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Where is the Fed Heading?

8 till 5—The 40-hour Workweek After 25 Years

1963: Image in the Looking Glass

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WHERE IS THE FED HEADING?

Fifty years ago last December 23 President Woodrow Wilson signed the Federal Reserve Act. As he did, he may well have recalled a sentence from his first inaugural address: "We shall deal with our economic system as it is and as it may be modified, not as it might be if we had a clean sheet of paper to write upon; and step by step we shall make it what it should be. . ."

In the following half century, much has been done to make our economic system move closer to "what it should be," and the Federal Reserve System has contributed to progress toward this ideal. Yet, the task will never be fully accomplished. Old problems may be solved but new challenges will arise. This is clear as one looks back over the past fifty years. Looking ahead, many challenges confront the Federal Reserve; and they will not go away by simply being ignored.

This article, by David P. Eastburn, was originally written for a meeting in October 1963 of directors and former directors of this Bank. Designed as a background paper, its purpose was simply to present one person's view of issues facing the Federal Reserve System. It is reprinted here in the hope that wider circulation may help to provoke discussion of these important questions.

If the statements to the right were a complete list of views about the Federal Reserve, it might be futile to ask "where is the Fed heading?" The list is not, of course, complete. It has been selected simply to suggest some of the issues that have been raised concerning the Fed. But it does suggest that there is no lack of things to think about as the Federal Reserve embarks on its second half century.

Before turning to these issues, however, it might be helpful to think for a moment of the Federal Reserve in a broad time perspective. Here is an institution half a century old. At the start it was, as Carter Glass called it, a real "adventure in finance." Since then the Fed has earned a vital and permanent place for itself at the center of our economic system.

In the process it has changed. The founders of the Federal Reserve would know the System by its outward form but they would not recog-

The Federal Reserve can't do much to reduce unemployment because this is a structural problem.

Monetary policy can't stimulate economic growth without aggravating the balance of payments.

The Federal Reserve can't push on a string.

Monetary policy is ineffective in controlling modern-day, wage-push inflation.

The rapid growth of financial intermediaries means that the Federal Reserve regulates a declining portion of our financial system.

Membership in the Federal Reserve System is becoming increasingly unattractive to banks.

Banks have too much control over the Federal Reserve.

Monetary policy must be part of the Administration's economic policy.

The Federal Reserve shrouds itself in secrecy.

nize its inner workings. The Fed has adapted.

In asking "where is the Fed heading?" we are really asking "will the Fed adapt?" Shortly before his death, Sumner Slichter made an observation about the U. S. economy which may well apply to the Federal Reserve as well. He said that the first part of this century was in many ways a period of reform; the challenge now facing us is to reform the reforms.

Assuming for the sake of discussion, that he was right and considering the many and varied issues involved, the question is where to grab hold. In discussing issues, of course, there will be a tendency to overemphasize things that are "wrong" and underemphasize things that are "right" with the System. With this advance warning, the following is suggested as a point of departure.

To begin with, it would seem that most of the issues boil down to two big ones: the role of monetary policy in the economy, and the power complex.

Role of monetary policy

Obviously, this is not a subject that can be explored fully here. Theorists and analysts differ on many aspects of the effectiveness of monetary policy and always will. But it is probably safe to conclude that the effect of Federal Reserve actions is not so great as some might like, but not so small as some often say.

We should recognize, of course, that right now the pendulum has swung fairly far in one direction. During the twenties, belief in the efficacy of monetary policy was high. In the thirties it dropped almost to zero. After the "accord" in 1951, it revived. And more recently it has declined again.

The latest swing has been influenced by at least four things, and an examination of these

is one way of analyzing the place of the Fed in our society.

Inherent power of monetary action. There is no question that some developments in recent years have complicated monetary policy. Among these are the balance-of-payments deficit, wage-push inflation, and structural unemployment. These have limited the effectiveness of policy actions, but not so completely as is sometimes said.

Perhaps one way to put it is that they limit the use of *orthodox* measures. The balance-of-payments deficit, for example, rules out the indiscriminate use of easy money and low interest rates to stimulate economic growth. These developments challenge such simple prescriptions. They require penetrating analysis to find out what part of the problem *can* be attacked by monetary instruments and what part must be dealt with by other means. They may call for innovation and experimentation. (Efforts with "operation nudge" and transactions in foreign currencies are outstanding examples.) They may call for new tools to supplement those traditional ones that have become blunted.

It may well be, also, that in some cases how much monetary policy can do is not fully appreciated. For example, a good case can be made from experience in postwar recessions that the Fed *can* achieve quite a bit of success in "pushing on a string." Also, even though it may be true that financial intermediaries have grown more rapidly than commercial banks, the Fed still has the power to offset the effect of this.

So it is an oversimplification to say that developments in recent years have greatly limited the effectiveness of monetary policy.

The Fed's burden. Yet they *have* complicated life for the Fed at a time when too much has

been expected of monetary policy. Actions of Government—in the realms of fiscal, labor-management, and foreign policies, for example—have not always helped and have often hindered. Perhaps it is a cynical view to regard the Fed as chronically in a position of bearing a larger burden than it should rightfully have. Nevertheless, this may well be the case.

If so, what course does the Fed take? One, obviously, is simply to do what it can in its area of responsibility. Another possibility is to speak out on issues which are related to its responsibility but beyond its immediate bailiwick.

Self-imposed limitations. Another influence bearing on the effectiveness of monetary policy is limitations which the Fed imposes on itself. The so-called bills-only policy is an example which comes readily to the minds of many observers. There is no point in rehashing here the arguments for and against bills only. The main lesson is that a policy undertaken originally for perfectly clear and understandable domestic reasons has later been proven by new international developments to be a hindrance. As conditions have changed, the Fed has approached this self-imposed limitation with flexibility.

Economic philosophy. “Flexibility,” of course, can be a rationalization for improvisation and expediency unless it is based on a general philosophy. In considering where the Fed is heading, it might be well to take a good look at this philosophy. Is it in the mainstream of current thinking?

There is some reason to suspect it is not—in this sense: the Fed entertains a non-interventionist philosophy in an interventionist world. To say this implies no value judgment; the philosophy may be “right” or it may be “wrong.” But it probably does have something to do with

the place of the Fed in our society.

The underlying philosophy of monetary policy is that use of general instruments constitutes minimum interference with the workings of the market place. But a large segment of the public is intolerant of the workings of the market place. It *wants* interference. It views any institution which is not intimately involved in the way the market actually allocates resources as insensitive to the needs of society.

This situation—and again, without passing here on the merits of the case—suggests a re-examination of policy techniques. Rather than placing sole reliance on the over-all approach, perhaps greater emphasis should be placed on a selective approach to the Fed’s problems.*

The power complex

A second broad category of issues facing the Fed has to do with the locus of power. This, in turn, has two aspects: external and internal.

External. The report of the Commission on Money and Credit still stands as the most clear-cut delineation of the problem, at least in recent years. The CMC took the basic position that monetary policy must be coordinated with the Government’s over-all economic policy, and the way to do this is to have closer ties between the System and the President of the United States. To bring this about, the CMC recommended that the size of the Board of Governors be reduced from seven to five (to assure “the President of one vacancy to be filled shortly after his inauguration, . . .”); and the four-year terms of the Chairman and Vice Chairman of the Board be made to coincide with that of the President.

In thinking about this general proposition,

* Selective in the broad sense, not just regulations T, U, W, and X. The present approach to the balance-of-payments problems, for example, is a selective one.

it might be helpful to bear in mind four considerations:

1. The Federal Reserve is not and cannot be independent of Government. It is a creature of Congress and must be responsive to Congress. The question is how independent the Fed should be of the Executive Branch of Government.

2. "Independence," in the sense of complete detachment from the Administration's economic policy, is no easy answer. The fact of life is that monetary policy is too powerful to be permitted to follow a completely different and independent course. The real problem is not whether but *how* coordination is to be achieved. Making the Chairman's and Vice-Chairman's terms coincide with the President's seems a sensible step toward this end.

3. But there is, of course, some risk in tying the System closely to any current Administration.* The founders of the System were well aware that history provides example after example of the sovereign abusing the money-issuing privilege for his own ends.**

4. Outward form and appearance are not always a good clue to the way things really work. There is good reason to believe that coordination of policies usually can be achieved within the *existing* framework of relations between the Fed and the Executive Branch.

Experience in very recent years offers one example. In the fall of 1960, Mr. Kennedy campaigned on a platform which pledged his party to "put an end to the present high-interest, tight-money policy." At the same time, the Fed was pursuing a bills-only policy

which de-emphasized direct concern with long-term interest rates. Here was a potentially explosive gap between the President and the central bank. As it turned out, both sides modified their views and reached common ground in recognition of the balance-of-payments situation.

But perhaps not all problems can be solved in this way, and so there remains the question as to what happens in a complete stalemate. There is no doubt who—as between the Federal Reserve and the President—has more power. But the ultimate decision would be made by Congress, not the President. Moreover, it would be a mistake to underestimate the power of an independently *thinking* central bank. If, over time, it has demonstrated wisdom and responsibility of action, it gains tremendous power which any Chief Executive would hesitate to oppose.

Internal. The CMC also proposed the most radical restructuring of the System since 1935. The Commission's recommendations were based on a view of the System as consisting of "a regulated private base, a mixed middle component, and a controlling public apex." This combination is obsolete, the CMC said. "What was thought of in 1913 as essentially 'a cooperative enterprise among bankers for the purpose of increasing the security of banks and providing them with a reservoir of emergency resources' has not ceased to be that. But it has also become one of the most potent institutions involved in national economic policy."

Accordingly, the CMC recommended:

Elimination of the Federal Open Market Committee.

Concentration of all tools of policy in the hands of the Board of Governors.

Retiring of the capital stock of the Federal

* Perhaps a lag of, say, six months from the time the President's term begins and a Chairman must be appointed would help to reduce this risk.

** See "Henry the VIII Revisited," Federal Reserve Bank of Philadelphia *Business Review*, January, 1960.

Reserve Banks and issuing nonearning certificates as evidence of membership.

Requiring all insured commercial banks to become members of the Federal Reserve System.

It is difficult, of course, for anyone within the System to approach these recommendations objectively. Recognizing this, the following is an attempt to spell out another view of the System which is quite different from that of the CMC.

1. The Federal Reserve is a public institution and its policymakers serve as public officials. The CMC's emphasis on the public-private mix, while a correct description of outward appearance and historical origin, does not get at the real nature of the System. There is, of course, no question that members of the Board of Governors are, as the CMC puts it, "public officials." But it is also true that officers and directors of the Reserve Banks are public officials. The fact that officers are chosen by the boards of directors, two-thirds of whom, in turn, are elected by the member banks, does not mean that either group serves private interests. In working toward the general objectives of the Federal Reserve System they serve as public officials in the public interest.

Moreover, even if this were not true, the Board of Governors unquestionably has adequate power to protect the public interest. It reviews and determines discount rates, constitutes a majority of the Federal Open Market Committee, and has sole authority over reserve requirements and margin requirements. It has general supervisory power over the Reserve Banks, including salaries of key officers.

Granting that the surface appearance of the structure may give rise to misunderstanding about the role of private interests, is this sufficient reason for drastic changes?

2. One reason for believing not is because the recommendations would do away with what has become a key policymaking body—the Federal Open Market Committee. As this group has evolved, it not only has authority over the most generally used instrument of policy but is a forum in which action with respect to all instruments is discussed.

But more than this, elimination of the Open Market Committee would deprive the System of the considerable policymaking talents already present in the Reserve Banks. One of the greatest challenges facing the System is to attract high-quality personnel. The job would be much harder if the Reserve Banks were foreclosed from participation in policymaking, or at best participated only in an advisory capacity.

3. The question of the role of Reserve Bank directors also is part of the broader question of the decision-making process. The present arrangement is based on two premises: there must be one coordinated national policy; and group decisions are better than one-man decisions. The two do not always fit together easily. Yet, the first *can* not be abandoned, and the second *should* not. Removing the boards of directors completely from monetary policymaking would have the same kind of effect as eliminating the Open Market Committee.

At the same time, directors have many opportunities to contribute to the central banking mechanism in other ways for which their backgrounds and experience particularly qualify them. Operating and auditing functions are examples. As leaders in their communities, directors can do much to further an understanding of the Federal Reserve and bring back to the Fed the views of the community. And they can play an essential role in the vital matter of attracting and retaining highly competent per-

sonnel in the System.

4. A final question has to do with member banks. This is considered here rather than under the effectiveness of monetary policy because the problem of non-membership at present does not seriously impair the effectiveness of policy.

Nor is the important question that of ownership of the Federal Reserve Banks. As the CMC itself points out, member bank ownership of stock in the Reserve Banks is a "highly attenuated right." Member banks do not control the Reserve Banks, so there would be little point in paying off the stock and issuing certificates of membership.

Two other issues are more important. One is the costs and benefits of membership and their implications for equity among financial institutions. The other is the role of the Fed in supervising and examining banks.

Membership has become of increasing concern in recent years as rising bank costs press against earnings. It is impossible to go into much detail here, but it is a fact that some member banks have been taking a hard look at membership from a dollars-and-cents point of view.

The System and others have been concerned about this primarily from the standpoint of equity. Existing reserve requirements place member banks at a disadvantage relative to non-members in most states. The System has proposed that all insured banks carry the same requirements. The CMC recommended that all insured banks be required to become members. The Heller Committee (created to consider the CMC proposals) recommended a new structure of reserve requirements which would apply to all commercial banks and cash reserve requirements which would apply to savings and loan associations and mutual savings banks. All these

are in an attempt to reduce the inequities in the present situation.

Unfortunately, many serious obstacles stand in the way of such ideal solutions. Dual banking and correspondent banking are two of the biggest. As monetary conditions permit, the Board may be able to lower reserve requirements for member banks, thereby reducing their competitive disadvantage. But short of drastic action, which would require legislation, there is relatively little the Fed can do.

Supervision of banks has also been a matter of increasing controversy in recent years. As relations among supervisory authorities have become more and more strained, the problem has grown increasingly serious.

There is no lack of "solutions," including shifts of authority among existing agencies, creation of a new supervisory commission, and delegation of more authority by the Board of Governors to the Reserve Banks.

Many of the same obstacles as in the membership question stand in the way. A fundamental solution to the tangle of authority among supervisory agencies is likely to be long and hard in coming.

* * *

So where *is* the Fed heading? Earlier the reader was warned that a discussion of issues automatically tends to paint a somber picture. Certainly the challenges ahead are numerous and difficult enough to call for all the energy and intelligence that can be brought to bear on them.

But the Federal Reserve has surmounted apparently insuperable difficulties in the past. There is no reason to expect that it cannot again. Among its many strengths it has four great resources to put to work:

Power. Probably the least of the Fed's troubles is a lack of power. There are, of course, many forces influencing the economy over which the System will have no control, and monetary policy can be no panacea; but in general the Fed has more power than it will need or want to use. Yet there is no reason why the System should shrink from seeking additional power where needed. Old tools can be sharpened and techniques refined.

Personnel. Officials and staff of the Federal Reserve System are equal in diversity and competence to those in any central bank in the world. It will be important to offer compensation and incentives to protect this valuable resource. Developing dynamic and imaginative personnel can be much more important than changing organization charts.

Experience. With half a century of experi-

ence behind it, the Fed is all the better equipped to move into the future. Perhaps the main lesson of experience is that things change—the Fed has changed. Vitality and change go hand in hand; change can keep the Fed young even in middle age.

The Public. In leaning against the prevailing wind the central banker may not always have a happy lot. Yet he has the same aspirations, the same broad goals, as people generally. As the public becomes more and more knowledgeable, it can be of increasing help to the Fed. And the System can respond by encouraging a frank and open interchange of ideas. For only with strong public support can the System do its job effectively.

These resources are powerful. Put to full use they can sustain the sense of adventure with which the System was begun.

NEW RELEASE

Forecasts for 1964. The Department of Research has compiled and analyzed a number of predictions made by businessmen, economists, and Government officials. This compilation includes a summary of forecasts for the economy as a whole and particular sectors of the economy. The more important indicators are presented in chart form.

Copies of this release are available on request from Bank and Public Relations, Federal Reserve Bank of Philadelphia.

8 TILL 5— THE 40-HOUR WORKWEEK AFTER 25 YEARS

The laboring man in the United States is pondering an important question: is it to his advantage to press for a cut in the standard 40-hour workweek? The question comes both from labor's rank and file and from union leaders. For, like the venerable John Henry of folklore, the working man today faces an increasing challenge from the machine and the machine system.

Yet unlike his mythical counterpart, the American worker is less than enthusiastic over possibilities of a head-on clash with developing technology. Instead, he is searching for methods to combine the forces of automation, muscle, and mind so as to make the most of advancing technical know-how and still avoid the dislocations of unemployment.

This is where the question of work hours comes in. Will a cut in the standard workweek help prevent unemployment as automation helps

. . . our goal is not merely to spread the work. Our goal is to create more jobs.

I believe the enactment of a 35-hour week would sharply increase costs, invite inflation, impair our ability to compete and merely share instead of creating employment.

But I am equally opposed to the 45 or 50 hour week in those industries where consistently excessive use of overtime causes increased unemployment.

So, therefore, I recommend legislation authorizing the creation of tri-partite industry committees to determine, on an industry-by-industry basis, as to where a higher penalty rate for overtime would increase job openings without unduly increasing costs, and authorizing the establishment of such higher rates.

President Lyndon B. Johnson, The State of the Union Message January 8, 1964.

make each man-hour of labor more productive?

This question, of course, is a difficult one to answer. The reason it is difficult is that there are so many and diverse factors influencing unemployment—factors ranging all the way from the age and rate of growth of the labor force to the skills required of the laboring man and even, sadly enough, race.

Yet it is still possible to explore some of the alternative impacts which a cut in the workweek might have. Perhaps the place to start is a description of . . .

THE WORKWEEK—THEN AND NOW

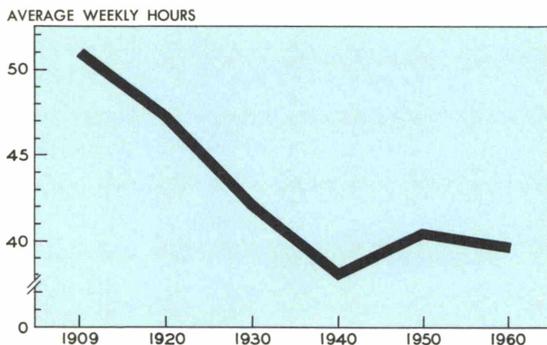
Not too many years ago the hours of labor were long, wages were low and working conditions often were poor. Indeed, just such conditions spurred the dark and glowering Karl Marx to write the terrible Chapter 10 of *Das Kapital* describing the working day in the mid-nineteenth

century. Quoting an English magistrate, Marx illustrated conditions in the lace industry in these terms:

“. . . there was an amount of privation and suffering among that portion of the population connected with the lace trade, unknown in other parts of the kingdom, indeed, in the civilized world . . . Children of nine or ten years are dragged from their squalid beds at two, three, or four o'clock in the morning and compelled to work for a bare subsistence until ten, eleven, or twelve at night, their limbs wearing away, their frames dwindling, their faces whitening, and their humanity absolutely sinking into a stone-like torpor, utterly horrible to contemplate . . .”

Hours were long and working conditions often were poor in this country too. In 1900, for

AVERAGE WEEKLY HOURS FOR PRODUCTION WORKERS IN MANUFACTURING



example, a workweek of around 60 hours was common in manufacturing—ten hours a day, six days a week. Until the early 1920's the 12-hour day was standard in the steel industry.

Yet slowly the tides turned. By 1929 the 8-hour day, 6-day week was firmly established. And finally, with the passage of the Fair Labor Standards Act in 1938, the 40-hour workweek

with time-and-a-half for overtime became standard. By October 1940, most workers engaged in interstate commerce were covered by the Act.

It has now been 25 years since the passage of the Fair Labor Standards Act, and as already noted, pressures are building for a further reduction in hours. Yet the reasons for the current workweek proposals are far different from those advanced by early reformers. Contrast, for example, a recent statement by George Meany:

No one—certainly not the AFL-CIO—maintains that under ordinary circumstances 40 hours a week are excessive on grounds of health, safety or undue restrictions of leisure time. On the contrary the labor movement would be delighted if 40 hours of work were available to all who wanted them . . . (but) . . . it seems clear beyond question that 40-hour jobs will not be available to all Americans under presently foreseeable circumstances. This means a continuation of the intolerably high unemployment we have suffered for five full years these points . . . lead us to believe that a 35-hour week, with increased penalty pay to discourage overtime, is essential to the present and future economic health of the United States and therefore the free world.*

Meany's words reflect a deep concern over the high rate of unemployment and they reflect concern over the possible impact of automation on jobs.

AUTOMATION, UNEMPLOYMENT AND WORK HOURS

The term "automation" applies to the development and linkage of three different technical processes: 1) The integration of conventionally

* American Federation of Labor and Congress of Industrial Organizations, *Shorter Hours: Tool to Combat Unemployment*, p. 2.

separate manufacturing processes into continuous production lines, 2) the use of servo-mechanisms or "feed back" control devices which, with electronically sensitive "fingers," are able to compare the way work is actually being done with the way it is supposed to be done and then make any adjustments needed in the work process, 3) the application of computers which, through programmed instructions, are able to direct the entire production process.

The upshot is fast, efficient production with a considerable reduction in labor requirements. In manufacturing engine blocks, for example, rough castings enter at one end of a production line, go by a series of machines which perform boring, broaching, drilling, honing, milling and tapping operations with electronic nerve centers directing the block from machine to machine. Compared to previous non-automated performance, the engine plants of the Ford Motor Company were able, shortly after the introduction of automation, to double production while employing only 10 per cent of their previous work force.

And though automation certainly is not the sole cause of unemployment, many statistics serve to dramatize labor fears.

There were, for example, 1 million fewer production workers employed in manufacturing in 1962 than a scant half-dozen years earlier. Despite the decline, output increased 20 per cent during the period. Shortly after World War II, it took about 311 production worker man-hours to build a car. Recently the figure was down to 153. It now takes about 11 production worker man-hours to make a ton of steel, down from 15 at war's end. And the time necessary to produce a ton of coal was cut in half from 1947 to the present. On top of this, agricultural employment has been falling by about 200,000 a year, par-

tially as a result of advancing technical know-how.

The employment increases occurring in recent years have been mainly in service activities. But these increases have been insufficient to offset declines elsewhere and provide employment for new additions to the labor force.

The root of the technology issue was succinctly put in the *Manpower Report of the President*, transmitted to the Congress in March of this year.

In the earlier decades of this century, technological change developed mass-production, mass-assembly techniques with great expansion in opportunities for semi-skilled workers with relatively little education. In the fifties, the new technology was increasingly devoted to automating production and materials-handling processes, with concomitant increased demand for more highly skilled and trained manpower and lessened demand for workers in semi-skilled occupations. The signs in the early sixties are that extension of automatic data processing is also limiting manpower needs in some office and clerical occupations, further compounding problems of adjustment. And what of the future? The *Manpower Report* continues:

From 1953 to 1962, investment in scientific research and development tripled. The rapid flow of technological innovation promises a future in which material want is all but unknown. But this future can only be reached by change, often with dislocation. In the process, the manpower requirements of the nation will be profoundly altered.

And not only technical change is in prospect. The number of new jobseekers is expected to grow more rapidly in the sixties, resulting in a net addition to the labor force of about

13 million. This is more than 50 per cent greater than the addition in the fifties. If we were to add new jobs in the next five years at a rate comparable to that in the last, we would have over 5½ million unemployed by 1967, over 7 per cent of the labor force.

Little wonder, then, that workers should be concerned over job security and should be pushing for shorter hours. And the push has not gone unheralded. Already there has been Congressional study of the issue. At mid-year, 1963 the House Select Subcommittee on Labor held hearings on the *Hours of Work* and had another round in November. There are three major bills before the Committee now, two aimed at decreasing the number of hours after which time-and-a-half must be paid and one to require double time after 40 hours in mining, most construction, communications, and public utilities.

These bills, however, are quite likely to run into considerable opposition. Perhaps one word best summarizes the reason for opposition. That word: uncertainty. And the uncertainty covers a rather wide range.

Search for a final answer to the question of work hours would take us far afield into questions that are intensely debated: 1) *Demand deficiency*—to what extent is unemployment caused by insufficient demand for goods and services and hence should be solved by stimulating demand? 2) *Structural unemployment*—is unemployment primarily caused by structural difficulties (such as the gap between the education required for many job openings and the educational attainment of many of the unemployed)? Would a cut in the workweek simply increase demand for existing workers instead of pulling the unemployed into the labor force? 3) *Price and wage flexibility*—will automation

ultimately increase employment by lowering costs and prices and thereby increasing demand, and by providing jobs in the new industries which make automatic devices which make goods? 4) *Distribution of income*—how should we distribute the fruits of greater production among higher profits, lower prices, higher wages, and shorter hours?

Of course these questions are all related to the controversy over the workweek, but perhaps even more directly concerned are three other questions: a) What would a cut in the workweek mean for the productive potential of this country? b) What would it mean for our international relations? c) What would it do to costs and prices?

PROS AND CONS OF A CUT IN THE WORKWEEK

One of the most important areas of controversy is the decline in productive potential which a cut in the workweek might bring.

Productive potential

With respect to the nation, there is a certain output potential associated with full employment at a 40-hour week. A decrease in the average workweek would tend to reduce this potential and thereby limit the range of increase in our standard of living. In other words, the nation would forego the consumption of goods it might otherwise enjoy if the workweek were cut. And to forego consumption is a social cost.

Some defenders of a cut in the workweek, on the other hand, question such a materialistic philosophy on the grounds that leisure, too, is a desirable commodity, and to give up leisure in order to consume an ever-growing proliferation of goods is also to incur a social cost. Indeed, the nation could work a 60-hour week as at the

turn of the century and have even more goods, but there would be precious little time to enjoy them.

Moreover, if a reduction in work hours succeeds in reducing unemployment—which is itself a social cost—then we trade off costs—we forego some potential consumption but redistribute the work load so as to absorb the unemployed (or keep their ranks from growing). In effect, we forego goods but trade forced leisure for voluntary leisure.

A third argument with regard to the social cost of foregone consumption is simply that the nation may never *reach* the theoretical potential associated with full employment at 40 hours—never reach it because we may never *achieve* full employment without a reduction in the workweek. And if the potential is never to become a reality at the 40-hour week, the nation foregoes nothing but a dream by cutting work hours.

Hours of work and the international situation

Those who make a case for the shorter workweek encounter a bit rougher going when international politics is brought into the picture. For the fact is that this nation does not exist in a comfortable little world all to itself but must share the sphere with Mr. Khrushchev who has threatened to bury us—not literally, he assures us—but figuratively, with production of goods.

International power politics thus would seem to throw a monkey wrench into the workweek proposal. The reasoning is that the nations which have retained their sovereignty usually have been the powerful ones. The powerful ones have power because they can defend themselves. They can defend themselves because they can

throw a lot of lances, arrows, lead, or bombs at an aggressor. They can throw a lot of lead because they can produce a lot of lead. Thus sovereignty equals production and anything which decreases productive potential undermines sovereignty.

Those who favor a shorter workweek may well agree that, to a very large extent, sovereignty in today's world probably does depend upon production. Indeed, a great deal of concern in recent years has been expressed over our rate of economic growth vis-à-vis the Soviet Union. The concern is heard less often now that Khrushchev is turning to the West for wheat and since China failed to secure her Great Leap Forward, but it will probably be heard again if the Soviet economic situation improves. When the concern over growth is heard supporters of a shorter workweek advise us that we would do well to keep it in perspective. For, the reasoning goes, growth *per se* does not necessarily mean a deterioration in our military strength relative to that of the Soviet Union. We could always, if need be, devote an increasing proportion of our resources to defense. Moreover, the reasoning continues, the Soviets will have to grow a long time before they reach our absolute level of production, and before they do, past experience and economic theory tell us that their rate of growth should decline under the pressure of diminishing returns.

Finally, supporters of a shorter workweek note that it is possible to question whether the changing technology of modern warfare has affected the traditional association between output and sovereignty.

Is there some point in modern-day power politics, for example, where an increase in the rate of addition to productive potential adds to sovereignty at a significantly decreasing rate? Are

there diminishing returns to scale? Does the delivery of destructive fire power require such a massive marshalling of resources as it once did? Today tactical atomic weapons are coming into their own. Several men in a truck can set up and fire a weapon that will demolish a division—and they can do all this in a time span measured in minutes.

Does this mean defense is less associated with production than it once was? Today it is reported that we possess nuclear weapons which provide us with the equivalent of 30,000 pounds of TNT for every man, woman and child on the globe. We have a complex maze of delivery systems. Does this mean less dependence on a massive marshalling of men and machines to turn out the kind of armada needed in World War II?

Today there is even talk of a *reduction* in the defense budget. Indeed, some businessmen are taking this possibility into consideration in planning their capital budgets for the *next few years*. This, of course, is not to say that modern weapons don't require resources—research and development as well as production. And there is the cost of maintaining a significant conventional force, both to fight brush-fire wars and to provide an option to immediate and all-out nuclear retaliation.

But the fact is, proponents of a shorter workweek conclude, our economy is capable of providing for our military needs at the present time without physical strain on the nation's resources, and it is by no means certain this ability would be impaired even if a cut in work hours were to decrease the rate of addition to our productive potential. If at some future time it appeared that we were failing to meet our military needs, it would not be impossible to *reverse* our course and *increase* our hours of work.

Work hours and business costs

Another large area of uncertainty associated with a cut in the workweek is cost. The goal of most who favor such a reduction is to obtain a cut in hours without a reduction in weekly pay. This means a hike in hourly pay rates. The per cent increase in hourly pay required to maintain existing weekly payrolls varies (as shown below) with the magnitude of the reduction in hours.

Cut from 40 hours to	Per cent increase in hourly pay to maintain same weekly pay
39	2.6
38	5.3
37½	6.7
36	11.1
35	14.3
32	25.0

Critics of the workweek proposals say that wage rate hikes might bring both domestic and international difficulties. On the home front, an increase in hourly labor costs could cause anything from recession to inflation, according to the timing of the increase and the size of the wage-rate hike relative to gains in productivity.

If the rise in hourly wages exceeds increases in hourly output then labor costs will rise per unit of output. When unit costs rise, management is faced with an important decision: whether to absorb the increase in costs (thereby decreasing profits) or to pass the increase along to the consumer in the form of price hikes. This is where timing comes in.

If hours are cut during a period of brisk business expansion—when demand for goods is pressing business to produce near capacity,
(Continued on Page 18)

THE WORKWEEK AND UNEMPLOYMENT

Changes in the average workweek and changes in unemployment appear to be related.

CHART I

Increases in unemployment typically are associated with declining work hours and decreases in unemployment with increasing (or only slightly decreasing) work hours. . . . (Dots represent annual changes for the years 1901-1962)

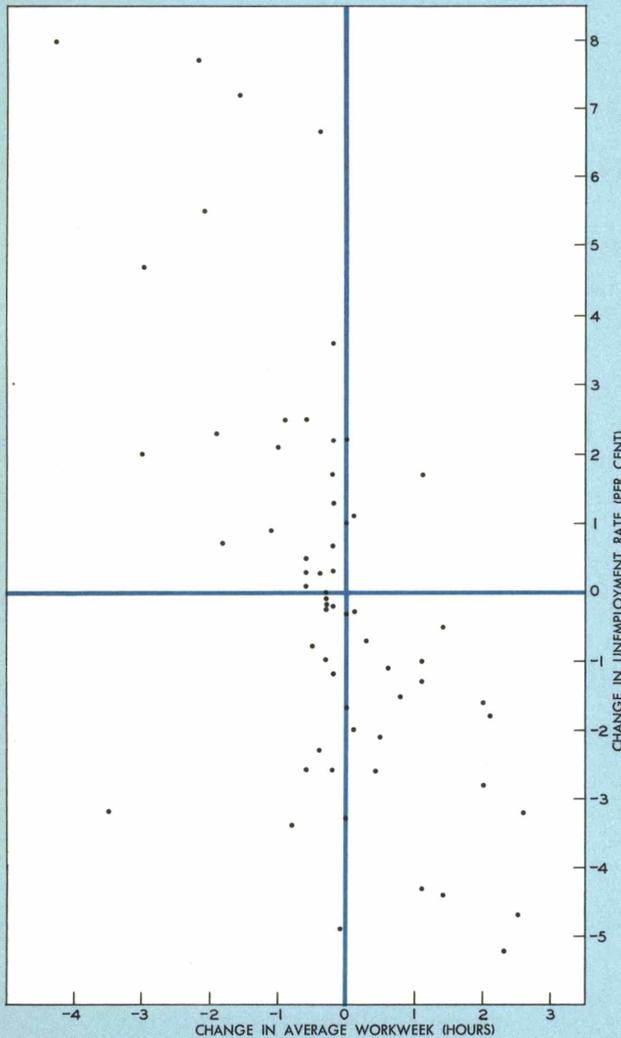


CHART II

During years of predominant business expansion, increases or small declines in work hours are typical . . .

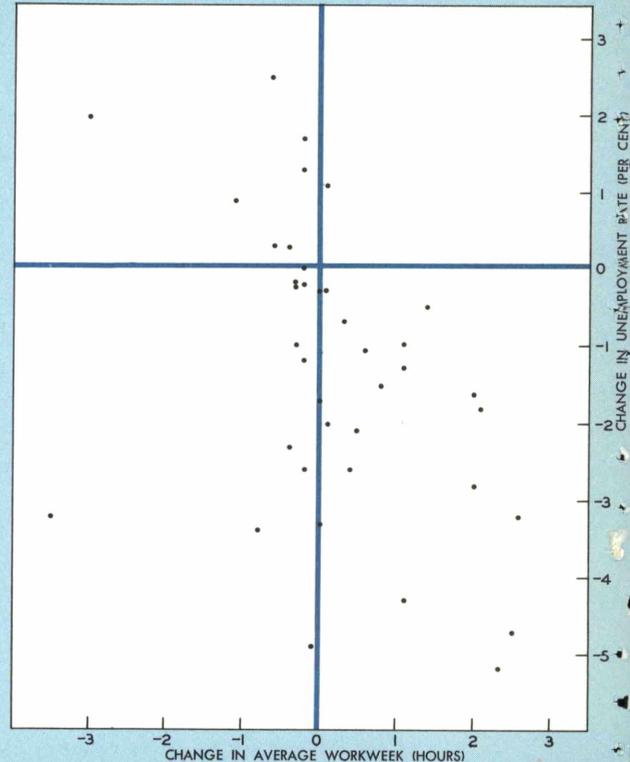


CHART III

During years of predominant business contraction, decreases in work hours are typical.



PERCENTAGE CHANGES FROM FIRST YEAR IN PERIOD TO AVERAGE FOR PERIOD

Period	Unemployment as a Per Cent of the Labor Force	Gross National Product	Average Workweek*
1939-45	- 57.6	+38.0	+10.0
1922-29	- 45.0	+20.9	+ 1.0
1900-10	- 22.0	+51.1	- 2.3
1911-19	- 16.1	+ 8.8	- 2.6
1946-55	0	+16.4	- 0.2
1956-62	+ 44.7	+ 7.0	- 1.2
1920-21	+100.0	- 4.3	- 4.4
1930-38	+110.3	- 5.6	- 9.3

As shown in the table above, the workweek has tended to compensate for changes in demand (Gross National Product) since the early part of the century. When demand increases, unemployment declines and the workweek tends to increase (or decrease relatively slightly) to facilitate the increase in production.

When demand decreases and unemployment increases, the adjustment process works in reverse. The workweek tends to decline by larger amounts thereby inhibiting further increases in unemployment.

Yet for the most recent period, 1956-1962, unemployment was up by 44.7 per cent, demand (GNP) increased by the smallest amount for any of the periods of increasing demand, and the average workweek (instead of registering a significant decline to compensate for the small growth in demand)—the average workweek showed the second smallest decline of any period.

And the pattern is not the result of the particular periods chosen. The same type of pattern prevails, for example, if simple 5-year changes are examined (1901-05, 1906-10, etc.) and if 10-year changes are analyzed. The pattern holds also if per cent changes in the industrial production index are substituted for GNP figures.

Though one can never be sure of complex causal-effect relationships, the table does suggest that changing hours of work have been less responsive to changes in unemployment and demand in recent years.

* Average workweek for 1900-1918 is for all manufacturing employees; 1919-1962 data is for production workers in manufacturing.

Source: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics, Colonial Times to Present, 1960*. _____, *Statistical Abstract of the United States, 1961, 1962*.

(Continued from Page 15)

and when competition to sell goods is not intense—then business may raise prices. This would mean that the worker's wage would buy less—his standard of living would fall—he would have reduced his hours of work at the cost (to him) of a reduction in his effective ability to consume goods. This situation, in turn, would probably cause union leadership to press for wage hikes, which would mean (under the assumed conditions) further increases in business costs and another round of price increases—the familiar wage-price spiral, accompanied, most likely, by labor-management unrest, strikes, and lost production.

On the other hand, if the decrease in hours (and increase in unit labor costs) occurred during a period characterized by lax demand, troublesome unemployment and more intense competition (a time much like the present), then much of the increase in costs probably would be absorbed by employers, resulting in a fall in profits or even in net losses. If pressures on profits did indeed develop, employers might respond in at least three ways. First, some marginal firms might be forced out of business and unemployment would result.

Second, since prospective profits are an important determinant of business investment, business might cut back its capital outlays on new plant and equipment. The result would be a decrease in the number of new jobs available to an expanding labor force and, again, more unemployment.

Third, with pressure on profits business would try to shave costs as much as possible. Instead of hiring more workers to maintain output after the cut in the standard workweek, many firms might put in more productive equipment or simply pay overtime to keep the existing labor

force working the same number of hours. Overtime pay might prove less burdensome because of the cost of fringe benefits for new employees: contributions to pension funds, payments to the state for unemployment insurance and the like.

On net balance, then, a cut in the workweek might actually result in an *increase* in unemployment and might even send us spiraling downward into a recession. But so much for the domestic situation. How about the critical area of foreign trade and the balance of payments?

Internationally, a hike in wage rates might raise costs to the extent that it would no longer be profitable for many American firms to compete with foreigners in foreign markets. Moreover, if U.S. prices increased, Americans might increase their purchases of foreign goods. Such a decrease in export receipts and increase in import payments would mean a deterioration in our balance of payments with the rest of the world.

All this is a pretty dark picture. And it serves well to illustrate the range of uncertainties associated with a cut in the workweek. Yet is this *all* the story? Is there not some way out of this cost dilemma? Some proponents of a shorter workweek would say yes—if the cut in hours occurs at a slower pace.

Historically, productivity has increased at a rate of about 2½ to 3 per cent a year in the United States. In other words, if one man working one hour produced, say, 100 pins in 1963, he probably will produce 103 in 1964. Given these conditions, if the workers in the pin factory desire a decrease in work hours, and if they agree to cut hours by an amount roughly proportionate to the increase in productivity—then they will produce the same number of

pins at roughly the same cost. Unit costs will not rise.

Thus it is argued that one way to cut hours and perhaps avoid the cost difficulties would be to spread the reduction in hours over several years. Instead of dropping hours from 40 to 35 in one jump and increasing hourly pay rates by 14.3 per cent (as shown in the table on page 15), do it over a period of around five years. Of course, the impact on some individual firms and industries will be different than the impact on others because of individual differences in productivity, cost structure and peculiarities in equipment, methods, and products. But average unit costs in the nation should stay relatively stable.

Yet on the other side of the argument, two important caveats remain even under these conditions. Keeping the decline in hours in line with productivity gains would tend to make existing jobs more secure and might require hiring new workers to increase production, but it is possible that the new workers required could be obtained from new entrants into the labor force so that no dent would be made in existing unemployment. In this case, other measures would be required to cut the existing unemployment rate. The reduction in hours would serve only to keep the rate from rising.

And to be sure that new workers instead of overtime hours were added in order to raise output, it might be necessary to raise the penalty overtime rate, say from time-and-a-half to double time for overtime.

A second important caveat is this: there is strong pressure in this country for increases in wage rates when unemployment declines and output approaches capacity. Yet it would be necessary to forego wage hikes at a time when hours were being cut if stable unit costs were

to be maintained. Thus, some type of formal or informal agreement between labor, management, and perhaps the Government would be necessary to prevent wage rates from rising, Government bringing the full weight of public opinion to bear on any offending union or other group of workers. And aside from other reservations one might have, no one can be sure, of course, that this type of arrangement would be completely successful. Hence we have another of the many uncertainties associated with workweek legislation.

IN CONCLUSION

Whether or not the workweek is cut will probably depend in large measure upon the trend of unemployment. How successful will be the various measures proposed to deal with it—tax cut, retraining, and education, for example?

Most economists agree that the workweek will probably decline in the longer run. For the fundamental advance in technical know-how is rendering the labor force increasingly productive, and the nation probably will desire more leisure to enjoy the goods it produces.

One final idea which should be considered is this. If we should allow machine hours to replace man-hours to the point where large scale unemployment results, then men simply would not earn the income to buy all the goods the machines were capable of making. Both our system of income allocation and goods distribution would break down. Machines would be capable of making goods and humans would be capable of enjoying goods, but we would lack a system for equating the production potential with the consumption potential.

There are many ways and combinations of ways to keep this from happening. These ways run all the way from the most negative—inhib-

iting the advance of technology—to the more positive ones such as (a) reducing prices as we become more productive (thereby increasing demand so that more workers are required to run machines even though the machines being run *are* more productive), (b) cutting work hours, and (c) adjusting income shares through policies with respect to wages and profits.

It would probably be a mistake to believe that

any *one* of these techniques can be successful in maintaining the equilibrium of our distribution system. By the same token, it would probably be a mistake to *exclude* any one technique as an instrument to maintain equilibrium. Certainly all of the more positive techniques have been important at one time or another in past attempts to link a machine technology to a free market system of production and distribution.

1963: IMAGE IN THE LOOKING GLASS

In 1963 the nation stood before the looking glass. The reflected image was examined, appraised, and reappraised. Americans everywhere asked—Where are we? Where are we going?

WHERE ARE WE?

Most of what happened during 1963 pales in the light of a single event that occurred on November 22nd under a bright Texas sky. Although it is difficult to see beyond the immense tragedy of those days in November, we may take consolation in what we do see and find that all is not wrong with the state of the union.

Basically our economy is strong. Some problems persisted through 1963, but we pressed closer toward a solution for them.

Economic performance during 1963 was better than expected. We produced more goods and services than ever before—nearly \$600 billions worth. Consumers spent more and businessmen invested more. Government expenditures were

higher in 1963, but increased more slowly than in recent years. Bank and consumer credit expanded greatly. The Federal Reserve continued to provide funds adequate for sustained economic growth.

The current expansion is one of the longest in our history except for the war years and there are few of the excesses which generally develop during a long expansionary period. This growth, however, did not reduce the rate of unemployment in our labor force. The rate of unemployment remained at about 5½ per cent. A new word crept into our vocabulary—the unemployables—to describe those who did not possess either the skills required or the aptitude to learn them.

We made progress toward reducing balance-of-payments pressures. The Federal Reserve helped to reduce the outflow of short-term credit without restricting credit significantly in domestic markets. The proposed interest equal-

ization tax cut deeply into foreign borrowing here.

The image of the dollar proved sound. Evidence of world confidence in the dollar appeared late last November. Minutes after news flashed of the assassination of our late President, the Federal Reserve, in cooperation with foreign central banks, moved into the exchange market to defend the dollar. The knowledge that adequate resources were available to deal with any eventuality helped prevent any crises from developing.

WHERE ARE WE GOING?

It is clear the course we follow will be influenced largely by developments in four major areas: the role of the Government, unemployment, economic growth, and balance of payments.

A major question mark is the role of the Government. Somehow the thorny issue of the federal budget must be resolved. If Government expenditures are to be reduced, where do we cut without excising muscle? Defense expenditures? Foreign aid? Domestic welfare projects? Already concern is expressed about the economic consequences of a reduction in defense expenditures. What will be the impact on local employment? Will private enterprise be able to pick up the slack created and fill the gap? If so, how soon?

There is divided opinion on what to do about unemployment. To the structuralist, the main cause of unemployment is shifts of demand arising from changes in consumers' tastes or changes in technology. So we have a group within the economy which no longer possesses the required skills or is dislocated because of industry shifts. Others argue that the basic cause of unemployment is an inadequate level of demand. If the

level of demand were high enough, business would be willing to employ those workers who have lower productivity.

There is truth to both points of view. We need to make more intensive efforts to educate and retrain workers in new skills. At the same time, we need to sustain over-all demand so as to increase our rate of growth. Action on both fronts would help the economy adjust more quickly to the dislocations in the labor market caused by changing patterns of demand and technology.

The main thrust toward faster growth in 1964 apparently is to be a reduction in taxes. Questions arise, however, regarding its timing and final form. And the results are not a foregone conclusion. But if a tax cut stimulates larger purchases by consumers and brings about more investment by business, it would create a strong sustaining force to the current expansion. Increased spending by consumers and businessmen would bring us closer to resolving the problems of growth, unemployment, and our balance-of-payments deficit in the near future.

The domestic economy of the United States is linked too intimately to the world economy for us to act unilaterally in solving our balance-of-payments deficit. Monetary and fiscal authorities still will have to strike the delicate balance of policies to ease the deficit further without hampering growth.

THE THIRD DISTRICT IN 1963

Business In 1963 business activity within the Third Federal Reserve District lagged somewhat behind the nation. After sluggish performance early in the year, there were some signs of strengthening in the springtime.

Unfortunately, business conditions in the Third District did not improve significantly.

BUSINESS INDICATORS
THIRD FEDERAL RESERVE DISTRICT
PER CENT CHANGE 1962 TO 1963

Manufacturing employment*	— 0.7%
Factory payrolls*	+ 0.8
Factory working time*	— 0.1
Electric power consumed by manufacturers*	+ 4.9
Anthracite coal output*	+15.1
Construction contracts*:	— 2.2
Residential	+ 5.1
Nonresidential	—13.5
Public works and utilities	+ 7.6
Carloadings (Philadelphia region)	—11.2
Retail sales, total (excluding national chains)**	+ 3.2
Department store sales*	— 0.4
Automobile registrations (48 counties, eastern Pennsylvania)*	+ 9.7
Bank debits (20 cities)	+ 6.6

* First 11 months.

** First 10 months.

While the nation continued to expand at a moderate rate, the District barely maintained current levels.

District indicators, as shown in the table, reveal mixed patterns in economic performance. Factory working time, employment, and payrolls showed hardly any change, less than 1 per cent each. Carloadings fell 11 per cent. Construction contracts were contrary to the national pattern, dropping 2 per cent largely because of a 14 per cent decline in nonresidential construction.

Retail sales rose at a rate less than that of the nation. Anthracite output, perhaps in response to newly found uses and increased exports, in-

UNEMPLOYMENT IN MAJOR LABOR MARKET AREAS — THIRD FEDERAL RESERVE DISTRICT

Per Cent of Labor Force Unemployed	Number of Areas		
	November 1963	November 1962	November 1961
1.5 to 2.9%	2	1	0
3.0 to 5.9	5	6	7
6.0 to 8.9	4	2	2
9.0 to 11.9	2	3	2
12.0 or more	0	1	2
Total	13	13	13

creased substantially by 15 per cent.

Most significant is the unemployment picture in the Third District. The Philadelphia Metropolitan Area is acutely aware of unemployment with an average of 6½ per cent of the labor force out of work—higher than the national average. Total employment in the area stopped growing during 1963.

Elsewhere in the District, unemployment shifted slightly in a more favorable direction. No area appears in the 12 per cent or more unemployed category, while one area was added to the 1.5 to 2.9 per cent group.

Banking During 1963 the rate of growth in total deposits was less than that in the nation, especially in reserve city banks.

Net loans of reserve city banks in the Third District increased at a rate approximating the nation as a whole. The rate of growth of net loans at country banks, however, was only two-

THIRD DISTRICT BANKING
(millions of dollars)

	December 30, 1961	December 28, 1962	Change in 1962	December 24, 1963	Change in 1963
Reserve City Banks					
Loans	\$2,358	\$2,584	+226	\$2,842	+258
Investments	1,085	1,037	— 48	1,059	+ 22
Deposits	4,256	4,263	+ 7	4,363	+100
Country Banks					
Loans	3,246	3,507	+261	3,792	+285
Investments	2,532	2,710	+178	2,774	+ 64
Deposits	6,152	6,446	+294	6,814	+368

thirds that of country banks throughout the nation.

Reserve city banks in the District added securities to their portfolios—a change in direc-

tion from 1962 when they liquidated on balance. District country banks continued to expand their portfolios, but at a lesser rate than a year ago.

DIRECTORS AND OFFICERS

At the election held in the fall of 1963, two directors were elected by member banks to serve for three-year terms beginning January 1, 1964. Charles R. Sharbaugh, President of Cambria County National Bank of Carrolltown, Carrolltown, Pennsylvania, was elected as a Class A director by member banks in Electoral Group 2. He succeeds J. Milton Featherer. Banks in Group 3 re-elected Leonard P. Pool, President, Air Products and Chemicals, Inc., Allentown, Pennsylvania, as a Class B director.

The Board of Governors of the Federal Reserve System reappointed Walter E. Hoadley as a Class C director for an additional three-year term. Mr. Hoadley was redesignated as Chairman of the Board of Directors and Federal Reserve Agent and David C. Bevan as Deputy Chairman for the year 1964.

The Board of Directors appointed William L. Day, Chairman, The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, to serve as the member of the Federal Advisory Council to represent the Third Federal Reserve District for the year 1964.

Three officers retired during 1963—Zell G. Fenner, Assistant Vice President, Bank Examination, on May 30; Herman B. Haffner, former General Auditor, on September 30; and George J. Lavin, Assistant Vice President, Credit-Discount, on November 1.

G. William Metz, Examining Officer, was appointed Acting General Auditor on January 3 and General Auditor on May 3, 1963. James P. Giacobello, an examiner in the Bank Examination Department, was appointed Examining Officer on February 1, and advanced to Chief Examining Officer on June 1, 1963. Also effective June 1, Joseph M. Case was promoted from Chief Examining Officer to Assistant Vice President in the Bank Examination function, and William L. Ensor and Harold E. Ikeler, examiners, were promoted to the official position of Examining Officer. Warren R. Moll was transferred in assignment from Checks to Cash, and promoted from Assistant Cashier to Assistant Vice President; and James A. Agnew, Department Head—Checks, was made Assistant Cashier—Checks. On November 1, 1963, Edward A. Aff, Assistant Vice President, became an officer of administration in the Credit-Discount Department, in addition to his former assignment as a Bank and Public Relations officer. Effective January 1, 1964, three members of the staff of the Department of Research were promoted to officer positions—Kenneth M. Snader as Assistant Vice President, and J. C. Rothwell, Jr. and Bertram W. Zumeta as Economists.

DIRECTORS AS OF JANUARY 1, 1964

Group		Term expires December 31
	CLASS A	
1	BENJAMIN F. SAWIN Vice Chairman of Board and Chairman of Executive Committee, Provident Tradesmens Bank and Trust Company, Philadelphia, Pennsylvania	1965
2	CHARLES R. SHARBAUGH President, Cambria County National Bank of Carrolltown, Carrolltown, Pennsylvania	1966
3	EUGENE T. GRAMLEY President, Milton Bank and Safe Deposit Company, Milton, Pennsylvania	1964
	CLASS B	
1	FRANK R. PALMER Chairman, The Carpenter Steel Company, Reading, Pennsylvania	1964
2	RALPH K. GOTTSBALL Chairman of Board and President, Atlas Chemical Industries, Inc., Wilmington, Delaware	1965
3	LEONARD P. POOL President, Air Products and Chemicals, Inc., Allentown, Pennsylvania	1966
	CLASS C	
	WALTER E. HOADLEY , Chairman Vice President and Treasurer, Armstrong Cork Company, Lancaster, Pennsylvania	1966
	DAVID C. BEVAN , Deputy Chairman Chairman of Finance Committee, Pennsylvania Railroad Company Philadelphia, Pennsylvania	1965
	WILLIS J. WINN Dean, Wharton School of Finance and Commerce, University of Pennsylvania Philadelphia, Pennsylvania	1964

OFFICERS AS OF JANUARY 1, 1964

KARL R. BOPP
President

ROBERT N. HILKERT
First Vice President

HUGH BARRIE
Vice President

JOHN R. BUNTING, JR.
Vice President

JOSEPH R. CAMPBELL
Vice President

NORMAN G. DASH
Vice President

DAVID P. EASTBURN
Vice President

MURDOCH K. GOODWIN
Vice President, General Counsel
and Assistant Secretary

HARRY W. ROEDER
Vice President

JAMES V. VERGARI
Vice President and Cashier

RICHARD G. WILGUS
Vice President and Secretary

EVAN B. ALDERFER
Economic Adviser

CLAY J. ANDERSON
Economic Adviser

EDWARD A. AFF
Assistant Vice President

JOSEPH M. CASE
Assistant Vice President

RALPH E. HAAS
Assistant Vice President

WARREN R. MOLL
Assistant Vice President

LAWRENCE C. MURDOCH, JR.
Business Economist

HENRY J. NELSON
Assistant Vice President

KENNETH M. SNADER
Assistant Vice President

RUSSELL P. SUDDERS
Assistant Vice President

J. C. ROTHWELL, JR.
Economist

BERTRAM W. ZUMETA
Economist

JAMES P. GIACOBELLO
Chief Examining Officer

WILLIAM L. ENSOR
Examining Officer

HAROLD E. IKELER, JR.
Examining Officer

JACK H. JAMES
Examining Officer

LEONARD E. MARKFORD
Examining Officer

JAMES A. AGNEW, JR.
Assistant Cashier

JACK P. BESSE
Assistant Cashier

WILLIAM A. JAMES
Personnel Officer

FRED A. MURRAY
Director of Plant

G. WILLIAM METZ
General Auditor

STATEMENT OF CONDITION

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted in dollar figures)	End of year	
	1963	1962
ASSETS		
Gold certificate reserves:		
Gold certificate account	\$ 727,618	\$ 917,611
Redemption fund—Federal Reserve notes	79,072	75,965
Total gold certificate reserves	\$ 806,690	\$ 993,576
Federal Reserve notes of other Federal Reserve Banks	35,360	52,668
Other cash	6,406	16,465
Loans and securities:		
Discounts and advances	2,826	663
United States Government securities	1,830,795	1,679,215
Total loans and securities	\$1,833,621	\$1,679,878
Uncollected cash items	453,604	475,946
Bank premises	3,012	3,282
All other assets	22,143	19,837
Total assets	\$3,160,836	\$3,241,652
LIABILITIES		
Federal Reserve notes	\$1,917,598	\$1,863,328
Deposits:		
Member bank reserve accounts	767,443	824,688
United States Government	32,367	44,812
Foreign	9,280	15,080
Other deposits	6,145	5,257
Total deposits	\$ 815,235	\$ 889,837
Deferred availability cash items	340,893	404,360
All other liabilities	4,241	3,473
Total liabilities	\$3,077,967	\$3,160,998
CAPITAL ACCOUNTS		
Capital paid in	\$ 27,623	\$ 26,885
Surplus	55,246	53,769
Total liabilities and capital accounts	\$3,160,836	\$3,241,652
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	29.5%	36.1%

EARNINGS AND EXPENSES

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted)	1963	1962
Earnings from:		
United States Government securities	\$ 61,406	\$ 58,880
Other sources	420	377
Total current earnings	\$ 61,826	\$ 59,257
Net expenses:		
Operating expenses*	8,926	8,584
Cost of Federal Reserve currency	551	434
Assessment for expenses of Board of Governors	435	383
Total net expenses	\$ 9,912	\$ 9,401
Current net earnings	51,914	49,856
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	18	111
All other	38	33
Total additions	\$ 56	\$ 144
Deductions from current net earnings:		
Miscellaneous non-operating expenses	3	84
Total deductions	\$ 3	\$ 84
Net additions	53	60
Net earnings before payments to U.S. Treasury	\$ 51,967	\$ 49,916
Dividends paid	\$ 1,638	\$ 1,565
Paid to U.S. Treasury (interest on Federal Reserve notes) . . .	48,852	45,863
Transferred to or deducted from (—) Surplus	\$ 1,477	\$ 2,488

* After deducting reimbursable or recoverable expenses.

VOLUME OF OPERATIONS

FEDERAL RESERVE BANK OF PHILADELPHIA

	1963	1962	1961
Number of pieces (000's omitted)			
Collections:			
Ordinary checks*	215,700	196,700	181,100
Government checks (paper and card)	28,800	27,300	26,300
Postal money orders (card)	15,200	14,100	16,200
Non-cash items	835	734	732
Clearing operations in connection with direct send- ings and wire and group clearing plans**	704	682	677
Transfers of funds	178	163	149
Currency counted	274,100	264,300	260,300
Coins counted	346,700	444,400	476,200
Discounts and advances to member banks	1	1	1
Depository receipts for withheld taxes	586	566	544
Postal receipts (remittances)	308	310	317
Fiscal agency activities:			
Marketable securities delivered or redeemed	421	439	406
Savings bond transactions—			
(Federal Reserve Bank and agents)			
Issues (including re-issues)	8,436	7,699	8,650
Redemptions	6,311	6,856	6,756
Coupons redeemed (Government and agencies)	1,163	1,221	1,119
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	\$ 68,600	\$ 66,200	\$64,600
Government checks (paper and card)	6,259	6,165	5,866
Postal money orders (card)	261	254	274
Non-cash items	185	164	166
Clearing operations in connection with direct send- ings and wire and group clearing plans**	41,031	39,031	36,395
Transfers of funds	123,253	108,662	90,676
Currency counted	1,935	1,844	1,783
Coins counted	44	52	55
Discounts and advances to member banks	1,192	485	564
Depository receipts for withheld taxes	2,605	2,406	2,240
Postal receipts (remittances)	888	872	851
Fiscal agency activities:			
Marketable securities delivered or redeemed	13,745	12,807	10,998
Savings bond transactions—			
(Federal Reserve Bank and agents)			
Issues (including re-issues)	444	396	405
Redemptions	344	468	377
Coupons redeemed (Government and agencies)	175	158	156
* Checks handled in sealed packages counted as units.			
** Debit and credit items.			