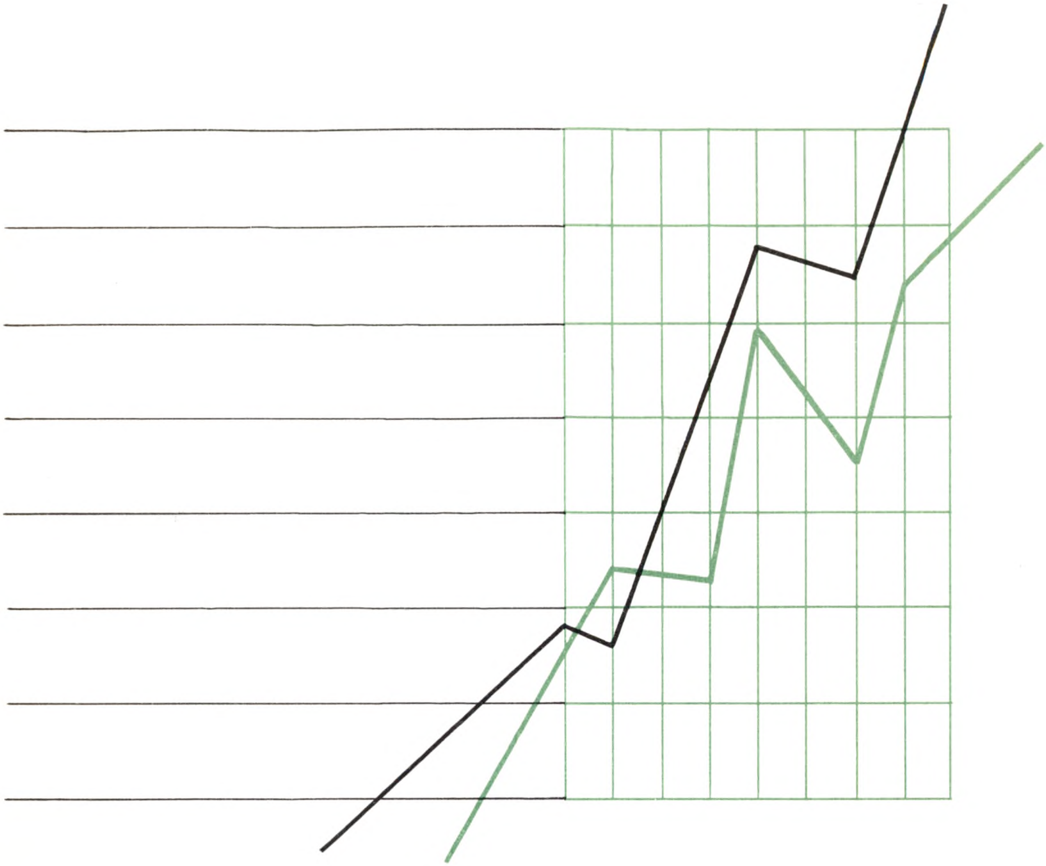

MONEY AND GROWTH

ANNUAL REPORT OF THE FEDERAL RESERVE BANK OF PHILADELPHIA 1956

THE FEDERAL RESERVE BANK OF PHILADELPHIA

In 1956 probably more people talked, thought, and learned more about money than in years. Many of these aspects of money had been discussed many times before. A newer problem was the whole question of money and economic growth. Because of the wide interest in this subject, we devote the opening section of this Report to a brief analysis of it.

Then we turn to the most outstanding economic development of 1956—tight money—and try to answer two fundamental questions: What is it? and Why did we have it?

For those concerned with the more technical aspects of monetary policy, we attempt in the third section of this Report to go a little beneath the surface of one of the most significant developments of the year—the heavy volume of borrowing from Federal Reserve Banks. We have used the case-example approach to try to find out something about the why, who, and how of bank borrowing.

In the fourth section we talk about an activity of this Bank that we consider all-important, particularly in a year like 1956—that is, creating a better understanding of the objectives and problems of the Federal Reserve System.

Finally, the remainder of this Report presents pertinent facts about operations of the Bank during the year.

Alfred H Williams

PRESIDENT

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Additional copies of this report are available upon request to the
Department of Research
Federal Reserve Bank of Philadelphia
Philadelphia 1, Penna.

MONEY AND GROWTH

Some day, some perceptive scholar may be able to capture the history of Federal Reserve policy simply by analyzing a series of dilemmas. He would look at such knotty problems as holding down commodity prices without depressing Government securities prices, restraining inflation without bringing on unemployment, curbing speculation without hampering productive activity, etc. Only time can tell how much attention he should give to a dilemma left on the doorstep of the monetary authorities in 1956—how to restrain inflation without interrupting long-run economic growth.

If he were writing today, he would certainly have to go into it quite thoroughly, for it is a question that seems to be bothering many people. Professional economists have been discussing it;* business and financial publications have been writing about it; and bankers and businessmen have begun to think about it in making plans for the future. Interest in the subject has spread wide and fast. Why? Because it concerns something which has become near and dear to our hearts—economic growth.

Anyone with a sardonic turn of mind might be amused by the fact that 1956, when "growth" was the byword, marked the twentieth anniversary of the publication of J. M. Keynes' *General Theory of Employment, Interest and Money* For the revolutionary ideas which Keynes developed provided the foundation on which arose the theory of the "mature economy." This theory held that a number of basic forces doom our economy to "secular stagnation." Since then, a decade and a half of almost uninterrupted prosperity have

***The American Economic Review* of May 1956 has several papers dealing with economic growth, one of which is on the "Relation of Money to Economic Growth."

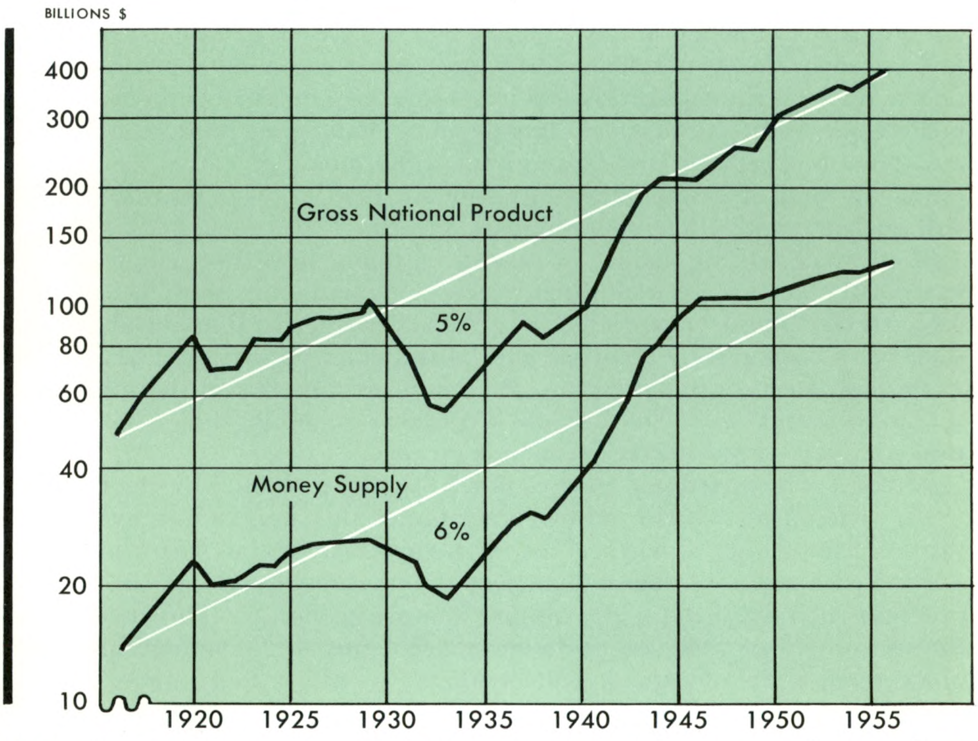
virtually obliterated the concept from the minds of most people. Long-run growth has taken its place.

Growth means different things to different people. To some, it is a faith; a New Era philosophy generated by the post-war boom. To others it is a statistic; something which has happened in the past and therefore will happen in the future. And to still others it is a goal; an objective that should enter into all policies of government.

So far as the Federal Reserve is concerned, growth always has been an objective of policy. If you go all the way back to the original Federal Reserve Act of 1913, you find the Reserve Banks directed to fix their discount rates "with a view of accommodating commerce and business." More recently, the more specific terms "orderly economic growth" and "sustainable economic growth" have been used officially to describe one of the goals of policy.

But this isn't quite what some people apparently have in mind. They feel there is some optimum relationship between the amount of money and the rate at which the economy progresses. Just as a certain vitamin intake is needed for the healthy growth of a youngster, a certain amount of money is necessary for growth of the economy; if there is not enough, growth is stunted. What is

Money and Growth



Over a 40-year stretch the money supply has grown at about the same annual rate as Gross National Product.

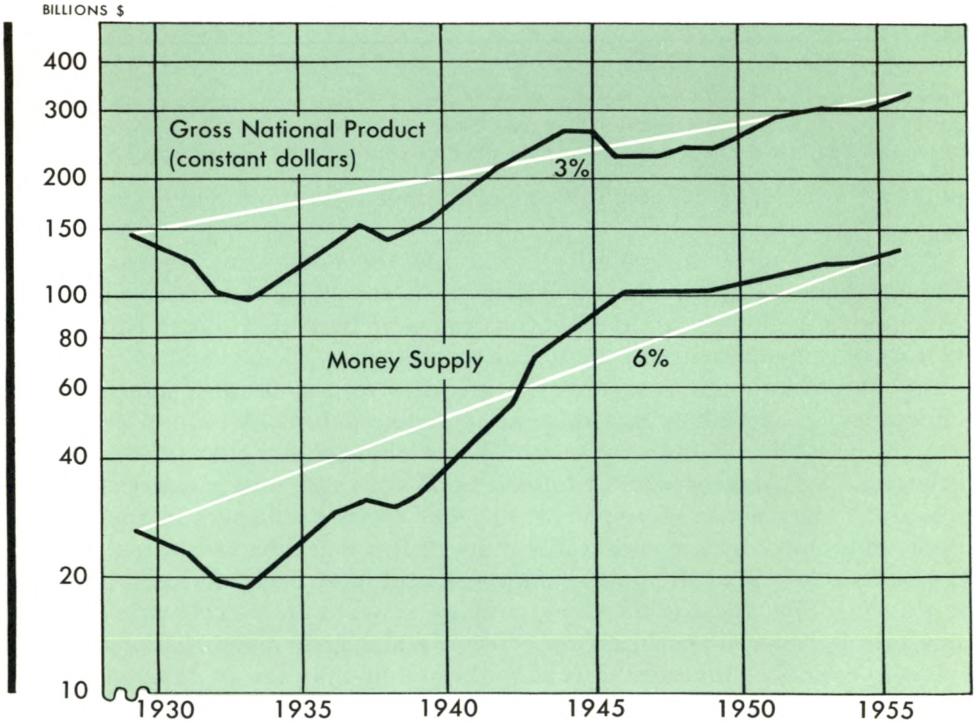
the right amount of money? To get some idea they turn to the past and conclude that the economy has been growing at a rate of x per cent a year, so the money supply should be increased by x per cent a year to permit this rate of growth to continue.

