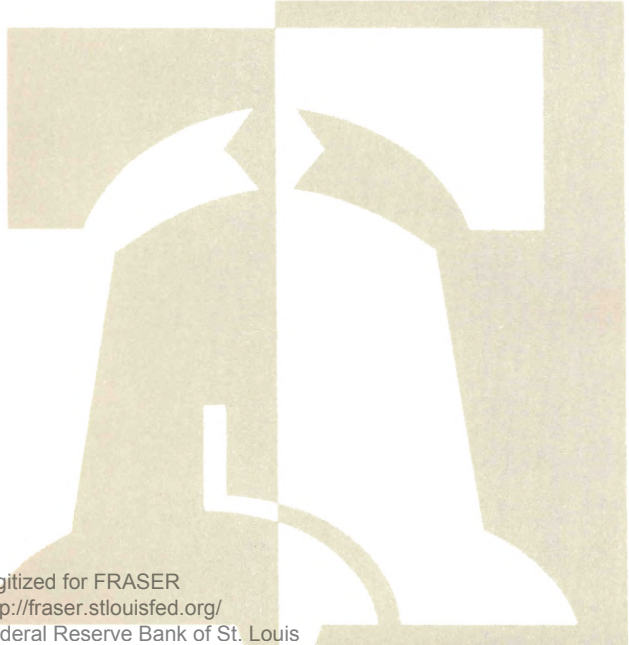
The Second Fifty Years

The Toil and Turmoil of Urban Renewal

1964: The Expansion That Wouldn't Die

FEDERAL RESERVE BANK OF PHILADELPHIA

BUSINESS REVIEW



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Requests for additional copies should be addressed to Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

This article was written originally as an introduction to a collection of readings on the Federal Reserve to be released soon. It is published here with the thought that it might also be of interest to readers of this Annual Report issue of the Business Review *as the Federal Reserve begins its second half century. Inasmuch as it hazards somewhat speculative and impressionistic views of the future, it should be regarded as reflecting solely the personal opinions of the author and not those of the Federal Reserve Bank of Philadelphia.*

THE SECOND FIFTY YEARS

The idea of inevitable progress is out of fashion today, yet the foundation for the concept and for the tremendous advances actually experienced by modern society is stronger than ever. This foundation is a faith in science and technology. With roots in earlier philosophy, the idea of progress has gained currency with the development of modern science and technology in the past two centuries. During this time society has gained increasing control over its physical environment, and now, after a quarter-century of particularly rapid technological advance and almost unbroken prosperity, it looks ahead to further conquests.

All this is not to deny problems that lie ahead, nor to suggest that science and technology are the universal solvent. But there are grounds for believing that the forward motion so apparent in things technical will also dominate relations among people and institutions. What follows is an attempt to explore some of the ways in which the Federal Reserve may be affected.

Innovation

The environment in which the Federal Reserve System begins its second fifty years is different in many ways from that in which it began its first. One of the more subtle differences is that between innovation and reform—between creation of something new and action to cure a defect.[1]

The Federal Reserve was established to remedy certain recognized defects of the financial mechanism, and in many ways constituted a daring departure requiring creative imagination and experimentation. Subsequently, in the course of fifty years, the Federal Reserve put into effect many new ideas and techniques in the formulation and execution of monetary policy. To say, therefore, that the Fed will be functioning in an environment of innovation is not to detract from past accomplishments but to characterize a dominant influence likely to be at work in the future.

Modern society is undergoing a process of rapid and accelerating change. Thus Max Ways writes in *Fortune* magazine of "The Era of Radical Change."[2] One business executive characterizes the coming generation of business leaders as "The Change Seekers."[3] There is nothing new about change or innovation. What is new is the pervasive recognition and acceptance of change

[1] This distinction and some of the other ideas on innovation are drawn from Peter F. Drucker in **Landmarks of Tomorrow** (New York: Harper & Brothers, 1959).

[2] Max Ways, "The Era of Radical Change," **Fortune,** Vol. LXIX, No. 5 (May, 1964), p. 113.

[3] Semon E. Knudsen, "The Change Seekers," **Michigan Business Review,** Vol. XVI, No. 5 (November, 1964) pp. 1–4.

as a way of life and faith in innovation as a way of bringing it about. The word innovation has taken on special meaning: "Purposeful change by means of the systematic inquiry we call scientific method and of the new knowledge gained thereby."[4]

Knowledge gained in the process of innovating is cumulative, and it is partly for this reason that the speed of change tends to accelerate. Innovation is cumulative in another sense—it is contagious. A given innovation forces another, either in competition or adaptation. New ideas, new procedures in the business, government, and financial communities will require the central banker to innovate, too.

A current illustration: As commercial banks seek to maintain their position in an environment of increasing competition, they have shown great ingenuity in developing new devices to achieve their goal. Certificates of deposit, capital debentures, short-term promissory notes may be only the beginning. Central bank response to such innovation will induce other forms of innovation, and so on in an endless chain of action and response.

It might appear that the central banker's experience suits him better for the role of conservator rather than innovator. Over the years, as the price level has swung widely from inflation to deflation, the central banker has seen as one of his greatest responsibilities that of conserving the value of money. This aspect of his job seems likely to remain. But this is not the same as preserving the *status quo,* nor is it inconsistent with an environment of innovation and change. In fact, the best way to conserve often may be to innovate.

Existence in the fast-moving environment of innovation may be exciting, but it also can be hazardous. The problem facing any organization is to weigh the risks involved against the ends to be achieved. This is particularly important for an institution engaged in public policy, like the central bank. With the well-being of the entire economy often at stake, the central banker cannot undertake the risks of innovation lightly.

One kind of risk to be weighed is that of failure. At one extreme, the price of failure to keep pace in an innovating world is obsolescence, and ultimately society eliminates the obsolete institution. But some failures may be the price of success. Industrial concerns recognize the likelihood of failure in the development of new products; the laboratory may hit pay dirt only once in thousands of attempts. To the central bank, the problem is much more difficult, for failures affect the general public so much more directly. And the central banker must answer to the public for his failures. In his weaker moments he might wish for a public that is tolerant of failure; and perhaps a public constantly exposed to constructive innovation and aware of the calculated risks involved in them might be inclined to give him the benefit of the doubt. In the last analysis, however, while remaining sensitive to the public's desires, the innovating central banker will still need a thick skin.[5]

Another kind of risk inherent in innovation is that of success. For if the innovation comes off, the central banker is confronted with a whole new situation; he has set off a chain of action which he will be unable to see in all its ramifications. The risk of success is the risk of creating a new environment in which new ques-

[4] Drucker, op. cit., p. 24.

[5] The current attempt to provide stimulus for economic growth while at the same time promoting balance of international payments is a significant experiment involving innovation in a number of techniques. The risk of failure—failure to achieve growth, or to balance the payments, or to maintain price stability—is ever present. In case of failure, the Fed will, of course, have to answer to the public.

tions will arise for which new answers must be sought.

The question confronting the central banker, then, is not whether to innovate or not to innovate. The question is how to choose and weigh the risks involved. Innovation is not experimenting for the sake of experimentation but careful calculation of new means to achieve given ends. In the process of innovating, the central banker will have to develop and acquire new techniques and knowledge for making these calculations.

Science

Over three decades ago, R. G. Hawtrey made this intriguing observation: "If the subject of central banking is classed as an art and not as a science, it is not for that reason any the less scientific."[6] In the coming world of scientific miracles, is it possible that central banking may be transformed from art to science?

When Hawtrey said that central banking can be scientific, he was stretching the strict meaning of the word. Narrowly defined, science involves a method—a process—of observation, classification, generalization, and verification. The end is a generalization—a law—that will apply to all cases under the prescribed conditions; and from this generalization one is able to predict. All this is possible in the natural sciences, and so it is that they have made such tremendous strides.

The social sciences are quite different, most notably in that they deal with people. People have values and goals and are notoriously uncooperative guinea pigs. Partly because of this, the social sciences have made less progress than the natural sciences toward the ultimate goal of science—prediction.

Central banking is even further removed from science. To say that it is an art is to imply a pursuit requiring "skill and ability, acquired through patient practice . . . ."[7] And as Hawtrey said, "The art of central banking is *practical* in that it teaches how to use a power of influencing events. It is concerned, not merely with the relation of cause to effect, but with the relation of *means* to *end*."[8] (Italics added.) The central banker is not merely standing back observing and analyzing; he is in the experiment himself.

If central banking were a science, it would be possible to state with certainty that under given conditions a certain increase in the discount rate will have such-and-such effects. In the present state of the art, we can only say that the increase will *tend* to have such-and-such effects. And whereas the economist can introduce an element of controlled conditions into his theory by the phrase *ceteris paribus*, the central banker is very much aware that in practice *ceteris* cannot be relied on to be *paribus*.

Much progress undoubtedly will be made in coming years toward the ultimate goal of science —prediction. The central banker will know so much more about the state of the economy and how it works that he should be more certain of the kind of action to take and what to expect from it. If he never reaches 100 per cent certainty, he will still be better able to narrow down the probabilities.

But there is another aspect to central banking which will ever remain an art—the judgment involved in choice of goals. What should be the objective of monetary policy—full employment, stable prices, growth, balance-of-payments equilibrium? What is the proper mixture? The

[6] R. G. Hawtrey, **The Art of Central Banking** (London: Longmans, Green and Co., 1932), p. vi.

[7] "Art," **Encyclopedia Britannica**, 1962 ed., Vol. 2, p. 440.
[8] Hawtrey, **loc. cit.**

future undoubtedly will bring new techniques and knowledge for judging the consequences of pursuing given objectives and for calculating trade-offs among them, but in the last analysis the decision cannot be "scientific."

Yet Hawtrey's point is still valid; the art should be pursued as much as possible in a scientific way. If central banking cannot become a science, it almost certainly will approach more closely to one.

Knowledge

As he becomes more scientific, the central banker will gain more knowledge to plug into his method. Some aspects of this broader knowledge have already been suggested, but exploring further into the nature of it may enable us to visualize more clearly where progress may take place. Conant has distinguished between two types of knowledge: what he calls accumulative knowledge in branches of learning such as the natural sciences; and knowledge in such pursuits as philosophy, poetry, and the fine arts.[9] Natural scientists build on the work of those who have gone before. In the process they learn more about the nature of the universe; and so science progresses. The test Conant suggests would be to bring Galileo or Newton back to earth to view the present scene. There is no question that they would regard the present state of knowledge as an advance over their own. But it might be far otherwise with Dante or Thomas Aquinas.

Just as scientists accumulate knowledge as they progress toward a better understanding of the universe, central bankers will accumulate knowledge of how the economy works and how to influence it. One of the most obvious ways in which this will take place will be tremendous strides in information available for policy-makers. Important conceptual advances in aggregating data in systematic ways, such as national income accounts and flow of funds, have been made in recent years and further progress lies ahead. Promptness of data is much improved, a vital development in view of lags in monetary policy. In the future, use of computers may so speed and reduce the burden of data collection that information on the state of the economy may be available to decision-makers almost simultaneously with events giving rise to the data.

With better information will come improved techniques for implementing policy. Partly because this has been an area in which great progress has already been made, however, further advances may be limited for a time. Techniques have outrun understanding. This often happens —"The practical arts at first run ahead of the science . . ."[10] But this atomic-age generation has thoroughly absorbed the lesson that pure theory can yield very practical results, and one evidence of this is the fact that R & D has become the password to corporate growth. Improved techniques of monetary policy will come, but they will come sooner as economists develop a more complete monetary theory.

In the other area of knowledge—that similar to the creative arts—it may be hard to discern forward momentum in the same sense. This is a much more subjective matter. The recent past suggests an illustration. Until the Great Depression, what has been called "the Spartan doctrine of *laissez faire*" to some extent influenced think-

[9] James B. Conant, **On Understanding Science** (New York: The New American Library, 1951), p. 34.

[10] **Ibid.**, p. 36. Although far from perfected, open market operations, for example, are conducted with considerable finesse and technical proficiency. Yet economists' knowledge of the linkages among the variables affected—reserves, interest rates, bank portfolios, and the like—is still very limited.

ing of many people.[11] Purging the economy of excesses, while unpleasant and painful, was seen necessary from time to time. Although this attitude still exists to some extent, it has been greatly softened by the tragic experience of the 1930's, and the goal of full employment is a reflection of the humanizing of society's attitude toward economic problems. In this sense, goals of monetary policy have become more "human" as well. But to say that this constitutes a forward step is to call forth a subjective ethical judgment. With all the advances that lie ahead, it may well be impossible to say, fifty years from now, that attitudes, goals and values are any "better" than those of today.

Discretion

In a world of innovation and change, the central banker of the future will need wide latitude for the exercise of discretion, freedom to make new decisions under new conditions.

One entire chapter in the history of monetary policy could tell of the establishment and abandonment of rules which limited the use of discretion. The gold standard and the principle of self-liquidating commercial paper are perhaps the most outstanding examples. This is not the place to argue the appropriateness of such rules in their time; the point here is rather that such rules will become more and more inappropriate.

One reason is the increasing complexity of the economy. Hopefully, with improved knowledge, economists will be able to construct models that can explain the behavior of the economy, and the central banker can formulate decisions more scientifically on the basis of these models. But to be accurate, the models will need to be extremely complex; they are unlikely to be reducible to simple rules. If there ever was a time when monetary policy could focus on a fixed rate of growth in the money supply, for example, that day seems likely to become increasingly remote.

More importantly, rules, whether simple or complex, will be inappropriate because of the rapidity of change. In the past, it has been change which has forced abandonment of rules. In the future, change could make a rule obsolete virtually as soon as adopted. A discretionary posture is not one of capriciousness or expediency, but one that permits adaptation to change as it takes place.

The evolution of Federal Reserve policy from rules to discretion may perhaps take a new turn. Up to now, it has occurred mainly within the framework of general credit control. The rationale has been a philosophy of minimum intervention in markets. But over the years society has changed its idea of what constitutes intervention. The establishment of the Federal Reserve itself marked a major intervention, and since that time the public has become more tolerant of—frequently has insisted on—various forms of intervention. It seems possible, therefore, that the concept of free markets will be viewed in a different light by the time the Federal Reserve is 100 years old. And as a result, the future central banker may feel more inclined to devise new instruments and techniques to deal with particular problems in selected sectors of the economy.[12]

Decision-making

The human mind is constantly outsmarting itself. It keeps devising solutions that raise new

[11] **First Annual Report to the President by Council of Economic Advisers** (Washington: U.S. Government Printing Office, December, 1946), p. 10.

[12] The current "operation twist," designed to promote economic growth and at the same time protect the nation's balance of payments, is an example of the subtlety with which instruments can be used to achieve results in different parts of the economy. By influencing the short and long segments of the maturity structure in different ways, the operation assumes a credit market that is certainly less than completely free and fluid.

problems. One benefit is that society advances in the process; but one penalty is that problems soon become too great for any single mind to solve. And so we live increasingly in an age of specialization—as the saying goes, learning more and more about less and less.

This trend certainly is not going to be reversed; tomorrow's complex problems will require even greater specialization. As the division of knowledge proceeds further and further, problem-solving will become increasingly a matter of team effort. In the sciences, in business, and in the professions, fewer and fewer breakthroughs will be accomplished by individuals, more and more by groups. Complexity will require group action for another reason: the risks of making the grand error are greater if decision-making is overcentralized.

But these are, in a sense, negative reasons for pluralistic decision-making. A positive argument is simply that it produces better results. "It would be hard to overemphasize the importance of pluralism in helping a society to escape the cycle of growth and decay. The ever-renewing organization (or society) is not one which is convinced that it enjoys eternal youth. It knows that it is forever growing old and must do something about it. It knows that it is always producing dead wood and must, for that reason, attend to its seedbeds. The seedlings are new ideas, new ways of doing things, new approaches. If all innovations must pass before one central decision point, they have just one chance to survive and a slim one at that. In an organization with many points of initiative and decision, an innovation stands a better chance of survival; it may be rejected by nine out of ten decision makers and accepted by the tenth. If it then proves its worth, the nine may adopt it later."[13]

[13] John W. Gardner, **Self-Renewal: The Individual and the Innovative Society** (New York: Harper & Row, 1964), p. 68.

Since central banking will share the complexities, change, and innovations of society in the years ahead, it too will be better conceived and executed if it is a product of pluralistic decision-making. The very existence of a central bank is testimony to the fact that control over money and credit cannot be dispersed or decentralized. But this is all the more reason why the *process* of exercising that control should be a group process.

This process has deep roots in the Federal Reserve System. It was embodied in the original Federal Reserve Act and, despite some centralization of power since then, remains at the core of the System's being. So the principle of pluralistic decision-making is not new to the Federal Reserve.

What coming years may add to it is greater efficiency. With all its advantages, the process now tends to be slow-moving. Given the high stakes involved, this has its merits; better to move slowly but carefully than quickly but erratically. In the future, improved knowledge should help to speed the process. Differences in judgment are healthy, but not if produced by inadequate knowledge. In addition, it may be possible to use new techniques—operations analysis, probabilistic decision rules, simulation, and other techniques yet to be discovered—to arrive at decisions. With more knowledge and new techniques, the full potential of the pluralistic process should be more nearly realized.

Political environment

According to the dictionary, the origin of the word "political" is the Greek "politikos," meaning "of the citizens." The central banker of the future need not be a Greek scholar to have a sense of this broad meaning of the word; he is likely to be closer to the citizen than ever before.

The Federal Reserve System from the start has been constructed to be responsive to the people. Created by Congress, with its top officers appointed by the President and confirmed by the Senate, it is—despite vestigial evidences of private interests—truly a public institution. And although its outward form may be altered in surface detail over the next fifty years, it cannot be made any more public in spirit than it is now.

But with advances in education and communication may come a somewhat different relationship between the central bank and the public. The unfortunate tendency throughout history for money to get out of hand sometimes tended to thrust the central bank into a sort of trustee relationship *vis-à-vis* the public—in a sense putting the central bank in the role of protecting the public against itself.[14]

As the level of education and economic literacy rises, however, the average citizen will become increasingly aware of monetary policy and what it is trying to do; he will recognize his own stake in stable prices as well as full employment. The relationship between him and the central bank may be less that between beneficiary and trustee, more that between informed persons cooperating to achieve common objectives.

This might mean, in turn, a subtle change in the Federal Reserve's position within Government. It is too much to expect that the monetary authorities and other Government officials will always act wisely or see everything eye to eye. Yet it may not be too utopian a view that a better understanding citizenry will produce better public officials. And with a more sophisticated public as their common denominator, these officials may tend more often than not to work in harmony toward their common goals. In the process, the lines between the monetary authorities and other Government officials responsible for economic policy may to some extent become blurred.

At the same time, advances in fiscal and debt management policies hold much promise for reinforcing monetary policy. As matters now stand, because of its inflexibility fiscal policy has realized only a fraction of its potential for stabilizing the economy. In coming years, the contribution it can make may be more generally accepted and techniques may be developed to make it more flexible. And so the lines between monetary policy and other policies of Government, especially fiscal and debt management policies, also may become increasingly blurred. All this will strengthen, not weaken, the hand of the Federal Reserve and the efficacy of monetary policy.

In conclusion

How old is fifty? According to life expectancy tables, not so old as it used to be. Compared with the 270-year-old Bank of England, the Federal Reserve System is a mere stripling. In the last analysis, an organization, like any individual, is only as old as it feels.

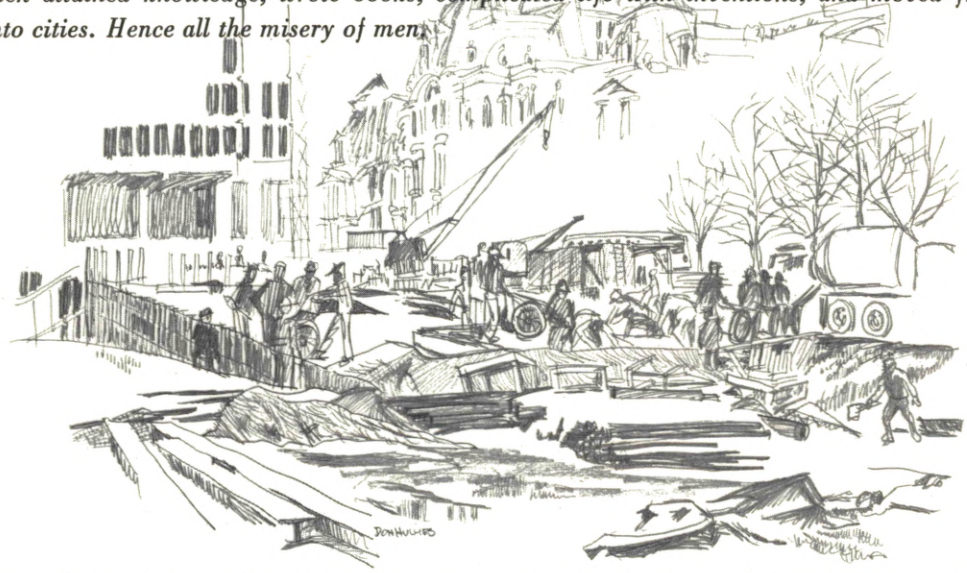
"Every individual, organization or society must mature, but much depends on how this maturing takes place. A society whose maturing consists simply of acquiring more firmly established ways of doing things is headed for the graveyard—even if it learns to do these things with greater and greater skill. *In the ever-renewing society what matures is a system or framework within which continuous innovation, renewal and rebirth can occur.*"[15] In the world of rapid change ahead, the challenge is to combine the vigors of youth with the strengths of maturity.

[14] It has been said that the Federal Reserve is in the position of the chaperone who is always removing the punchbowl just as the party is getting good.

[15] Gardner, op. cit., p. 5

THE TOIL AND TURMOIL OF URBAN RENEWAL

In ancient days, said China's Lao-Tze in the 6th century B.C., men lived in peaceful rural simplicity. Then men attained knowledge, wrote books, complicated life with inventions, and moved from the fields into cities. Hence all the misery of men.



Like the elephant which six blind men of Indostan went to "see," urban renewal casts many different images. One person sees it as metropolitan rejuvenation to make cities more livable. Another is impressed by its displacement of people. Still others are struck by its slow progress, its diverse objectives, its high cost. Differences of opinion are inevitable in an undertaking with the dimensions and complexities of urban renewal.

A city is a mass of humanity cooped up in a mass of masonry. The city is where the tumult is—a clatter and a chatter of multitudes on the sidewalks, a screech of rubber on asphalt, the shriek of a fire engine, the rumble of a subway, a Fourth-of-July parade, a five-o'clock stampede to the suburbs, a shooting in a side-street saloon, and the honking of impatient motorists. The city is also where one goes to enjoy Van Cliburn at the piano, Ormandy on the podium, Fonteyn in the ballet, or Willy Mays in center field. In addition to the performing arts a city offers a cultural smorgasbord of art galleries, libraries, museums, and a variety of educational, scientific, and philosophic organizations affording fruitful opportunities to enrich hours of leisure.

For millions of citizens, the city is home in the fullest sense of the term—a place to live, to work, to play, to go to school. Many city dwellers are transfers from farms or villages; more and more, however, are city born and city bred. They love the city where there is always something going on; they loathe the countryside, dull and dead. Nocturnal orchestration of crickets and

peepers would annoy urban sleepers, but not motor trucks thundering through the streets.

Urbanization is a product of our business civilization, our commercial and industrial economy. Seventy per cent of the country's population occupy 1 per cent of the land area. The heaviest concentration is in 219 metropolitan areas, each of which has as its nucleus a city of 50,000 population or more.

Urban concentration has its advantages but it also has its vexations. Familiar to everyone are: the traffic congestion in city center brought on by the widespread preference for personalized transportation, the shortage of downtown parking space, the decline of mass transit, the smog, the strain on water supply, the pollution of streams and the expense of sewage disposal, the exodus of urban population into ticky-tacky towns, the influx of minority groups and their socio-economic segregation in residential ghettos, the deterioration of certain commercial, industrial, and residential areas of the city, the decay of downtown business districts, shrinkage of the tax base, skimpage of municipal services, unwillingness of suburbs to merge with the city—in short, metropolitan muddles, 219 of them.

How urban renewal got started

Urban renewal had its legal origin in the enactment of state enabling laws, some of which date back to 1944. Almost every city has its areas of rundown residential properties that have degenerated into unsightly and unsanitary "shanty towns" unfit for human habitation. Once a neighborhood reaches that stage of degeneration and decay, the contagion may spread further. Blight often begets more blight, and private enterprise may be powerless to rebuild.

Obstacles to restoration by private enterprise are basically twofold. First is the difficulty of assembling the parcels of multiple ownership into a sufficiently large tract to justify a restoration project. Almost always such plans are thwarted by a "holdout" or two. A second obstacle is the discouragingly high cost. Efforts to assemble land for a renewal project are likely to touch off speculative inflation of land values; and old buildings, howsoever dilapidated, have some value which becomes a significant item in the cost of new construction.

Remedies for these two basic obstacles to private restoration of slums were sought, therefore, in state enabling legislation and the Federal Housing Act of 1949 under which a community acquires and assembles properties in slums, using the power of eminent domain where necessary. Local and Federal governments pay the net cost of renewal, which is the difference between the cost of acquiring and clearing slum properties and the income received when the land is sold or leased for public or private redevelopment. The so-called writedown is not intended to be a subsidy to the private redeveloper, who must pay a fair value for the cleared land, but is a cost of slum clearance. In some states such as Pennsylvania, there is a modest contribution to the net cost of renewal.

Subsequent amendments to the Act raised the sights and broadened the horizon. In addition to slum *clearance*, provision was made for conservation and rehabilitation of areas that do not require demolition. Furthermore, provision was made for assistance to hospitals and urban colleges and universities to achieve needed expansion and to cope with blight encroaching on their doorsteps. Above all was the realization of the need for Federal aid to revitalize the economic base and taxable resources of cities. Slums are not confined to residential areas of cities. There are also commercial, industrial, educa-

tional, and recreational "slums." Thus the concept of slum clearance was broadened to make Federal aid available to cities in need of comprehensive urban renewal.

How urban renewal works

Urban renewal works best when there is competent leadership at the local level, and the wider the degree of local participation the greater the success. The Federal role is largely one of financial and technical assistance.

To qualify for Federal aid, a locality must establish a so-called Workable Program for Community Improvement. Such a Program must have the following basic elements:

1. Codes and ordinances establishing adequate building standards of health and safety.
2. Detailed neighborhood analysis to identify the nature and extent of the area in need of restoration.
3. Formulation of a comprehensive plan for the community's future development.
4. Administrative organization with authority and responsibility for coordinating and carrying out a Community Program.
5. Evidence of adequate financial resources to support the local share of an urban renewal program.
6. Provision of housing to meet the needs of families displaced by the renewal project.
7. Assurance that the entire community is fully informed and is given an opportunity to participate in the development and execution of the program.

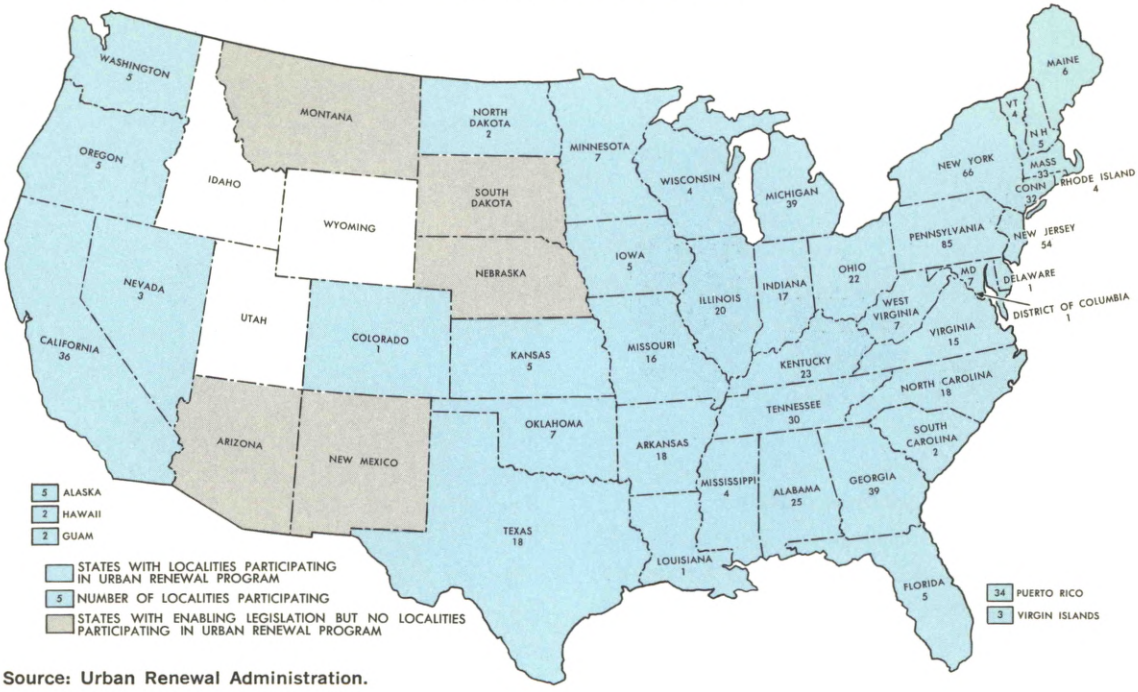
Depending upon state-enabling statutes, the local public agency may be a department of the city government or a special agency appointed by the mayor with, or, as in Philadelphia, without the approval of City Council. After the local public agency's plans are completed and approved by the Urban Renewal Administration, Federal assistance is made available in a loan and grant contract in which the local agency bears one-third of the net project cost and the Urban Renewal Administration, two-thirds. For cities of 50,000 population or less, the cost-sharing is one-fourth local and three-fourths Federal. Larger cities may also qualify for three-fourths Federal matching funds if they absorb certain planning costs.

The Housing Act of 1961 permits the Federal Housing Administration and the Federal National Mortgage Association (Fannie Mae) to join in a program of mortgage insurance and purchase to make more moderate rentals possible. Long-term loans below market interest rates can be made to nonprofit organizations and cooperatives, limited dividend corporations, and certain public agencies to build housing for people of moderate incomes. To facilitate the most reasonable rents or carrying charges, FHA waives its usual ½ per cent insurance premiums and insures loans for as long as 40 years.

Actual operations usually begin with acquisition of properties. In most instances, titles to the parcels are obtained by negotiation with the owners, and court condemnation proceedings are used only as a last resort. In all cases, local agencies are expected to assist displaced people and businesses to find suitable relocations. The relocation, of course, is seldom satisfactory in all respects to the family or business relocated.

Removal of structures and clearing the land is generally done under contract with a private contractor who, in some instances, may lay out the streets and other improvements. