Today more than two-thirds of the employed people pay a Federal income tax; in 1920 the proportion was only one-twelfth. Over half of the population owns life insurance, as against about one-tenth at the start of the century; about one-half owns United States Savings Bonds; and one-twelfth of the spending units holds corporate securities. These facts mean a wider participation and interest in the financial problems of Government, business, and consumers. They provide at least one explanation of society's growing concern that public action be taken, if necessary, to assure the stability of the financial system.

The financial record of the half-century is the outcome of attempts to solve problems—problems as intricate and perplexing as two world wars and post-war inflations, the "new era" of the 'twenties, and the Great Depression of the 'thirties. It is a record of people attempting to adapt their institutions to changing circumstances, to economic progress, and economic instability. And it shows how the public often takes action through Governmental means when problems are not solved through individual and private institutional efforts.

Commercial banking.

Amid the great variety of financial institutions, commercial banks are unique. They perform many of the same functions as other savings and lending institutions, but they alone among the private institutions can create and extinguish deposit money. They increase and decrease the volume of bank deposits when they expand and contract their earning assets. It is for this reason that their activities have had greater public significance.

As intermediaries in the savings and investment process, commercial banks have played an important role in the process of capital formation which has made rapid economic progress possible. Time deposits have been a growing part of bank business, rising from about \$1 billion at the turn of the century to \$36

billion, and from one-sixth to almost one-third of total deposits. The relative position of the commercial bank as a savings institution, however, has declined. In 1920, the earliest date for which we have information, commercial banks were the largest repository of savings, accounting for 45 per cent of the total; they now hold only about 20 per cent. In the Third Federal Reserve District the long-run trend has been toward a declining share of the nation's time deposits as other sections of the country expanded and were developed.

While commercial banks are still the only private financial institution which can create deposits, they are doing it on a quite different basis today than fifty years ago. In the first place, loans are now only 36 per cent of total earning assets as compared with 78 per cent in 1914, and in the second place, short-term business loans are a smaller proportion of the total loan portfolio.

Behind these two statements lie many economic changes to which banks have adjusted with varying degrees of success. The relative decline in loans has been due, more than anything else, to the rise in bank holdings of United States Government securities during two world wars and the Great Depression. The shift in the composition of bank loans reflects, to a large extent, fundamental changes in business and in business financing. One of the most important has been the trend toward larger business units. As this proceeded, banking faced two problems. Because of legal lending limits many banks no longer were able to take care of the credit needs of expanding local concerns, and despite the growth of banks and widespread mergers, this problem still confronts many commercial banks. Some observers believe the solution is branch banking; others would rely on the correspondent bank system. But whatever the answer, it is quite likely that the rapid growth in the size of the business unit has acted to reduce business financing through the commercial banks. The second problem has been a growing concern as to whether banks are meeting the longer-term credit needs of small business.

In addition to the growth of the business unit, other factors have tended to reduce the demand for commercial loans. Manufacturers have used increasingly large proportions of fixed capital and smaller proportions of direct labor in their operations. Their need for credit for inventories and other working capital probably has not increased as fast as for long-term financing. In response, many banks have turned to a new device—the term loan. Nevertheless, business has financed a large amount of its needs by retaining earnings and selling securities, many issues being placed directly with insurance companies. On the supply side, many banks have contributed to the decline in business lending by their reluctance to adopt new financing methods until they had been well tested by other institutions and, after their shattering experience of the early 'thirties, by an unwillingness to take risks.

As traditional commercial lending declined in importance, banks turned to other lending fields. Consumers were spending a larger proportion of their incomes for durable goods, and banks, observing the experience of other institutions, saw in consumer credit a new and relatively safe outlet for funds. Competition in financing consumer purchases was keen and banks were relatively late in entering the field. Nevertheless, commercial banks expanded the volume of their consumer instalment loans (excluding repair and modernization loans) from \$43 million to \$2 billion between 1929 and 1949, and their share of the total outstanding from 7 to 51 per cent. Actually they have played a more important role in consumer financing than these percentages would indicate because they buy instalment paper, make single payment loans direct to consumers and make loans to other consumer credit institutions. Less spectacular than the expansion of lending to consumers but equally significant has been the growing importance of mortgages in commercial bank portfolios. In making mortgage loans, banks have provided funds to facilitate the growth of our capital resources—houses, factories, and other fixed assets—but they have departed further from their traditional function of supplying short-term commercial credit.

PUBLIC POLICY IN FINANCE

Monetary policy.

Not long after the turn of the century the public took a major step toward improving the existing monetary system. Much had already been done toward solving the major monetary problems of the nineteenth century, such as a lack of uniformity of note issue and a recurring inability of the banking system to convert notes and deposits into cash. The latter problem persisted, however, and the panic of 1907 made it increasingly apparent that there was an urgent need for an institution which could influence the expansion and contraction of money so as to promote economic stability. Congress established the Federal Reserve System in 1913 "to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Thirty-five years ago monetary and credit policy was discussed in terms of "elasticity" of currency and deposits; today we speak of economic stability at high levels of production and employment. The language is different, but the real objective of adjusting money and credit to minimize economic fluctuations has remained essentially the same.

Intermediate objectives, on the other hand, often have been in conflict. In the 1929 boom, for example, the System faced the problem of curtailing speculative credit in the stock market without restricting credit for other purposes. More recently the Reserve authorities faced the difficulty of pursuing two other conflicting objectives: restraining post-war inflation and at the same time supporting the Government security market.

Not only have intermediate objectives often been in conflict, but they have changed over time. At first the principal goal of Federal Reserve policy was assuring a sufficiency of credit to meet the needs of business. Emphasis then shifted to maintenance of the quality of credit. Monetary policy in the 'twenties was based on the "real bills" doctrine which was that commercial banks

should make only short-term, self-liquidating commercial loans and such paper should serve as the primary basis of Federal Reserve credit operations. By maintaining the quality of credit, it was believed the quantity would be "elastic," varying with the needs of trade. Experience has demonstrated, however, that the "real bills" doctrine is an inadequate guarantee of economic stability and an unreliable basis for monetary policy. For during booms, bank loans for "productive" purposes gave businessmen more money to bid up the prices of scarce materials. As prices rose, more loans were needed and so the inflationary spiral proceeded. In periods of stress, on the other hand, banks could not liquidate their loans without aggravating the depression. Eventually, attention shifted more toward regulating the quantity of credit in order to maintain stability. Along with this shift there developed a better idea of the various factors that influence reserves and how the volume of member bank reserves influences the money supply.

In three and one-half decades the guides which the monetary authorities have used to achieve their basic objective have undergone a constant process of change in response to new environments and the lessons of experience. The most important change, however, has been in the basic approach to problems. The Federal Reserve System was created at a time when the *laissez-faire* philosophy was still dominant. It was believed that the economic machine would function satisfactorily if let alone, provided the proper rules were set up and observed. Since then we have learned that no simple formula, no rule-of-thumb or automatic mechanism is sufficient. Attention must be focused on all of the important measures of economic activity, and the monetary authorities must be relatively free at all times to act in response to them.

As automatic guides were gradually abandoned in favor of discretionary action, the use of monetary tools has been developed and refined. The System has been almost completely successful in smoothing out seasonal fluctuations in the money market by changing the volume and cost of reserve funds. In the 'twenties, the monetary authorities learned better how to coordinate changes in the discount rate and open market operations. In the 'thirties

they were given authority to alter reserve requirements as an instrument of policy. In an effort to influence credit in specific areas of the economy, selective instruments were developed. Credit had played an important part in the 1929 boom and subsequent collapse of the securities market. To prevent a recurrence of this situation the Federal Reserve was given authority in 1934 to set margin requirements on security loans. The other field in which selective regulation has been applied is consumer credit. Although such credit probably has enabled many consumers to enjoy modern conveniences which otherwise they would have lacked, it has also contributed to economic instability. Expansion of credit tended to take place during booms when consumer spending was at high levels, and contraction occurred during the downswing when income and demand were low. Consumer credit, in effect, tended to add to spending in times when spending was already high rather than in times when it was low. Commercial bank activity in consumer lending, both directly and indirectly, was particularly important because it affected the money supply. The System was given authority under Executive Order in 1941 to set limits on the terms of consumer credit transactions to hold down the demand for durable consumers goods which because of wartime restrictions were in short supply. This authority expired in late 1947, was renewed by Congress in August 1948, and lapsed again in June 1949.

Government agencies.

The paralyzing effects of the depression revealed important areas in which existing institutions apparently were unable to cope with the situation. Banks were besieged with depositors wanting their money, home owners were unable to meet their mortgage payments, businesses and farmers could not get credit. Efforts to deal with the emergency led the Government to set up a number of new organizations, most of which are still with us. Some, like the Federal Deposit Insurance Corporation, were intended to be permanent, being designed to establish a sounder financial structure. Others were aimed more directly at providing temporary relief to hard-pressed businesses, home owners, and farmers.

The result has been that Government has extended its participation in economic activity. In direct lending, Government activities have assumed their greatest proportions in the field of farm credit. The Government entered directly into the urban mortgage field during the depression to help distressed home owners and bail out mortgage holders, and recently has been maintaining a secondary market for guaranteed mortgages. In the field of business credit, the Reconstruction Finance Corporation has been carrying on since 1932 a great variety of different activities.

The really important role of the Government in recent years, however, has not been in direct lending activity but in the guaranteeing and insuring of loans, thus making certain types of loans more acceptable to private lending agencies. Both the Federal Housing Administration and the Veterans Administration guarantee loans in the mortgage field. Today, about two-fifths of the mortgage debt on one-to-four family homes is insured. The RFC and the VA are the principal agencies in guaranteeing business loans, and the Commodity Credit Corporation guarantees loans in the process of supporting farm prices. Use of the guarantee device is comparatively new and all of its implications are not yet clear. It has encouraged private lending institutions to make longer-term loans which were better adapted to the credit needs of the borrower. On the other hand, post-war experience suggests that the use of guarantees can be inflationary; credit may be fostered for social or political reasons with only secondary concern for economic circumstances or consequences. Finally, there is the possibility that guarantees, by relieving lending agencies of some of the liability for losses, may encourage unsound lending policies.

Fiscal policy.

The depression not only was the cause of increased Government activity in the lending field, but strengthened the reliance on fiscal policy as an instrument for combating business fluctuations. The widespread confidence of the 1920's in the ability of the central bank to maintain prosperity was greatly impaired by the

depression. The use of fiscal policy, based on the "new economics" of J. M. Keynes, became for many the principal tool for smoothing out business fluctuations. Through proper policies governing receipts, expenditures, and the public debt, it was believed that the Government could "prime the pump" to pull the economy out of depressions, and could "compensate" for fluctuations in the private sector of the economy. Faith in the effectiveness of fiscal policy was based on the belief that the income-expenditure flow could be influenced more directly than through monetary policy, and on the fact that the Government budget had grown to primary importance. Proponents of this view joined others in pointing out that monetary policy was not very effective during depression, that it was like "pushing on a string." Manipulation of the interest rate, which had been a key to central bank policy during the 'twenties, was considered less important.

War and post-war experience during the decade of the 'forties has swung the pendulum back toward a more balanced view. There is no question that fiscal operations of the Government have come to have a tremendous impact on the economy. Only twenty years ago the Federal Government bought directly 1 per cent of the annual gross national product; today it buys 10 per cent. Federal taxes took only 4 per cent of the total national income, whereas now they absorb 18 per cent. And the public debt was 8 per cent of total outstanding debt as against 52 per cent today. Recent history, however, has shown the political and administrative difficulties in the way of applying fiscal policy to combat the business cycle. We have not yet been able to forecast economic trends with the necessary accuracy, and fiscal machinery is still too cumbersome to move quickly enough. Democratic processes being as they are, it is easy to achieve deficits to combat depressions, but difficult to obtain surpluses to fight inflation.

Fiscal policy also can be effective only as it influences the quantity of money and its rate of use. While monetary policy alone cannot bring about economic stability, and though the importance of the interest rate as a tool of monetary policy is still debated, there is general agreement that changes in the availability

of money and credit have a profound effect on business activity. By the end of the half-century the prevailing thought as to the roles of monetary and fiscal policy has become more balanced than perhaps at any other time during the period. The recent report of a Congressional Subcommittee on Monetary, Credit, and Fiscal Policies recommended "that an appropriate, flexible, and vigorous monetary policy, employed in coordination with fiscal and other policies, should be one of the principal methods used to achieve the purposes of the Employment Act" and "that the primary power and responsibility for regulating the supply, availability, and cost of credit in general shall be vested in the duly constituted authorities of the Federal Reserve System." History suggests that if we are to obtain economic stability and optimum economic growth during the remainder of the century it will have to be with the combined efforts of monetary and fiscal authorities as the core of a program which coordinates action on all fronts.

1949 IN REVIEW

Changing business scene.

The problems that have developed during the last fifty years came into sharper focus during 1949. Business had its first taste of adversity since prewar days, and controversy over policies and programs was sharp. Looking at the statistical record for 1949, an observer of the business scene cannot fail to be impressed by two outstanding developments. First, business activity in general seemed slower. Total employment, industrial production, and dollar volume of trade were all somewhat below 1948. Second, after ten years of rising annual averages, the index of wholesale prices moved downward during almost the entire year and was below that of the previous year at all times. The downturn had begun in the latter part of 1948 and, in some respects, that turning point was a more dramatic event than anything that happened to prices in 1949. But it was not until 1949 that the persistence of the price decline assumed great significance.

At the same time, any idea that our economy experienced a major business recession during 1949 must be severely discounted. Retail sales for the year were down, but only by about 1 per cent—less than the decline in prices, which means that consumers bought a greater physical amount of goods than last year. Unemployment was greater, but in only one month did the total go above 4 million. At the end of the year while the increase in unemployment over 1948 was small in number, it was more than the increase in the size of the labor force. Failure to absorb additional workers into industry can become a serious problem; indeed, unemployment in early 1950 has been consistently higher than that of the previous year. However, it was clear that the magnitude of the unemployed work-force during 1949 was far from depression proportions. Disposable personal income for the year was slightly higher than that of 1948, and total expenditures by all buyers combined—business, Government, and consumers—were very little below those of the record year. Pay rolls in Pennsylvania factories in the early months of 1950 appeared to achieve stability above the mid-1949 level. While most firms did cut back output at some time during 1949, two very important industries—automobiles and construction—reached new heights. Wholesale prices declined about 7 per cent, consumer prices only 1 per cent.

On the whole, this is not the record of a year of serious recession. Yet, the annual averages obscure highly significant short-run trends. The first two quarters of 1949 witnessed a fairly steady decline in industrial production, nonagricultural employment, prices, bank loans, and other business indicators. By July, output of manufacturing concerns in Pennsylvania had fallen to a level almost 20 per cent below the 1948 peak. Wholesale prices were down 10 per cent, and unemployment had risen to what some considered to be the danger point. A moderate recovery began in the third quarter. It was strongest in the nondurable goods fields, but industry generally felt a lift. Employment and income gained, and the construction industry, which had shown considerable hesitation early in the year, surged ahead as residential building mounted to a new all-time record.

The recovery was interrupted in October and November by the coal and steel strikes. Although some production and income were lost, the effect of the strikes upon purchasing power was not so great as to cause cumulative repercussions. On a national scale, their impact on consumer spending was barely noticeable; and when the strikes were over, industry and trade moved ahead rapidly. Toward the end of the year the price decline had all but leveled off. Steel prices increased, and talk of other price increases to come was widespread. Thus, the business year ended strong with a much greater feeling of optimism than it began.

Consumers made some contribution to lower total spending, especially at the beginning of 1949, by deciding to save a greater proportion of their incomes than during most of 1948. This did not actually lower consumption expenditures, which were fairly well maintained, but it made them smaller than would have been the case if the average 1948 saving rate had been maintained. At the end of the year the proportion of income saved had returned to a somewhat lower figure and spending plans of individuals, insofar as they could be measured, indicated a continued high level of consumer outlays.

Business spending for new plant and equipment was lower, particularly in the second half of the year, but the amount of the decline was not large. It is expected, however, that such expenditures will decline further in the future.

By far the most important factor in the business decline was another area of business spending—inventories. It appears that many businessmen decided to reduce inventories at the end of 1948. For some time a more or less involuntary accumulation of stocks continued. It was not until the second quarter of the year that the business community as a whole was able to make a substantial inventory reduction. On a seasonally adjusted basis, expansion of inventories at a rate of \$9 billion a year in the fourth quarter of 1948 gave way to a reduction of stocks at a rate of \$5 billion a year in the third quarter of 1949. This change from inventory accumulation to inventory reduction accounted for a

decline in gross national product to an extent which accounts for most of the reduction in total expenditures on goods and services during 1949.

By the end of the year it appeared that the inventory adjustment, speeded by the coal and steel strikes, had been completed. Stocks of finished goods held by manufacturers had been reduced moderately, and new orders had picked up in many lines. There was little prospect of a renewal of large-scale inventory buying during the first part of 1950, but with consumer spending likely to hold firm and construction activity continuing at a high level, at the very least the economy would not be subject to the downward pressure of inventory liquidation.

In addition to these prospects within the area of consumer and business decisions, there are certain other factors influencing business activity in 1950. Payment of a \$2.8 billion National Service Life Insurance dividend, together with the Pennsylvania state bonus to veterans, is expected to give considerable stimulus to retail trade. New minimum wage legislation, while affecting relatively few wage rates directly, may give support to other wage demands. A prospective Government deficit will also put new purchasing power into the income stream.

All of these factors were exerting an upward pressure on business in the early months of 1950. The vigor of demand for automobiles, housing, and household appliances surpassed most expectations. The high levels of activity in these lines, if sustained throughout the year, could easily tip the balance in favor of continued improvement during the year despite apparent reductions in farm income and business expenditures for new plant and equipment.

Financial developments.

As in business, financial developments during the year 1949 were characterized by moderate contraction during the first half and renewed expansion during the latter part of the year.

Paralleling the decline in the nation's money supply, total deposits of member banks in the Third Federal Reserve District shrank from \$6,417 million to \$6,255 million, or 2.5 per cent, during the first half. One important factor was a cash surplus of the Treasury during the first quarter; another was a contraction of bank loans. As business reduced its inventories and needed less funds for capital expenditures, business loans declined. Commercial and industrial loans of all member banks in the Third District fell off from \$737 million to \$664 million during the first half of the year, and while consumer credit and real-estate loans continued to rise, they increased at a slower rate.

In recognition of changing conditions, the System acted to ease credit. Regulation W was liberalized early in the year, resulting in easier consumer credit terms. Further easing took place after Regulation W expired on June 30. Margin requirements were lowered in March, and between May and September a series of reductions in member bank reserve requirements freed a total of approximately \$200 million of reserves for member banks in the Third District.

During the first part of 1949, the System was faced with the problem of selling Government securities to prevent their prices from rising too rapidly and yet preventing such sales from absorbing reserves. In June, however, the Federal Open Market Committee declared that "it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation."

The latter half of 1949 was a period of renewed expansion. Commercial and industrial loans of all member banks in this district rose from \$664 million to \$675 million, partly because of seasonal forces. Real-estate and consumer loans continued their upward movement at a more rapid rate.

For the year as a whole, the early declines in deposits of Third District member banks were more than offset by later increases. Total deposits actually rose 3 per cent, and although business loans

at the end of 1949 were still below a year ago, the expansion of consumer and real-estate loans pushed total loans up to \$1,794 million as against \$1,742 million a year earlier. In addition, partly by using reserves freed by Federal Reserve actions, member banks increased their holdings of Government securities from \$2,995 million to \$3,158 million. Altogether, 1949 was a good year for member banks in the Third Federal Reserve District. Owing chiefly to the expansion of earning assets, total earnings rose more than 5 per cent from \$167 million to \$176 million. Expenses also increased but not as much, with the result that net current earnings for the year were 7 per cent above the volume for 1948.

The first few months of 1950 suggested that this year, too, might prove better than many had expected. Loans of member banks in this district continued to rise, business loans to a point even exceeding the peak of the preceding fall. Increasing concern was expressed, however, about expansion in mortgage and consumer credit and excessive ease in consumer credit terms. Moreover, the Treasury deficit gave evidence of being larger than anticipated. The Federal Reserve resumed moderate sales of Government securities.

RESERVE BANK OPERATIONS

Among the best known and most important activities of the Federal Reserve System are the development and application of monetary and credit policies, designed to foster a sound and stable economy operating at high levels of employment and production. Nevertheless, these activities require the efforts of only a small fraction of the staffs of the Reserve Banks.

Most of the 1,000 employees of this Bank are engaged in the collection of checks, the supply of currency and coin, the safe-keeping of securities and money, and fiscal agency activities on behalf of the Treasury, as well as the accounting, auditing, building maintenance, and other activities needed to keep the organization running.

During the year 1949 some of the operations of the Bank declined in terms of dollars, but in physical terms—units handled—there were more increases than declines. Approximately 183 million checks—business, personal, and Government—were handled, an increase of 8 per cent over 1948. The 270 million pieces of currency counted were a trifle less than in 1948, but in the coin division an increase of 10 per cent to 431 million pieces was reported. Issues of savings bonds again increased, while the number of pieces redeemed dropped further. Transfers of funds by telegraph or otherwise were more numerous.

About \$2.2 billion of securities were held in safekeeping for banks at the close of the year, a moderate gain over 1948. Discounts and advances to member banks declined but, even so, 126 banks received this type of accommodation in the course of the year. Many commercial banks, rather than borrow, now adjust their reserve positions through the purchase or sale of Government securities.

Working capital loans to industry, which the Federal Reserve makes only when credit is not available on reasonable terms from other sources, increased during 1949. Approval was given in 11 cases, involving a total of \$8.4 million. Ten loans were made in participation with local banks. Every effort is made to help borrowers become "bankable risks" as soon as possible.

Possibilities for further improvement in the services rendered member banks are constantly being explored. To the extent that distance and time permit, armored car pick-up and delivery of currency and coin are being provided for member banks. In the field of collections, through further development of the air-transport program for expediting check clearance between reserve cities, one day was taken off the collection time for eight more cities. At the close of the year, we had 19 one-day points and 16 two-day points.

To promote operating efficiency, attention is continually being given to the possibilities for mechanization. An example of the benefits to be derived is afforded by the experience of the Department of Collections, where the number of checks processed in a

single day has been as high as 1-1/3 million. Using approximately 95 proof machines, a staff of 237 persons, including supervisory and administrative personnel, turned out a volume of work in 1949 which would have required 410 clerks under the old manual procedure at an over-all cost 25 per cent higher than that actually sustained. Other specialized types of equipment in use here include currency and coin counters, bookkeeping machines, and punch-card equipment. The use of punch cards has facilitated operations in a number of departments, including accounting, collection, audit, personnel, savings bonds, and research.

The successful performance of all of these operations in the last analysis depends upon people, the members of the Bank family. With the purpose of raising the general level of efficiency through more effective use of our human resources, a program of middle-management conferences was inaugurated in 1949 with some 50 department heads, assistants, and first-line supervisors in attendance at bi-weekly meetings. Using open-forum methods, constructive solutions of day-to-day problems are proposed and thoroughly discussed.

Good bank and public relations also depend largely upon mutual respect and understanding of one another's problems. Following this principle, the Bank has continued to hold field conferences with bankers. During 1949 there were 28 such meetings, covering the entire district and attended by 788 officers and 506 directors. In addition, semi-annual meetings of the Federal Reserve Relations Committee, attended by representatives of bankers' groups, were held here and the record of the discussions was printed and distributed to banks throughout the district. Field representatives made about 650 individual visits to banks in the course of the year to exchange views upon matters of mutual interest.

Members of the staff of the Department of Research shared in all of the meetings with bankers of the district, participating in discussions on banking and business conditions. Articles on topics of current importance, statistical summaries, and the results of special surveys are made available to banks and the public through the monthly *Business Review* and other publications.

Directors and officers.

At the regular elections held in the fall, J. Nyce Patterson, President of the Watsontown National Bank, was elected a Class A director by Group 3 banks for a term of three years beginning January 1, 1950. He succeeds John B. Henning, who had served as a Class A director of the Bank since 1934. William J. Meinel, representing Group 1 banks as a Class B director, was re-elected for another term.

Warren F. Whittier served as Chairman of the Board of Directors during 1949, and C. Canby Balderston as Deputy Chairman. At the close of the year, they were re-appointed for the year 1950, and Mr. Whittier was re-appointed a Class C director for the three years beginning January 1.

Frederic A. Potts, President of the Philadelphia National Bank, represented the district on the Federal Advisory Council in 1949 and was again selected by this Bank's Board of Directors to serve during 1950.

There were no changes in the official staff during 1949. On February 28, 1950, Robert R. Williams resigned as Assistant Vice President and Assistant Secretary to accept a position as Vice President of the Corn Exchange National Bank and Trust Company, Philadelphia. Effective May 1, 1950, Richard G. Wilgus, an Assistant Vice President, also was made an Assistant Secretary; Wallace M. Catanach, an Assistant Cashier, became an Assistant Vice President; and Edward A. Aff, Ralph E. Haas, and Henry J. Nelson became Assistant Cashiers.

Directors

as of May 1, 1950

	Group	Term Expires December 31
Class A:		
Archie D. Swift	1	1950
Chairman of the Board, Central-Penn National Bank, Philadelphia, Pennsylvania		
George W. Reily	2	1951
President, Harrisburg National Bank, Harrisburg, Pennsylvania		
J. Nyce Patterson	3	1952
President, The Watsontown National Bank, Watsontown, Pennsylvania		
Class B:		
William J. Meinel	1	1952
President and General Manager, Heintz Manufacturing Company, Philadelphia, Pennsylvania		
Walter H. Lippincott	2	1950
President and Director, Lobdell Company, Wilmington, Delaware		
Albert G. Frost	3	1951
Chairman of the Board, The Esterbrook Pen Company, Camden, New Jersey		
Class C:		
Warren F. Whittier, Chairman		1952
Agricultural Consultant, Chester Springs, Pennsylvania		
C. Canby Balderston, Deputy Chairman		1950
Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pennsylvania		
Philip T. Sharples		1951
Chairman of the Board, Sharples Corporation, Philadelphia, Pennsylvania		

Officers
as of May 1, 1950

ALFRED H. WILLIAMS, *President*

W. J. DAVIS,
First Vice President

JAMES V. VERGARI,
Counsel and Assistant Secretary

KARL R. BOPP,
Vice President

RICHARD G. WILGUS,
*Assistant Vice President
and Assistant Secretary*

L. E. DONALDSON,
Vice President

WALLACE M. CATANACH,
Assistant Vice President

ROBERT N. HILKERT,
Vice President

EDWARD A. AFF,
Assistant Cashier

ERNEST C. HILL,
Vice President

RALPH E. HAAS,
Assistant Cashier

WILLIAM G. MCCREEDY,
Vice President and Secretary

ROY HETHERINGTON,
Assistant Cashier

PHILIP M. POORMAN,
Vice President and Cashier

HENRY J. NELSON,
Assistant Cashier

NORMAN G. DASH, *General Auditor*

APPENDIX

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Statement of Condition

Federal Reserve Bank of Philadelphia

(000's omitted in dollar figures)	December 31		
	1949	1948	1947
RESOURCES			
Gold certificates	\$1,208,508	\$1,011,054	\$1,016,538
Redemption fund—Fed. Res. notes	48,915	60,212	60,691
Total gold certificate reserves	\$1,257,423	\$1,071,266	\$1,077,229
Other cash	14,489	17,967	14,687
Discounts and advances	7,255	17,495	6,841
Industrial loans	1,885	767	1,358
United States Government securities	1,286,381	1,666,658	1,565,522
Total loans and securities	\$1,295,521	\$1,684,920	\$1,573,721
Due from foreign banks	3	4	8
Fed. Res. notes of other Fed. Res. banks	10,369	10,935	10,866
Uncollected items	172,456	173,597	192,379
Bank premises	2,986	3,053	3,182
All other resources	6,493	10,279	7,455
Total resources	\$2,759,740	\$2,972,021	\$2,879,527
LIABILITIES			
Federal Reserve notes	\$1,632,188	\$1,662,531	\$1,681,880
Deposits:			
Member bank reserve accounts	788,335	951,233	867,113
United States Government	63,750	104,176	77,363
Foreign	60,848	51,492	26,649
Other deposits	5,131	6,060	4,708
Total deposits	\$ 918,064	\$1,112,961	\$ 975,833
Deferred availability items	143,300	134,950	164,635
All other liabilities	557	674	898
Total liabilities	\$2,694,109	\$2,911,116	\$2,823,246
CAPITAL ACCOUNTS			
Capital paid in	\$ 15,084	\$ 14,681	\$ 14,370
Surplus—Section 7	38,205	36,704	35,350
Surplus—Section 13b	4,489	4,489	4,489
Reserves for contingencies	7,852	5,031	2,072
Total liabilities and capital accounts	\$2,759,740	\$2,972,021	\$2,879,527
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	49.3%	38.6%	40.5%
Commitments to make industrial advances	\$689	\$46	\$490

Earnings and Expenses

Federal Reserve Bank of Philadelphia

(000's omitted)	1949	1948	1947
Earnings from:			
United States Government securities	\$21,270	\$21,349	\$11,193
Other sources	241	343	220
Total earnings	\$21,511	\$21,692	\$11,413
Expenses:			
Operating expenses*	4,159	4,131	3,887
Cost of Federal Reserve currency	458	385	316
Assessments for expenses of Board of Governors	260	262	214
Total net expenses	\$ 4,877	\$ 4,778	\$ 4,417
Current net earnings	16,634	16,914	6,996
Additions to current net earnings:			
Profit on sales of U. S. Government securities (net)	2,272	456	200
All other	2	3	5
Total additions	\$ 2,274	\$ 459	\$ 205
Deductions from current net earnings	179	1	3
Net additions to current net earnings	\$ 2,095	\$ 458	\$ 202
Transferred to reserves for contingencies	2,821	2,960	35
Paid to U. S. Treasury:			
Interest on Federal Reserve notes	13,511	12,184	5,672
Under Section 13b	0	0	7
Net earnings after reserves and payments to U. S. Treasury	\$ 2,397	\$ 2,228	\$ 1,484
Dividends paid	896	874	854
Transferred to surplus (Section 7)	\$ 1,501	\$ 1,354	\$ 630

*After deducting reimbursements received for certain fiscal agency and other expenses.

Volume of Operations

Federal Reserve Bank of Philadelphia

	1949	1948	1947
Number of pieces (000's omitted)			
Collections:			
Ordinary checks	160,600	147,500	141,100
Government checks (paper and card)	22,500	20,800	23,900
Non-cash items	700	700	*
Currency counted	270,300	270,500	253,400
Coins counted	431,600	391,800	463,400
Discounts and advances to member banks	1	1	2
Transfers of funds	46	44	42
Fiscal agency activities:			
Marketable securities delivered or redeemed.	148	148	139
Savings bond transactions (Federal Reserve Bank and agents)			
Issues (incl. re-issues)	5,336	5,151	4,787
Redemptions	6,050	6,464	7,524
Coupons redeemed (Government and agencies)	1,250	1,151	1,378
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	\$37,186	\$39,221	\$36,190
Government checks (paper and card)	2,771	2,890	3,657
Non-cash items	140	169	199
Currency counted	1,671	1,734	1,547
Coins counted	42	40	44
Discounts and advances to member banks	254	623	1,241
Transfers of funds	17,706	17,543	11,290
Fiscal agency activities:			
Marketable securities delivered or redeemed.	7,215	6,730**	*
Savings bond transactions (Federal Reserve Bank and agents)			
Issues (incl. re-issues)	483†	533†	487†
Redemptions	366†	369†	381†
Coupons redeemed (Government and agencies)	122	120	142
Securities in safekeeping for banks (Dec. 31) .	2,200	2,123**	2,329**

*Not available.

**Revised.

†Par values.

Member Banks

Third Federal Reserve District

Statement of Condition

(000,000's omitted)	Dec. 31, 1949	Change during		Percent distribution	
		1949	1948	Dec. 31, 1949	Dec. 31, 1945
Assets					
Loans and discounts	\$1,794	+\$ 52	+\$ 160	24.6%	12.7%
U. S. Government securities	3,158	+ 163	— 201	43.2	59.3
Other securities	680	+ 74	+ 1	9.3	6.9
Cash assets	1,577	— 68	+ 32	21.6	19.8
Fixed assets	68	+ 29	.9
Other assets	27	+ 1	— 4	.4	.4
Total	\$7,304	+\$ 224	—\$ 12	100.0%	100.0%
Liabilities and capital accounts					
Deposits:					
Individuals, partnerships, and corporations—					
Demand	\$3,810	+\$ 96	—\$ 88	52.1%	45.9%
Time	1,817	— 26	+ 25	24.9	21.0
U. S. Government	176	+ 61	+ 47	2.4	15.4
Bank	424	+ 43	— 30	5.8	6.0
Other	392	+ 29	+ 17	5.4	3.7
Total deposits	\$6,619	+\$ 203	—\$ 29	90.6%	92.0%
Other liabilities	43	+ 5	— 2	.6	.4
Capital accounts	642	+ 16	+ 19	8.8	7.6
Total	\$7,304	+\$ 224	—\$ 12	100.0%	100.0%

Earnings, Expenses, and Profits

(Millions of dollars)	1949	1948	1947	1946
Earnings				
On U. S. Government securities	54.1	54.3	57.8	65.8
On other securities	15.0	14.6	14.4	14.4
On loans	76.3	68.5	54.4	40.3
Other earnings	31.1	29.8	27.1	25.7
Total earnings	176.5	167.2	153.7	146.2
Current expenses				
Salaries and wages	51.7	49.0	44.4	40.4
Interest on deposits	16.4	16.2	15.9	14.2
Other expenses	43.6	41.4	38.2	35.2
Total current expenses	111.7	106.6	98.5	89.8
Net current earnings before income taxes	64.8	60.6	55.2	56.4
Net recoveries and profits on sales (+) or charge-offs (—)	— 7.4*	— 9.1*	— 1.3	+ 13.5
Taxes on net income	15.5	13.9	16.9	17.5
Net profits	41.9	37.6	37.0	52.4
Cash dividends declared	21.5	20.3	19.4	18.8

*Charge-offs include substantial transfers to reserves for bad debt losses on loans.

Employment and Earnings—Pennsylvania Factory Workers

	All Manufacturing		Durable Goods		Nondurable Goods	
	Employment*	Weekly earnings	Employment*	Weekly earnings	Employment*	Weekly earnings
Average:						
1939	100	\$22.42	100	\$25.99	100	\$19.24
1940	108	24.22	118	28.40	100	19.82
1941	130	29.02	154	34.33	108	22.22
1942	140	34.95	178	41.19	106	25.59
1943	147	40.85	195	47.37	104	29.91
1944	142	43.81	189	50.63	101	32.33
1945	127	42.26	162	48.10	96	35.54
1946	120	40.69	141	44.27	102	36.25
1947	129	46.47	156	50.85	105	40.69
1948	129	51.22	155	56.31	105	44.50
1949	114	51.34	133	56.27	98	45.28
1949:						
January	125	52.92	153	58.95	100	44.71
February	124	52.80	151	58.51	100	45.11
March	123	52.58	149	57.96	99	45.38
April	119	50.98	145	56.30	97	43.85
May	117	51.47	141	56.42	95	44.96
June	114	50.94	135	55.61	95	45.04
July	111	50.22	130	54.41	94	45.05
August	111	50.74	128	55.41	96	45.16
September	113	51.19	129	55.60	99	46.05
October	97	49.66	95	53.95	99	45.98
November	105	49.78	111	53.74	99	45.85
December	113	52.80	130	58.38	98	46.20

* 1939 = 100.

Income and Prices

Factory Payrolls: 1939 = 100 Farm Income— Prices: 1935-39 = 100	Factory Payrolls Pennsylvania			Income from farm marketings N. J., Pa., and Del.*	Consumer prices in Phila.†
	Total	Durable goods	Consumer goods		
Average:					
1939	100	100	100	99	99
1940	117	129	103	104	99
1941	168	204	124	122	104
1942	219	283	141	155	115
1943	268	356	162	197	123
1944	278	369	169	199	124
1945	240	299	168	231	127
1946	219	241	192	268	138
1947	268	305	222	299	158
1948	294	337	243	320	171
1949	262	289	230	299	169
1949:					
January	296	348	233	273	170
February	292	340	234	244	169
March	287	332	234	293	169
April	271	314	220	310	169
May	268	306	223	305	170
June	259	289	223	323	169
July	249	273	220	327	168
August	252	274	225	366	169
September	258	276	236	326	170
October	215	197	236	299	169
November	233	229	237	261	169
December	267	293	236	242	167

Sources: *U. S. Department of Agriculture. †U. S. Bureau of Labor Statistics.

DEPARTMENT STORE SALES

1935-1939 = 100 (Adjusted for seasonal variation)		Third District	Phila.	Lan- caster	Reading	Tren- ton	Wilkes- barre	York
	1939	104	101	104	103	110	101	107
	1940	111	108	107	111	120	101	114
	1941	129	124	129	133	140	118	133
	1942	143	140	151	152	153	129	157
	1943	151	147	165	165	177	145	177
	1944	167	158	178	177	192	174	200
	1945	184	172	190	185	223	206	220
	1946	235	214	248	249	294	277	276
	1947	261	238	276	274	324	304	281
	1948	284	253	295	296	370	330	311
	1949	271	241	285	282	375	309	295
1949:	January	283	244	303	292	396	326	316
	February	265	228	292	295	361	297	292
	March	272	241	278	293	363	283	280
	April	274	242	289	284	392	318	316
	May	271	248	270	269	359	318	275
	June	269	245	285	275	385	305	294
	July	261	222	290	285	348	322	287
	August	268	243	245	266	366	306	279
	September	277	243	286	263	405	312	312
	October	260	229	284	273	382	295	303
	November	267	250	271	272	365	303	272
	December	276	243	303	303	373	314	308

DEPARTMENT STORE INVENTORIES

1939	96	92	101	106	97	93	108
1940	99	92	105	112	101	91	113
1941	119	110	120	141	141	113	137
1942	167	165	148	190	184	143	177
1943	141	138	127	158	162	134	161
1944	147	143	132	181	166	144	165
1945	150	146	129	191	167	154	159
1946	191	184	177	229	205	210	212
1947	220	207	218	255	246	249	228
1948	252	221	238	297	328	349	269
1949	233	205	225	275	314	299	252
1949: January	241	214	232	283	315	299	255
February	236	212	243	281	302	304	247
March	238	214	238	286	324	295	254
April	244	213	227	307	330	298	243
May	240	215	229	288	317	296	244
June	232	200	219	277	311	304	253
July	224	194	213	262	310	296	241
August	216	187	212	274	297	286	241
September	232	199	215	275	335	306	261
October	231	201	221	258	315	301	261
November	231	200	226	260	308	307	264
December	232	206	220	258	301	296	264