A look at a few facts may throw some light on the validity of this theory. As the chart shows, over the past 40 years Gross National Product has risen at a compound rate of about 5 per cent a year. The money supply has risen at a rate of almost 6 per cent. On the surface this seems to bear out the idea of a fairly close correspondence between changes in the money supply and economic activity.

But when we talk about growth, we usually think in real terms. It would make little sense to increase the money supply to keep pace with a Gross National Product rising only because of higher prices. When G.N.P. is adjusted for price changes, we find that over the past quarter of a century the economy has grown at an annual rate of 3 per cent. The money supply has risen at a rate of about 6 per cent. The correspondence now becomes much less close.

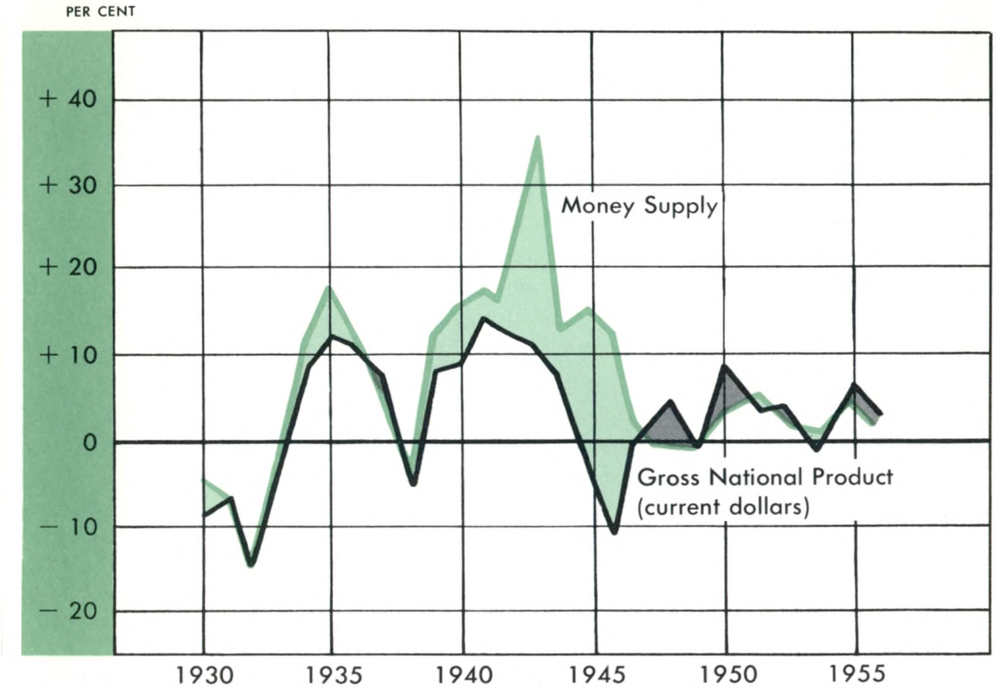
In any case, a figure around 3 per cent—sometimes more or less—is often taken as the "normal" annual growth factor. In 1956 the money supply rose

Money and Real GNP



When price changes are taken out of Gross National Product, the annual rate of economic growth has been only half of that for the money supply.

Year-to-Year Changes in GNP and Money Supply



The money supply and real Gross National Product seldom change to the same degree from year to year. (In years when they increased, they are plotted above the zero line; when they decreased, they are plotted below. The shaded areas show the difference between the two lines.)

by only 1½ per cent. Hence, the concern about tight money interfering with long-run growth.

Whatever may be the validity of the idea of a long-run correspondence between money and growth, it is important to recognize that extension of the principle to a single year like 1956 assumes at least two things constant—the rate of growth itself and the velocity of money.

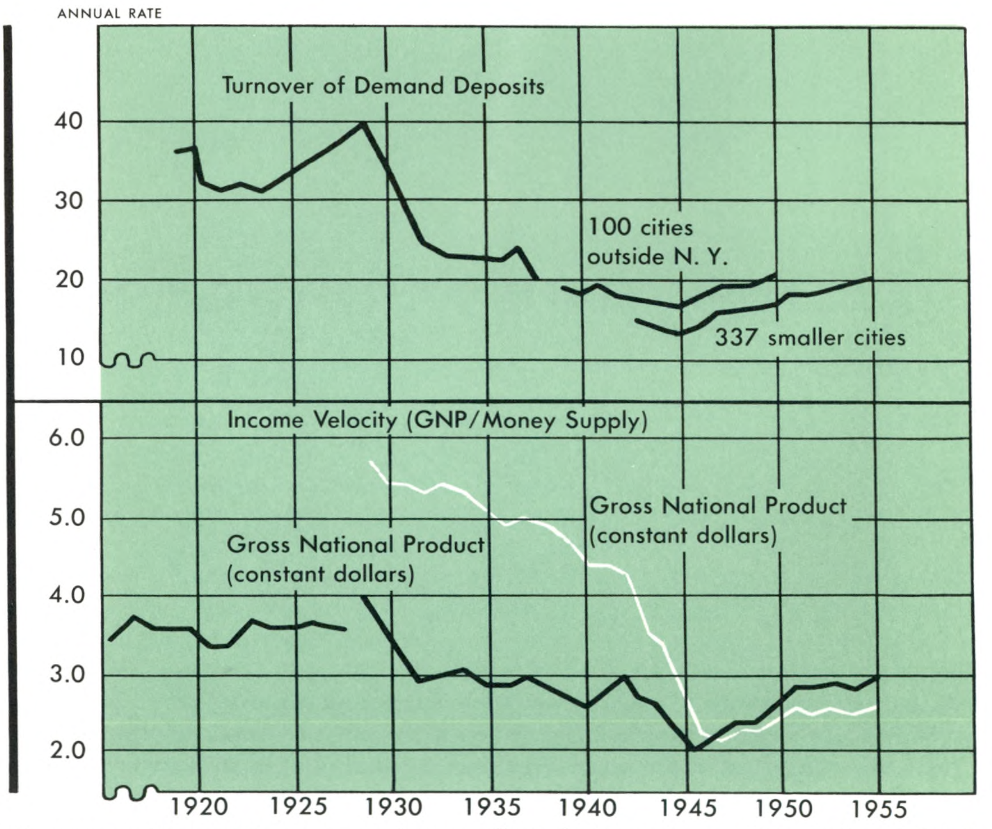
Any parent knows that a youngster grows in spurts, not at a constant rate. Sometimes he eats like a horse, sometimes like a bird. Although economic growth may average out at 3 per cent, the chart shows that in some years deflated G.N.P. has increased as much as 15 per cent; and it has declined as much as 15 per cent. Moreover, from year to year, changes in the money supply often have been considerably more or less than changes in real G.N.P. To say, therefore, that the money supply should have been increased by 3 per cent during 1956 because the economy has grown at an average rate of 3 per cent since 1929 overlooks the erratic changes which go to make up that average.

It also overlooks the possibility that the public may use its existing money supply more or less efficiently. Actually, those who are worried about the money supply not keeping up with G.N.P. should have begun to express their concern five or six years ago. Since 1950 the money supply has increased by only a little more than 3 per cent annually, yet real G.N.P. has averaged 4 per cent. Increased velocity has made up the difference.

There is a real question, though, as to how much of the load velocity can carry. Some feel that although velocity has been filling the breach, it is reaching a ceiling, so that the money supply must soon be increased more rapidly or growth will really suffer. But no one knows much about velocity. We know that it is influenced by the habits and psychology of consumers and business. We know, and the chart shows this, that velocity today is considerably below what it often has been in the past. But we don't know how much further the public would be willing to economize their money holdings.

At any rate, it is clear that the problem is more complex than it looks on first encounter. Chairman Martin recognized this in a speech to the Pennsylvania Bankers Association in 1956. He said: "The volume of money must grow with the growing population and the growing scale of economic activity. How much growth there should be is more difficult to say. Some people think the

Velocity of Money



The economy has used its money supply more effectively in recent years. But velocity is still well below many years in the past.

money supply ought to grow at the rate of 3 per cent a year, while others may say 2 per cent to 5 per cent; I do not profess to know what the figure ought to be, and I doubt that a precise figure can be set as desirable for year in and year out purposes. . . . since monetary policy deals with human nature and human beings, it can't operate on a formula basis."

But in another sense, this problem may well not be as serious as it looks. Is there really a dilemma between restraining inflation and encouraging growth? In the full-employment economy of 1956, more money could not have stimulated more growth—in real terms. It could have given us a bigger G.N.P., but only through higher prices. At other times, however, when the economy is running at less than capacity, more money can help to stimulate economic activity and encourage an expansion of real output.

Everyone agrees that long-run growth is desirable. But if the Federal Reserve succeeds in solving its shorter-run problem of contributing to economic stability and relatively full employment, it is likely that long-run growth of the money supply will take care of itself.

1956: YEAR OF TIGHT MONEY

Rather than present the usual review of business and financial developments in 1956, we have decided to sketch a brief picture of only one important aspect of the year—tight money. It is not surprising, however, that in trying to answer two basic questions about tight money—what it is, and why we had it—we do in fact cover most of the outstanding developments in business and finance. For tight money

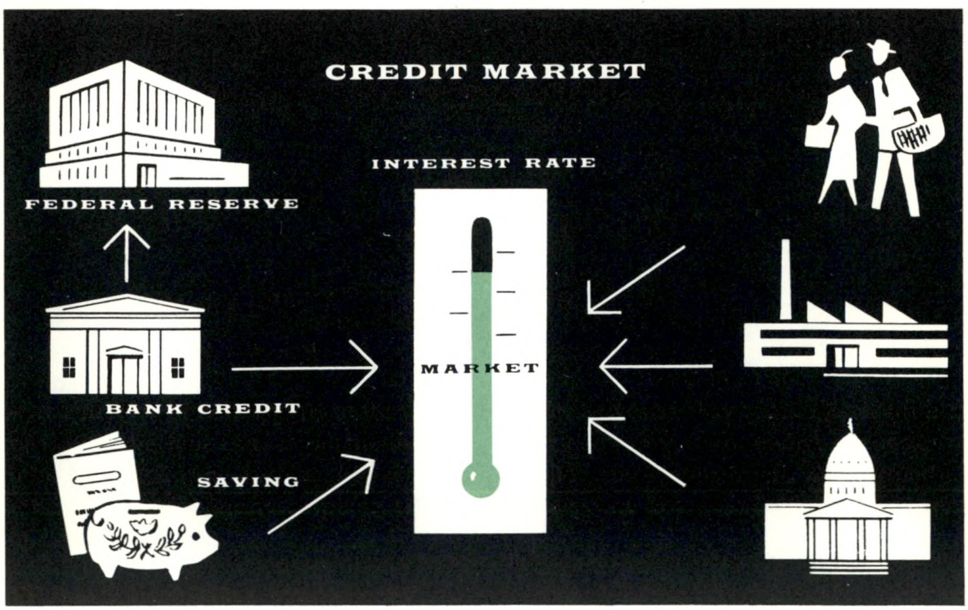
was a matter of concern to more than the Federal Reserve System. The headlines testify to the fact that it permeated the entire economy, influencing activities of homebuilders, state and local governments, corporations, consumers, and numerous other groups. In many respects, tight money was the key economic development of 1956.

What is tight money?

To answer this question we must look at the credit market. The credit market is any place where borrowers—consumers, businesses, and governments—demand funds, and where lenders—mostly savings institutions (like insurance companies, mutual savings banks, savings and loan associations) and commercial banks—supply funds. This is where interest rates are set.

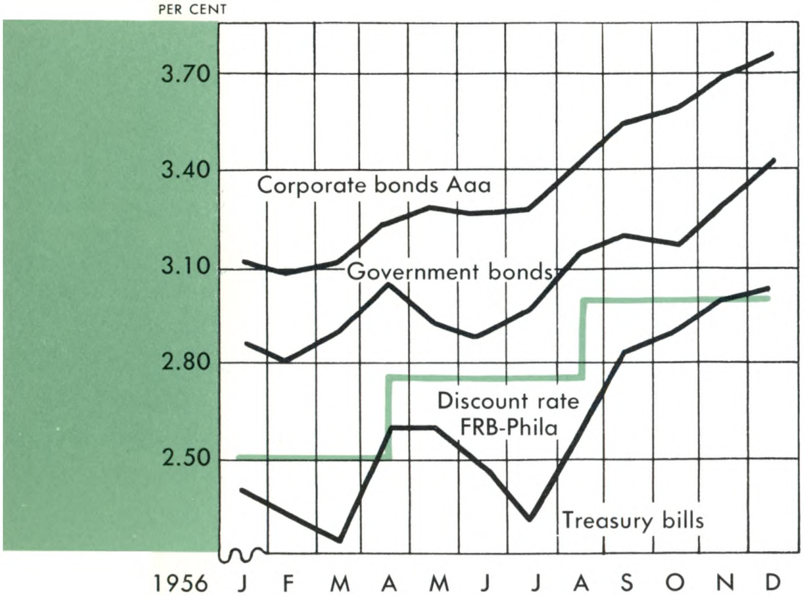
Tight money was simply a short way of saying that the demand for credit was stronger than the supply. So, like any other price in such a situation, interest rates went up.

Responsibility for tight money, therefore, lay basically with those who wanted credit. Their demands were greater than could be supplied out of savings. But the Federal Reserve was also responsible. It could have stimulated the flow of bank



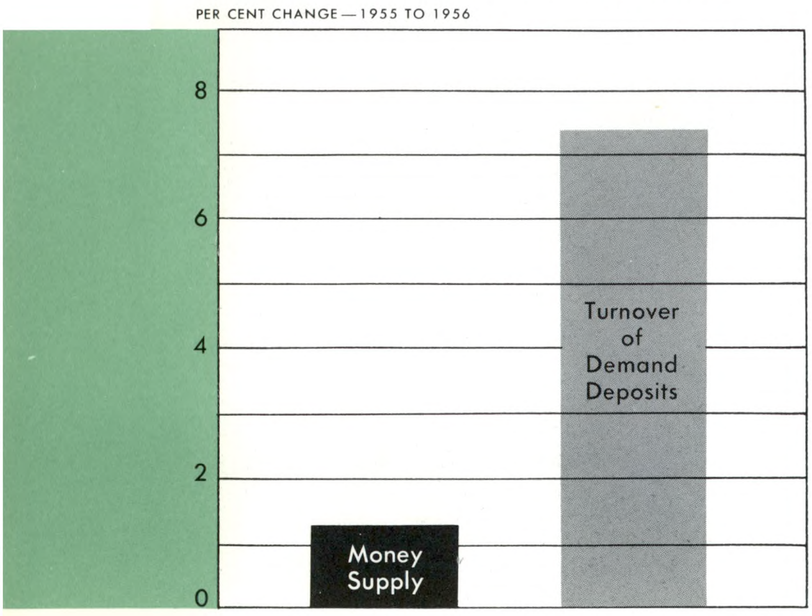
credit to help meet demands. But in general it didn't. Neither did it move aggressively to shrink the supply of credit by selling government securities or raising reserve requirements. The Federal Reserve simply kept bank credit from expanding as fast as demands increased, more or less letting the market tighten itself.

Interest Rates



One measure of tight money was the increase in interest rates that resulted. As market rates rose, the Federal Reserve Banks raised their discount rates.

Money Supply and Velocity

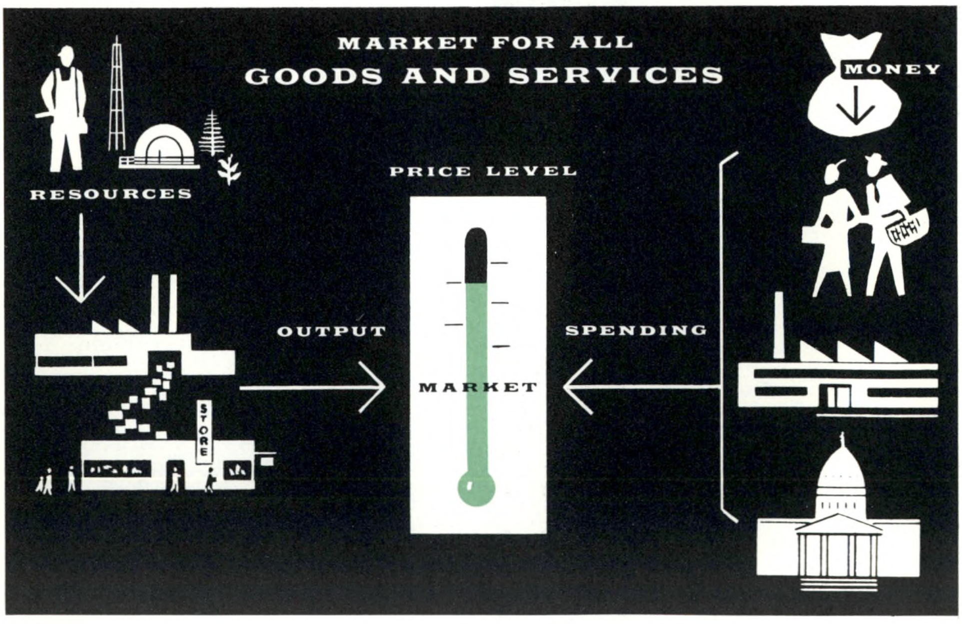


Another indication was the relatively small increase in the money supply. And a third was the rising velocity of money; as the supply of money tightened, the economy used its existing money holdings more efficiently.

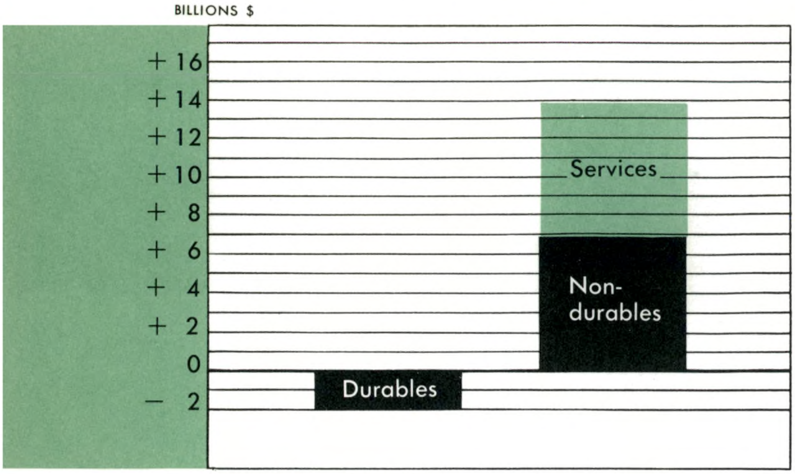
Why tight money?

This was a question many of those involved in the above headlines frequently asked, sometimes quite vehemently. For tight money kept them from doing some of the things they wanted to do—building more houses, factories, roads, etc. But, naturally enough, they were looking at the problem from their own individual point of view. The Federal Reserve was looking at the economy as a whole.

What it saw was a market for all goods and services. Our economy is a place where resources are put to work in producing goods and services which enter the market place. Consumers, businesses, and governments demand these products by spending their dollars in the market. The flow of dollars meeting the flow of goods determines the price level. If the flow of dollars is too strong, we are likely to have inflation; if it is not strong enough, we are likely to have recession. The Federal Reserve's job is to regulate bank credit in such a way as to contribute to the maintenance of spending in balance with output at a high level.

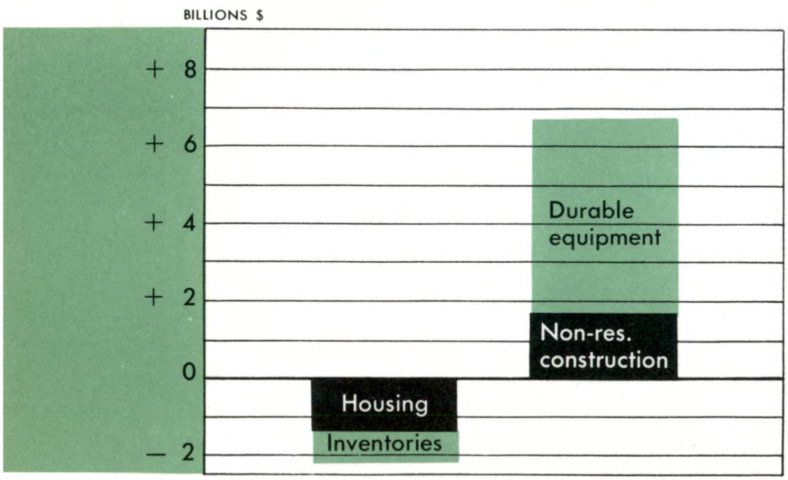


Consumer Spending Change from 1955



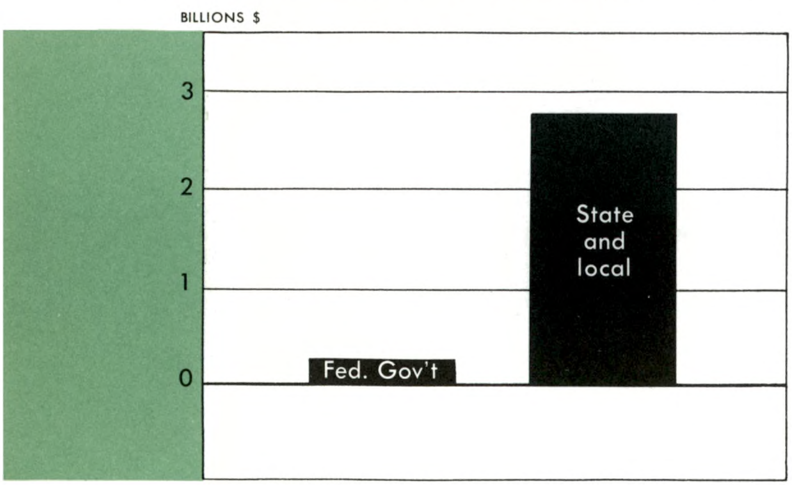
In 1956 the flow of dollars was very heavy. This was a point many consumers failed to see because they looked at familiar things like cars and television sets. When they saw that spending for them was down from 1955, they concluded that demand for all consumer goods was off. But if they had looked also at nondurable goods (like food and clothing) and services (like haircuts, electricity, and rent), they would have found that consumer spending in 1956 was up considerably—more than enough to make up for the decline in spending for durables.

Investment Spending Change from 1955



Also, they were likely to think of housing, which was off from 1955. But businesses were spending so much more for new plants and new equipment that the drop in housing plus business inventories was more than cancelled out.

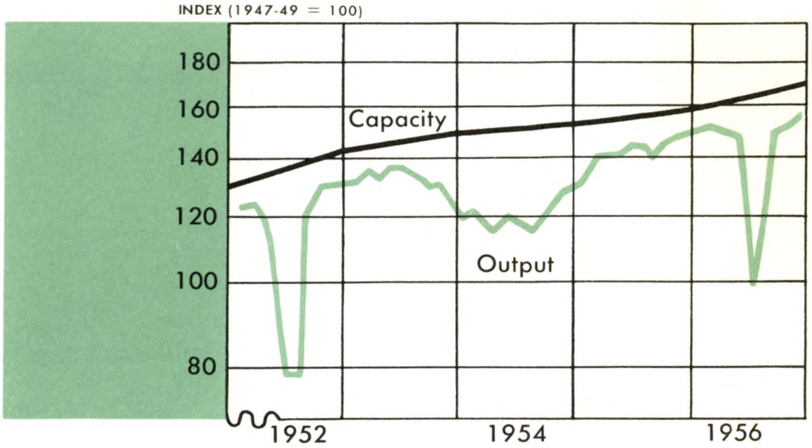
Government Spending Change from 1955



Similarly, the Federal Government spent little more than in 1955, but states and local governments kept on pouring dollars into the market place for more roads, schools, hospitals, and other facilities. As a result, total government spending was significantly higher.

Adding consumer, business, and government spending together, we find that the flow of dollars was indeed large—in fact, greater than ever before in our history.

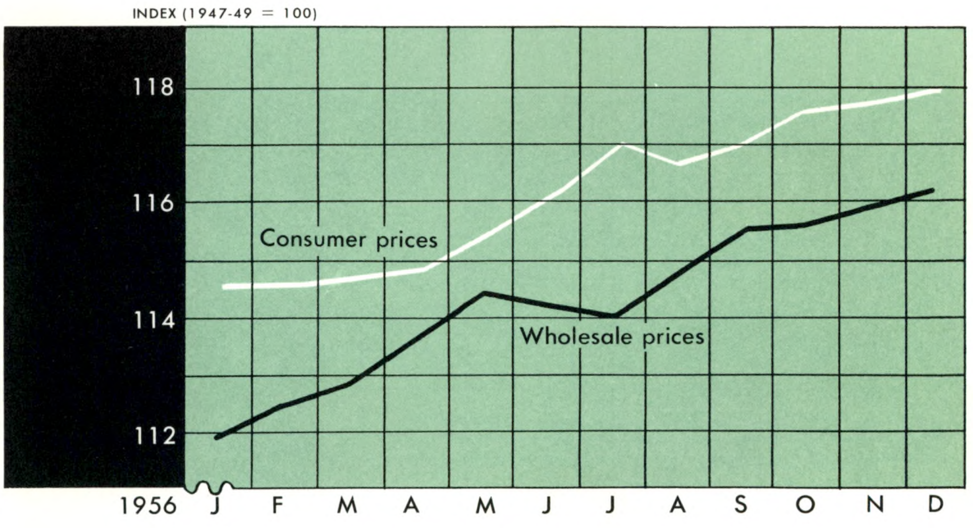
Output and Capacity of major materials



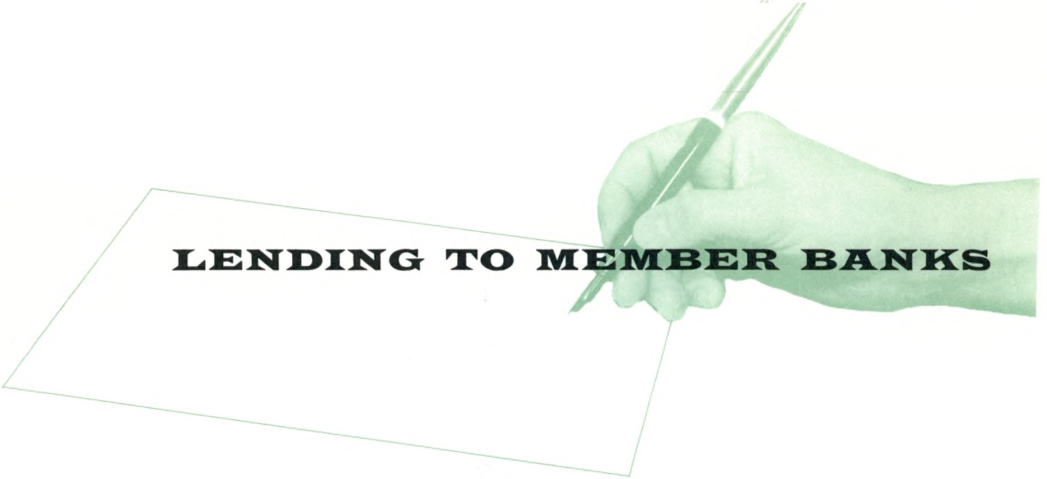
On the other hand, the ability of our economy to supply increasing demands was limited. Unemployment was about at minimum. The labor force was working more than 40 hours a week. Basic industry was operating close to capacity. With the flow of goods limited, a rapid expansion in the flow of dollars threatened to force up prices.

Prices did, in fact, rise almost continuously throughout the year both at the wholesale and retail levels.

Prices



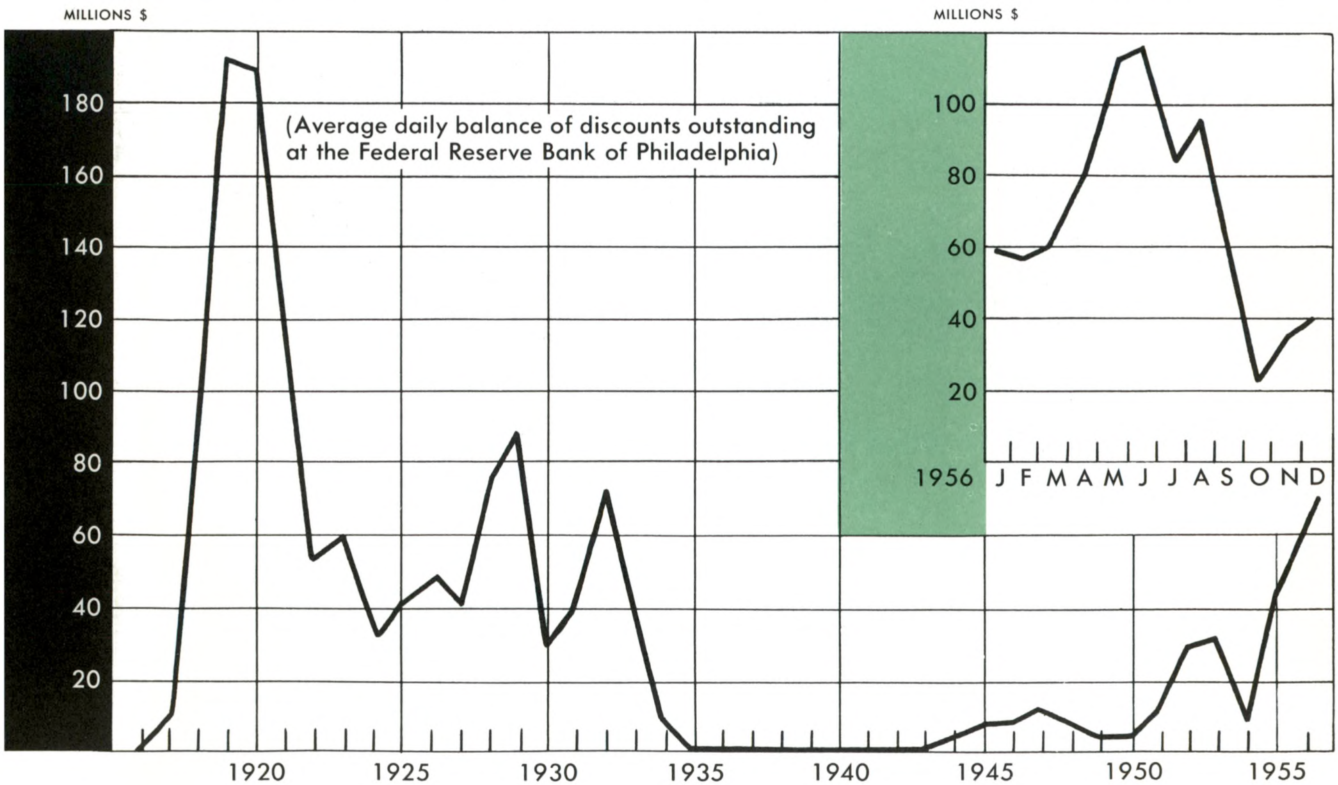
So no matter where the Federal Reserve looked in the market for all goods and services—at the demand side, or the supply side, or the market place itself—inflationary pressures were there. The Federal Reserve's restrictive policy was an attempt to keep demands from being even more inflationary. No one knows for sure what would have happened in the absence of such a policy, but it is likely that prices would have risen still more.



LENDING TO MEMBER BANKS

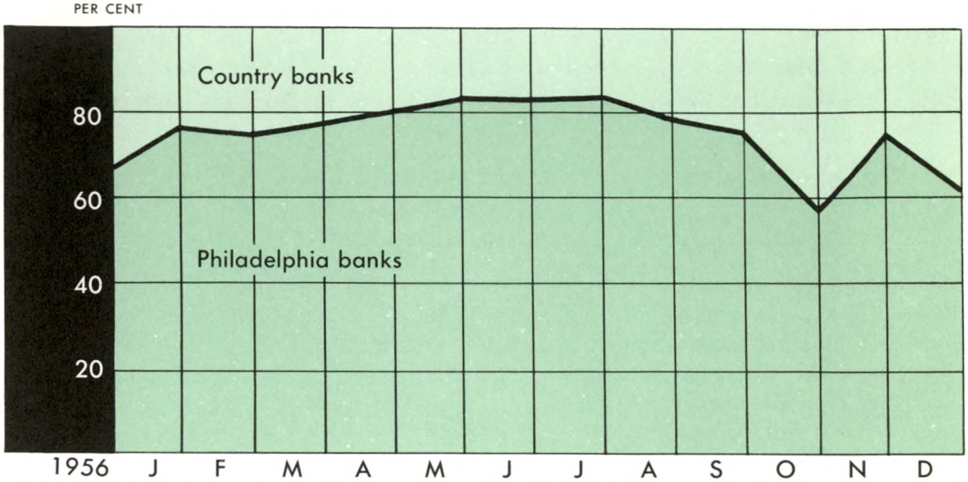
The impact of tight money on operations of this Bank in 1956 was nowhere so apparent as in our loans to member banks. Although still well below the peaks reached in the 1920's when discounting was the main way in which banks got reserves, the average level of loans outstanding in 1956 was greater than at any time since 1932. As the chart shows, lending was particularly active around the middle of the year. A brief look at this lending, especially during the period of heavy activity, may give an idea of some of the problems facing this Bank and its members during the year.

Lending to Member Banks: The long- and short-run picture



Although still well below the volume of some years back in the 1920's, lending to member banks was greater in 1956 than at any time since 1932. It was particularly active around the middle of the year.

Which Banks Borrowed?



The Philadelphia banks accounted for more than three-fourths of the outstanding loans during most of the year, although they had only about two-fifths of total member-bank resources.

201 banks, or almost two out of five borrowed. This was more than at any time in the past two decades. But it was considerably less than in the early 1930's and the 1920's when three out of four banks frequently were borrowing.

It would not be far wrong to characterize borrowing during 1956 as a big-Philadelphia-bank phenomenon. As the chart shows, the Philadelphia banks accounted for more than three-fourths of the outstanding loans during most of the year, although they had only about two-fifths of total member-bank resources. Moreover, as can be seen in the following table, the largest banks (most of them in Philadelphia) were in debt almost half the time during the period of heavy activity, compared with about one-third of the time for the other borrowing banks. Almost all of the very large banks borrowed, but only 10 per cent of the very small banks.

In May through August, banks of this size . . .	. . . borrowed this proportion of the total amount . . .	. . . and had borrowings outstanding during this proportion of the total period.	This proportion of all member banks in the size group borrowed.
Deposits under $ 2 million	*%	33%	10%
$ 2— 5 million	1	32	20
5— 10 million	3	35	39
10— 20 million	3	37	31
20— 100 million	7	26	64
over $100 million	86	49	92
All borrowing banks	100%	34%	37%

*Less than .5 per cent

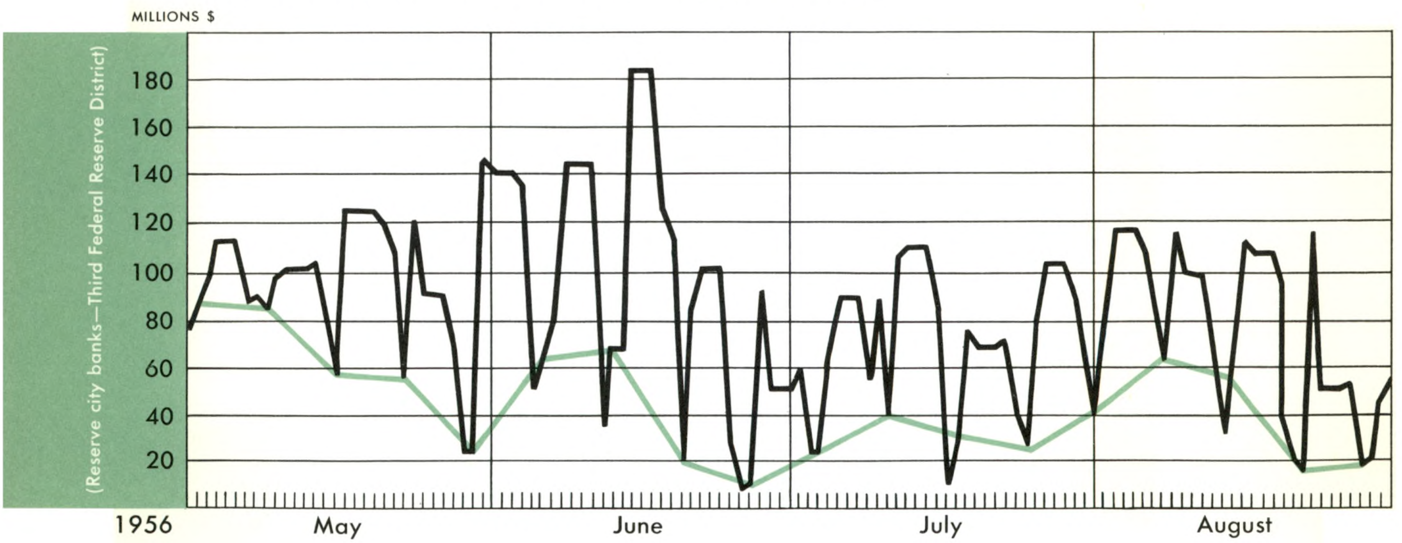
How banks borrowed

Philadelphia banks were more active borrowers than the smaller country banks also in the sense that they were frequently changing the amounts borrowed. If you count as a single borrowing the length of time a given amount remained on the books, it is clear that the larger the bank, the shorter the period of each borrowing.

In May through August, banks of this size . . .	. . . borrowed this number of days each time
Deposits under $ 2 million	17
$ 2— 5 million	11
5— 10 million	11
10— 20 million	9
20— 100 million	5
over $100 million	2
All borrowing banks.	7

It was not that Philadelphia banks needed funds only temporarily; actually, as we have seen, they were borrowing a larger part of the time than country banks. It was just that they followed their reserve positions more closely, paying off some of their borrowings as funds came in, borrowing more as pressures increased again. The premium for playing it close to the line became greater and greater as interest rates rose.

Day-to-Day Movements in Borrowing



Philadelphia banks were constantly changing their borrowings during the period of heavy activity. They usually reduced their debts on Wednesdays. (The green line.)

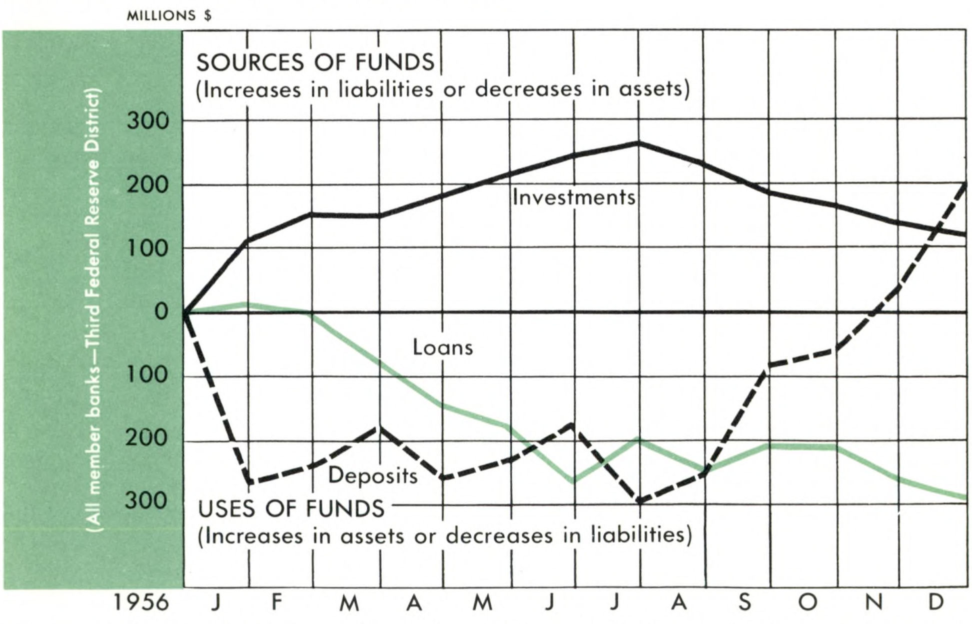
Some idea of how closely Philadelphia banks actually did watch their positions is given by the chart on daily borrowing during the period of heavy activity. The jagged line shows how widely borrowing fluctuated from day to day. The green line—much smoother and lower—shows the volume outstanding on Wednesdays. What happened was that banks borrowed heavily on Thursday and Friday to build up reserve positions, then paid down their borrowings by Wednesday. Since they were required to meet reserve requirements only over the week as a whole—and for this purpose the week ended on Wednesday—excess reserves early in the reserve period were enough to compensate for deficits later. The reason for paying down borrowings on Wednesday was that most banks submitted their statement of condition on that day and did not like to report any more indebtedness than necessary.

There was nothing particularly new about this. But banks did revive in 1956 a practice they had not engaged in for years. For the first time in fifteen years, some of them used commercial paper in substantial volume as collateral. This was another reflection of the tight money situation. Banks had sold large amounts of Government securities that they ordinarily use for collateral. And they were using much of what they had left as security against Treasury tax and loan and state and local government accounts.

Why banks borrowed

The high level of bank borrowing was a sign that banks were being squeezed. As the chart shows, they were under pressure from one group of customers—their borrowers—for more credit. But another group—their depositors—was not putting

How Banks were Squeezed



How to read this chart: loans were increasing and deposits (during much of the year) were off. These were the main uses of bank funds. The biggest source of funds came from selling investments.

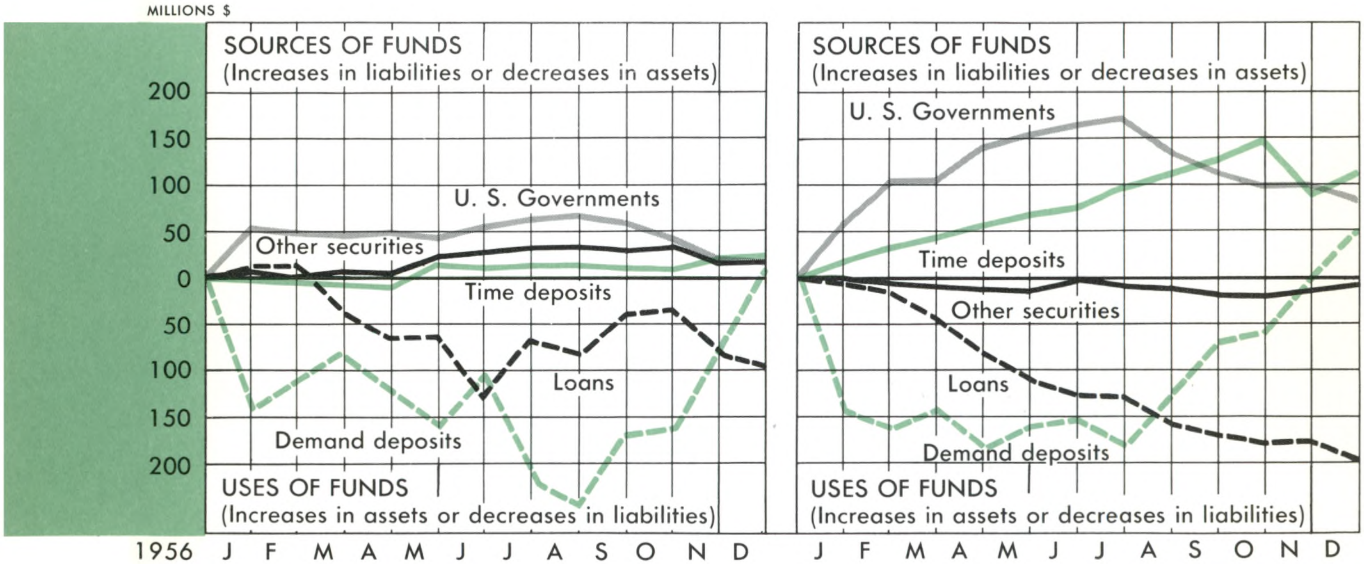
in enough funds to meet all loan demands. We have already shown how in 1956 the growth of deposits was limited in the nation as a whole. In this district, deposits actually were off during most of the year. To relieve the squeeze, banks sold Government securities. But even that was not enough, so they borrowed.

A further look at the major sources and uses of bank funds helps to explain two points raised earlier—why such a large proportion of the borrowing was done by large Philadelphia banks, and why borrowing bunched up around the middle of the year.

Banks outside as well as inside Philadelphia were squeezed, but the pressure was greater in Philadelphia. Loan demands were heavy in both cases, as the chart shows. In fact, loan expansion throughout the year was larger and more persistent in country banks than in Philadelphia banks. But the Philadelphia banks lost more demand deposits and failed to share in the strong inflow of time deposits that country banks enjoyed.

The Pressure on Philadelphia Banks was Greater than on . . .

. . . Country Banks

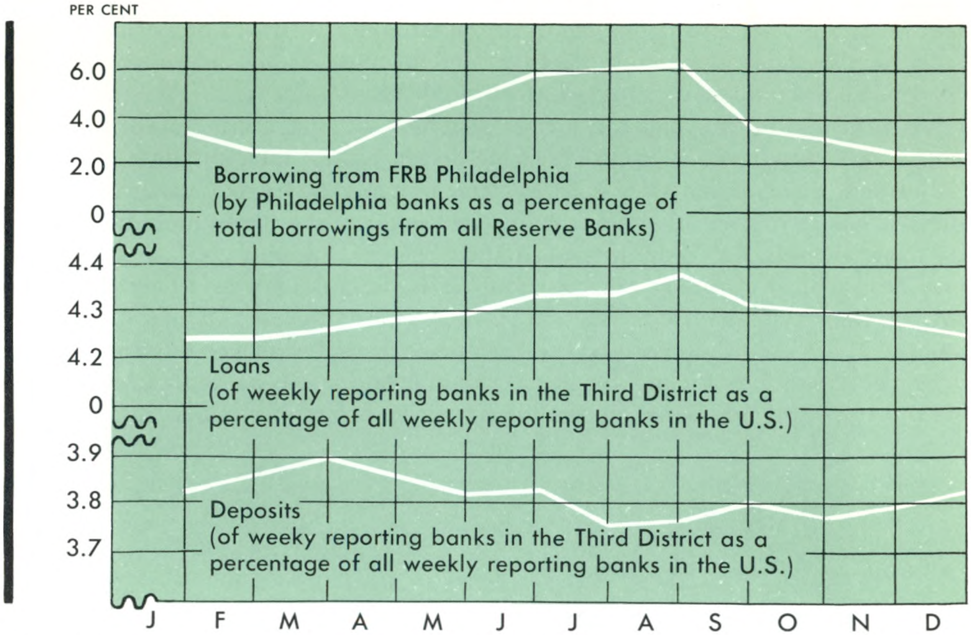


Philadelphia banks faced a strong demand for loans, withdrawals of demand deposits and little increase in time deposits. They had already sold large amounts of Governments.

Country banks had a stronger loan demand and also lost demand deposits during most of the year. But they enjoyed a strong inflow of time deposits and could sell Government securities.

To meet loan demands and deposit losses, both groups sold Government securities. Philadelphia banks, however, had been selling all through 1955, and by the middle of 1956 were practically out of short-term securities. They still had Govern-

Seasonal Swings (Based on monthly averages—1952-1956)



Some tendency for borrowing from this Bank to bulge around mid-year may be caused by a seasonal expansion of loans (relative to other areas) and a seasonal loss of deposits.

ment bonds but were naturally reluctant to sell at the low prices prevailing in the market. They turned increasingly to municipals and other securities as a source of funds. Country banks, on the other hand, actually were able to increase their holdings of other securities slightly.

To explain the bulge in borrowing around midyear, we have to go beyond the charts on sources and uses of bank funds into territory we know less about, even in retrospect. It is clear that a similar bulge did not take place at all Reserve Banks. And we know that the volume of borrowing in this district for a time clearly was out of line with the importance of this district in the nation's economy. Most measures indicate that this is a 5-to-7-per-cent district; but borrowing from this Bank between May and August was well above 10 per cent of the volume of borrowing from all Reserve Banks.

It may well be that the heavy borrowing was the result of forces at work for some time. Banks in Philadelphia had been expanding their loans rapidly for several years—more rapidly than banks in the rest of the nation. But because their deposits had not been increasing as fast as their loans (and, in fact, not as fast as deposits in the nation as a whole), their loan-to-deposit ratio had risen to a very high point compared with other sections of the country. To get funds for loans, banks had reduced their investments much more rapidly than average to the point where their ratio of investments to deposits was low compared with other areas.

On top of this longer-run situation, seasonal developments put even more pressure on the Philadelphia banks. The chart shows that borrowing from this Reserve

Bank *usually* increases, relative to borrowing from all Reserve Banks, around the middle of the year and drops again in the fall. This seems to be because loans bulge in the same way, while deposits tend to move in the opposite direction. Since the usual tendency seems to be for loan demands to be relatively less insistent toward the end of the year and for deposits to flow in from other areas, pressure might have eased even if banks had done nothing about their situation.

But these developments are not invariable or dependable. And banks did something to assure the result. When they needed reserves, they were more inclined to try to get them in the Federal funds market before coming to the Fed. While this may have tended to reduce borrowing at this Bank, it did not help to relieve pressure on the banking system as a whole. In addition, however, banks apparently attempted in many different ways to encourage the inflow of deposits and to hold down the expansion of loans. In thus working toward a solution of their own problems, they helped this Bank combat the broader problem of inflation.

BANK AND PUBLIC RELATIONS

The Federal Reserve Banks recognize, I know, the special responsibilities they bear in their respective areas for gathering economic information and for making it available. They have a duty to explain what they do, and why, in carrying out their part in the trusteeship over credit.

Wm. McC. Martin, Jr.

As we have seen in the preceding pages, the interests of the public and the Federal Reserve are inseparable. Problems of monetary management, primarily the responsibility of the Federal Reserve, are ultimately problems of the central bank relative to the public welfare. It would be difficult to find a more basic kind of public relations.

At first glance, however, the central banker appears to have the cards stacked against him in this field. This report has discussed some of his dilemmas, but there are others of a different nature.

By tradition, for example, the central banker is known to prefer "the silent service," letting actions rather than words speak for him. By obligation, he is close-mouthed lest he tip his hand to the advantage of some at the expense of others. He is changeable—sometimes restrictive and abrasive; at others, easy and expansive, and sometimes neutral. He "leans against prevailing winds," "bucks the tide," "removes the punch bowl just when the party's getting started"—and puts it back when no one is particularly thirsty. He is accused of doing too little or too much—and at the wrong time. When applauded for what he *is* doing, he suspects his own effectiveness and warns of his limitations. In his dual role of supervisor of banks and overseer of credit, he must perform such constabulary duties as the law requires.

All in all, his lot, like that of Mr. Gilbert's policeman, is not a happy one. Nor would it appear to be cast for effective public relations, as that term is commonly used.

On the other hand, despite these encumbrances, he does not labor in a completely unyielding vineyard. When his performance is good and his purposes and policies understood, if not agreed with, the climate he works in improves. A midwestern professor of business administration writes:

> We have a Boy Scout Week and we have a Love Your Mother-In-Law Week, and many others. I think it would not be unreasonable if we were to establish something called National Be Kind to the Federal Reserve Week—in which we would do our best to express kindness and sympathy with the Fed, if not complete agreement with everything they are doing. Theirs is a difficult and unenviable task.

Recognition of the tasks and the problems is always a step in the right direction. Some problems were outlined earlier in this report. They demand thought and constructive discussion and this implies, of course, good two-way communications, essential to mutual understanding, between the central bank and the general public it serves.

Even though the central banker in his official capacity tends to be uncommunicative for reasons suggested above, framers of the Federal Reserve Act provided a number of assurances that he would not be isolated. They built into the System, in effect, a network of communications devices. For example, the Act ensures diversity on the Board of Governors and on the Open Market Committee. The 12 regional Reserve Banks and their 24 branches must reach into the grassroots of their respective districts for directors of varied experience and background. The Federal Advisory Council was set up primarily to provide a statutory avenue of communications with the Board of Governors. The Federal Reserve is empowered to call for various reports which, among other uses, supply information bearing on economic conditions. In turn, it must submit a report to Congress annually but is usually called on more frequently for statements, reports, and testimony. They become a matter of public record.

There are, of course, many other arrangements by which the Federal Reserve System and the Reserve Banks keep informed and transmit information to the economy. Especially important are the statistics and research studies published in the monthly Federal Reserve *Bulletin* and in the monthly business reviews of the Reserve Banks, and in other releases and booklets. The catch-all term "public relations," variously defined, could encompass the multitude of operational and personal relationships involving the Federal Reserve System and the Reserve Banks. However, this section is limited to a review of activities falling under the bank and public information program of one Federal Reserve Bank. All Federal Reserve Banks conduct similar activities in forms they deem appropriate in their districts.

Dual objectives

Their basic objectives are twofold: to bring about understanding of why the Federal Reserve System exists, what its responsibilities are, and how it functions; and, conversely, to keep the System aware of attitudes toward its policies, regulations, and operations. In brief, the premise is that the effectiveness of the Federal Reserve System and the Reserve Banks is more likely to be enhanced by mutual understanding and awareness than without them. Furthermore, since Federal Reserve Banks do not operate for profit, the customary market place criteria do not apply to what Reserve Banks do. The differences between Federal Reserve Banks and commercial banks are not obvious to a large segment of the public. Therefore, much of the "public relations" aspect of our efforts is devoted to explaining what Federal Reserve Banks do and the place of the Federal Reserve in our economy.

Activities carried on by this Bank fall into two general categories, those that involve primarily the banks of the district and those that apply to other segments of the public.

Soundings from the district

Most banks in the district are visited, usually on a county-by-county basis, at least once a year by our representatives. These calls provide opportunities to exchange views and discuss problems with bank officers on their home grounds. They are a means of keeping in close touch with area trends, a periodic pulse-taking in the 60 counties of this district. Reports of visits include, among other things, summaries of conditions and new developments, credit, deposit and interest rate trends, opinions and attitudes regarding monetary policy, comments about Reserve Bank operations, and other matters of information. Circulated among officers and research personnel, they feed into the general stream of information and intelligence about the district.

Through their state and group associations, banks in this district select members of a group known as the Federal Reserve Relations Committee which serves a liaison function in such matters as may be appropriate. From time to time its members may be called upon to meet at the Bank.

Members of this Committee assist us in organizing a series of field conferences covering the district once a year. An officer and director from each bank are invited to attend a conference in the area where their bank is located. Each meeting provides an off-the-record forum for frank exchange of information and views on subjects of common interest, such as national business and credit trends, monetary policy, consumer credit, operating ratios, and bank personnel. Representatives of local industry, retailing, real estate, agriculture, and other fields report on area trends.

Conferences at the Reserve Bank are sometimes held in place of field conferences. Bank officers and directors are invited to spend a day at this Bank observing behind-the-scenes operations and reviewing their knowledge of the Federal Reserve System.

Information available

Federal Reserve Bank representatives are exposed to public opinion at meetings they address and others they attend. In a period such as 1956, when a great deal of attention and publicity is given to monetary policy, the number of requests for talks and speeches increases. They come from business, banking, and professional groups, civic and service organizations, educational institutions, and trade associations. They offer excellent opportunities to explain what the Federal Reserve is doing, and why, and to obtain the views of a great variety of people. Increasing use is made of visual aids, which help clarify talks on subjects related to the Federal Reserve System, monetary policy, and business conditions.

About 1400 visitors, usually in groups, tour the Bank each year. These include high school seniors, college and university classes, school teachers and counselors, foreign visitors, business, banking, and professional groups, directors, officers and staffs of banks, and other individuals. Tours include talks and discussions about the Federal Reserve appropriate to the group. Guides are trained employees from departments throughout the Bank.

Contacts are maintained with teachers of money and banking and related subjects in accredited colleges and universities in the district. Federal Reserve publications and testimony and speeches of an educational nature are called to their attention where appropriate. A seminar for a group of college and university teachers of money and banking was held at the Bank in 1955. It dealt mainly with selected operations of a Reserve Bank, problems in the formulation of monetary policy, and problems in implementing policy. Several officers of the Bank teach regularly at universities in this area and lecture at banking schools in other parts of the country.

Information services of the financial library and of the research and statistics department of the Bank are used extensively. Collections of currency and coin are available to member banks for lobby display and are on exhibit in the Bank.

Increasing interest in monetary policy has stimulated the use of publications of this Bank, the Board of Governors, and other Reserve Banks. Films on money, inflation, and the Federal Reserve, which may be borrowed without charge, are also in demand.

In summary, the information services and activities listed above are carried on, on one hand, for the purpose of broadening public understanding of the Federal Reserve System. The responsibilities of the central bank in our society are vital to the public welfare. The law establishes these responsibilities and the central bank carries them out through its policies, regulations, and operations. Understanding the purposes and limitations of the central bank is important, because its performance must be evaluated in terms of what it is set up to do and not in terms of its success in the market place as with most other institutions. On the other hand, these activities help keep the Federal Reserve Bank of Philadelphia informed of trends in this district, aware of attitudes about its policies and operations, and alert to the effects of monetary policy.

RESERVE BANK OPERATIONS–1956

Developments in the economy over the past year—tightness in the credit situation and the growth in trade and industrial activity—were reflected in the operations of the Federal Reserve Bank of Philadelphia.

The more general use of its credit facilities and the increase in discount operations are covered earlier in this Report under the heading "Lending to Member Banks."

In terms of personnel and equipment requirements, the largest single division of the Bank is the Department of Collections. A moderate increase in physical volume of work was reported in all phases of its operations—the handling of ordinary checks, Government checks, postal money orders, and non-cash items.

Transfers of funds were larger than in 1955 both in number and in dollars. Active demand for currency was reflected in larger payments to banks and in the greater number of pieces counted by the Cash Department. Further growth was reported in the number of depositary receipts for withheld taxes received and processed, and volume increased in the department which handles currency, checks, and savings stamps received from postmasters. The phase of fiscal agency work concerned with the issue, exchange, and redemption of securities for the Federal Government shows mixed changes; the number of securities redeemed was smaller in the aggregate and deliveries of marketable issues against subscriptions and of savings bonds of the H, J, and K series declined, but deliveries of Series E bonds increased in number.

The efficiency of internal operations is constantly under review and every effort is made to keep abreast of improvements in methods and equipment. The activities of a Reserve Bank, however, are not confined to service functions such as the collection of checks, the provision of currency, and fiscal-agency activities. As part of the central banking organization of the country, it shares in the formulation and administration of monetary and credit policy. In carrying out this responsibility, the Bank keeps in close touch with banking and business developments, provides information to bankers and the general public, and helps to broaden public understanding of System policy and its relation to the economy. These activities are described in some detail in the section of this Report dealing with bank and public information relations.

Directors and officers

Two new directors were elected by the member banks in the fall to serve for terms of three years from January 1, 1957. Geoffrey S. Smith, President of the Girard Trust Corn Exchange Bank, Philadelphia, was elected by banks in Group 1 to serve as a Class A director, succeeding William Fulton Kurtz. Banks in Group 2 elected R. Russell Pippin, Treasurer of E. I. du Pont de Nemours and Company, Wilmington, Delaware, as a Class B director; he succeeds Warren C. Newton.

The Board of Governors of the Federal Reserve System reappointed Dr. Lester V. Chandler, Professor of Economics at Princeton University, to serve as a Class C director of this Bank for another three-year term, beginning January 1, 1957. William J. Meinel continues as Chairman and Federal Reserve Agent during 1957 and Henderson Supplee, Jr. as Deputy Chairman.

By appointment of the Board of Directors of this Bank, William R. K. Mitchell, Chairman of the Board of the Provident Trust Company of Philadelphia, will continue to represent the District on the Federal Advisory Council during 1957.

Effective November 1, 1956 Harry W. Roeder, an Assistant Cashier, was made an Assistant Vice President, and Walter H. Wray and Russell P. Sudders became Assistant Cashiers.

DIRECTORS as of February 1, 1957

Group		Term expires December 31
	CLASS A	
1	GEOFFREY S. SMITH President, Girard Trust Corn Exchange Bank, Philadelphia, Pennsylvania	1959
2	W. ELBRIDGE BROWN President and Trust Officer, Clearfield Trust Company, Clearfield, Pennsylvania	1957
3	LINDLEY S. HURFF President and Trust Officer, The First National Bank of Milton, Milton, Pennsylvania	1958
	CLASS B	
1	CHARLES E. OAKES President, Pennsylvania Power & Light Company, Allentown, Pennsylvania	1958
2	R. RUSSELL PIPPIN Treasurer, E. I. du Pont de Nemours & Company, Wilmington, Delaware	1959
3	BAYARD L. ENGLAND President, Atlantic City Electric Company, Atlantic City, New Jersey	1957
	CLASS C	
	WILLIAM J. MEINEL, Chairman Chairman of the Board, The Heintz Manufacturing Company, Philadelphia, Pennsylvania	1957
	HENDERSON SUPPLEE, JR., Deputy Chairman President, The Atlantic Refining Company, Philadelphia, Pennsylvania	1958
	LESTER V. CHANDLER Professor of Economics, Princeton University, Princeton, New Jersey	1959

OFFICERS as of February 1, 1957

ALFRED H. WILLIAMS
President

W. J. DAVIS
First Vice President

KARL R. BOPP
Vice President

ROBERT N. HILKERT
Vice President

ERNEST C. HILL
Vice President

WILLIAM G. McCREEDY
Vice President and Secretary

PHILIP M. POORMAN
Vice President

JAMES V. VERGARI
Vice President and General Counsel

RICHARD G. WILGUS
Cashier and Assistant Secretary

JOSEPH R. CAMPBELL
Assistant Vice President

WALLACE M. CATANACH
Assistant Vice President

NORMAN G. DASH
Assistant Vice President

GEORGE J. LAVIN
Assistant Vice President

HARRY W. ROEDER
Assistant Vice President

EVAN B. ALDERFER
Industrial Economist

CLAY J. ANDERSON
Financial Economist

DAVID P. EASTBURN
Financial Economist

MURDOCH K. GOODWIN
Assistant General Counsel
and Assistant Secretary

EDWARD A. AFF
Assistant Cashier

HUGH BARRIE
Machine Methods Officer

ZELL G. FENNER
Chief Examiner

RALPH E. HAAS
Assistant Cashier

ROY HETHERINGTON
Assistant Cashier

FRED A. MURRAY
Director of Plant

HENRY J. NELSON
Assistant Cashier

RUSSELL P. SUDDERS
Assistant Cashier

WALTER H. WRAY
Assistant Cashier

HERMAN B. HAFFNER
General Auditor

APPENDIX–statistical tables

STATEMENT OF CONDITION

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted in dollar figures)	End of year 1956	1955	1954
ASSETS			
Gold certificate reserves:			
Gold certificates	$1,051,274	$1,105,726	$1,220,496
Redemption fund—Fed. Res. notes	63,053	61,738	58,928
Total gold certificate reserves	$1,114,327	$1,167,464	$1,279,424
Fed. Res. notes of other Fed. Res. Banks	35,132	37,672	17,291
Other cash	13,116	16,770	16,199
Loans and securities:			
Discounts and advances	7,975	26,928	13,767
Industrial loans	439	642	612
United States Government securities	1,478,817	1,484,488	1,514,656
Total loans and securities	$1,487,231	$1,512,058	$1,529,035
Due from foreign banks	2	2	2
Uncollected items	405,812	327,844	235,683
Bank premises	4,782	5,050	5,164
All other assets	14,884	9,264	7,915
Total assets	$3,075,286	$3,076,124	$3,090,713
LIABILITIES			
Federal Reserve notes	$1,756,490	$1,839,889	$1,845,959
Deposits:			
Member bank reserve accounts	859,677	868,455	884,622
United States Government	27,841	22,008	39,713
Foreign	21,312	28,178	35,668
Other deposits	16,865	15,458	14,134
Total deposits	$ 925,695	$ 934,099	$ 974,137
Deferred availability items	306,868	219,651	190,709
All other liabilities	800	751	685
Total liabilities	$2,989,853	$2,994,390	$3,011,490
CAPITAL ACCOUNTS			
Capital paid in	$ 20,629	$ 19,757	$ 18,982
Surplus—Section 7	52,301	49,490	47,773
Surplus—Section 13b	4,489	4,489	4,489
Reserves for contingencies	8,014	7,998	7,979
Total liabilities and capital accounts	$3,075,286	$3,076,124	$3,090,713
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	41.5%	42.1%	45.4%
Commitments to make industrial advances	$15	$41	$128

EARNINGS AND EXPENSES

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted)	1956	1955	1954
Earnings from:			
U. S. Government securities	$34,351	$24,212	$26,360
Other sources	1,940	990	260
Total earnings	$36,291	$25,202	$26,620
Net expenses:			
Operating expenses*	$ 6,294	$ 6,170	$ 5,923
Cost of Federal Reserve currency	293	365	634
Assessment for expenses of Board of Governors	383	306	311
Total net expenses	$ 6,970	$ 6,841	$ 6,868
Current net earnings	$29,321	$18,361	$19,752
Additions to current net earnings:			
Profits on sales of U. S. Government securities (net)	$ 16	$ —	$ 30
All other	—	—	—
Total additions	$ 17	$ —	$ 30
Deduction from current net earnings:			
Reserves for contingencies	$ 16	$ 18	$ 27
All other	—	—	—
Total deductions	$ 17	$ 18	$ 27
Net additions or deductions (−)	$ —	$ −18	$ 3
Net earnings before payments to U. S. Treasury	$29,321	$18,343	$19,755
Paid to U.S. Treasury (interest on Federal Reserve notes)	25,296	15,457	16,779
Dividends	1,215	1,169	1,111
Transferred to Surplus (Section 7)	$ 2,811	$ 1,717	$ 1,865

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

VOLUME OF OPERATIONS

FEDERAL RESERVE BANK OF PHILADELPHIA

	1956	1955	1954
Number of pieces (000's omitted)			
Collections:			
Ordinary checks	163,100	161,500	*
Government checks (paper and card)	44,200	41,400	38,800
Postal money orders (card)	23,600	23,400	23,100
Non-cash items	1,000	900	900
Clearing operations in connection with direct sendings and wire and group clearing plans**	940	1,022	1,078
Transfers of funds	106	96	86
Currency counted	304,900	291,200	299,200
Coins counted	395,900	389,700	372,400
Discounts and advances to member banks	3	2	1
Depositary receipts for withheld taxes	463	440	361
Fiscal agency activities:			
Marketable securities delivered or redeemed	213	220	260
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including re-issues)	7,909	7,217	7,042
Redemptions	6,548	6,616	6,889
Coupons redeemed (Government and agencies)	789	875	894
Dollar amounts (000's omitted)			
Collections:			
Ordinary checks	$60,927	$55,288	$51,376
Government checks (paper and card)	6,970	6,733	6,313
Postal money orders (card)	346	337	339
Non-cash items	190	194	172
Clearing operations in connection with direct sendings and wire and group clearings plans**	30,793	27,926	25,512
Transfers of funds	49,524	44,346	43,176
Currency counted	2,049	1,903	1,931
Coins counted	44	51	47
Discounts and advances to member banks	11,731	6,926	759
Depositary receipts for withheld taxes	1,619	1,424	1,289
Fiscal agency activities:			
Marketable securities delivered or redeemed	8,035	8,531	11,036
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including re-issues)	467	497	495
Redemptions	521	461	477
Coupons redeemed (Government and agencies)	93	98	89

*Previous year not comparable
**Debit and credit items

MEMBER BANKS

THIRD FEDERAL RESERVE DISTRICT

Statement of Condition

(Dollar amounts in millions)	Dec. 31, 1956*	Change in year**	
		Amount	Per cent
ASSETS			
Loans and discounts	$4,113	+$271	+ 7%
U. S. Government securities	2,368	− 151	− 6
Other securities	787	− 24	− 3
Cash assets	2,102	+ 152	+ 8
Fixed assets	123	+ 14	+12
Other assets	39	+ 3	+ 9
Total assets	$9,532	+$265	+ 3%
LIABILITIES AND CAPITAL ACCOUNTS			
Deposits:			
Individuals, partnerships and corporations—			
Demand	$4,999	+$ 33	+ 1%
Time	2,338	+ 118	+ 5
U. S. Government	172	—	—
Other	1,048	+ 101	+11
Total deposits	$8,557	+$252	+ 3%
Other liabilities	122	− 18	−13
Capital accounts	853	+ 31	+ 4
Total liabilities and capital accounts	$9,532	+$265	+ 3%

Earnings, Expenses, and Profits

(Dollar amounts in millions)	1956*	Change in year**	
		Amount	Per cent
EARNINGS			
On U. S. Government securities	$ 54.9	−$ .6	− 1%
On other securities	19.0	− .7	− 4
On loans	206.5	+ 32.1	+18
Other earnings	51.3	+ 5.5	+12
Total earnings	$331.7	+$36.3	+12%
EXPENSES			
Salaries and wages	$ 95.4	+$ 7.7	+ 9%
Interest on deposits	33.2	+ 7.5	+29
Other expenses	77.6	+ 9.5	+14
Total current expenses	$206.2	+$24.7	+14%
Net current earnings before income taxes	$125.5	+$11.6	+10%
Recoveries, profits on securities, etc.†	$ 6.8	−$ .9	−12%
Losses, charge-offs††	39.6	+ 5.0	+14
Taxes on net income	35.9	+ 2.1	+ 6
Net profits	$ 56.8	+$ 3.6	+ 7%
Cash dividends declared	34.2	+ 1.6	+ 5

*Preliminary
**Adjusted for mergers and changes in membership
†Includes transfers from valuation reserves
††Includes transfers to valuation reserves

FACTORY EMPLOYMENT AND HOURS*

THIRD FEDERAL RESERVE DISTRICT

	All Manufacturing		Durable Goods		Nondurable Goods	
	Employment	Weekly hrs. worked	Employment	Weekly hrs. worked	Employment	Weekly hrs. worked
1950	1,190.2	40.0	512.7	40.9	677.5	39.4
1951	1,258.2	40.3	583.4	41.8	674.8	39.2
1952	1,266.5	40.4	603.4	41.7	663.1	39.4
1953	1,316.4	40.2	652.1	41.2	664.3	39.3
1954	1,202.3	38.9	573.6	39.5	628.7	38.4
1955	1,197.2	39.9	566.9	40.8	630.3	39.3
1956	1,203.9	40.1	573.0	41.3	630.9	39.2
1956 January	1,211.3	40.2	577.7	41.2	633.6	39.4
February	1,212.0	40.2	575.3	41.2	636.7	39.4
March	1,206.7	40.0	572.6	41.1	634.1	39.2
April	1,205.8	40.0	574.0	41.4	631.8	39.0
May	1,199.2	39.9	570.5	41.3	628.7	38.8
June	1,201.0	40.0	571.3	41.2	629.7	39.0
July	1,139.9	39.9	518.2	41.4	621.7	38.9
August	1,209.7	40.1	572.2	40.7	637.5	39.6
September	1,219.0	40.2	579.2	41.6	639.8	39.1
October	1,216.3	40.1	587.4	41.4	628.9	39.1
November	1,210.1	40.3	586.8	41.4	623.3	39.3
December	1,215.9	40.5	590.8	42.0	625.1	39.3

*Estimates of employment include production and nonproduction workers. Average hours cover only production workers.

INCOME AND PRICES

Factory Payrolls: 1949=100 Farm income—Prices: 1947-1949=100	Factory Payrolls—Production Workers Third Federal Reserve District			Income from farm marketings N. J., Pa., and Del.*	Consumer prices in Phila.†
	All Manufacturing	Durable goods	Nondurable goods		
1950	111	112	110	93	102
1951	127	140	116	111	112
1952	131	150	117	110	114
1953	145	174	122	108	115
1954	129	147	115	97	116
1955	138	157	123	97	115
1956	145	169	127	101	117
1956 January	145	169	127	92	115
February	144	166	127	84	115
March	143	165	127	95	116
April	144	168	127	90	116
May	143	167	126	108	116
June	144	167	127	98	117
July	133	142	126	123	118
August	147	167	131	116	118
September	149	175	129	111	118
October	149	178	127	105	119
November	149	179	125	94	118
December	151	18	126	98	119

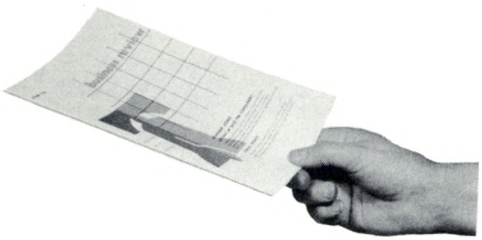
Sources: *U.S. Dept. of Agriculture. †U.S. Bureau of Labor Statistics.

DEPARTMENT STORE SALES

1947-49 = 100 (Adjusted for seasonal variation)	Third District	Phila-delphia	Lan-caster	Read-ing	Scran-ton	Trenton	Wilkes-Barre	York
1950	106	104	108	102	109	116	101	106
1951	109	106	110	104	110	121	100	114
1952	109	104	111	104	114	122	99	117
1953	111	106	115	107	116	122	99	129
1954	109	106	111	104	115	121	94	122
1955	117	113	117	114	119	129	104	138
1956	122	117	120	123	125	133	104	144
1956 January	120	116	113	116	127	145	102	146
February	118	115	124	108	128	125	100	129
March	116	108	115	118	120	126	100	135
April	121	115	105	117	128	131	101	143
May	121	119	125	118	119	125	98	134
June	125	120	122	122	126	134	100	159
July	119	120	114	115	122	131	103	143
August	124	122	130	130	136	136	109	147
September	127	121	131	141	131	144	113	153
October	118	113	114	113	111	132	96	131
November	126	116	125	140	128	133	105	165
December	125	119	120	128	130	134	111	143

DEPARTMENT STORE INVENTORIES

1947-49 = 100 (Adjusted for seasonal variation)	Third District	Phila-delphia	Lan-caster	Read-ing	Scran-ton	Trenton	Wilkes-Barre	York
1950	108	107	108	106	114	105	110	112
1951	127	125	124	131	134	127	126	128
1952	113	110	114	114	116	113	109	119
1953	119	114	121	122	121	116	113	132
1954	116	112	125	116	129	108	101	126
1955	123	119	130	120	135	121	115	137
1956	133	132	140	131	145	118	115	146
1956 January	132	136	133	130	134	104	114	146
February	131	129	137	137	138	108	117	142
March	130	127	137	129	139	109	113	138
April	131	131	140	126	142	111	114	144
May	129	127	140	121	145	114	113	139
June	132	127	141	119	151	125	114	151
July	132	129	143	122	151	123	119	148
August	135	134	146	121	151	123	117	154
September	135	135	140	125	146	126	114	148
October	135	132	140	142	146	128	114	144
November	136	134	137	149	144	125	115	151
December	137	137	144	148	149	119	115	152



The following publications of this Bank are available upon request:

BUSINESS REVIEW, issued monthly, includes articles on financial, business, and agricultural developments and a summary of banking and business statistics.

ANNUAL REPORT, features articles on business and financial subjects of current interest and includes statistical tables on business in the District and on operations of the Bank.

THE QUEST FOR STABILITY, a 54-page series of five essays on major problems of monetary policy.

FUNDAMENTALS OF FEDERAL RESERVE POLICY, 40 pages; the script and illustrations used in a flannel board presentation of policy instruments and their influence on money.

EXERCISES IN THE DEBITS AND CREDITS OF BANK RESERVES, 16 pages of T-accounts showing the essential nature of transactions affecting bank reserves.

40 YEARS OF THE FEDERAL RESERVE ACT, a 19-page booklet describing the evolution of the Federal Reserve Act from 1913 to 1953; includes a synopsis of major changes in the instruments and organization of the Federal Reserve System.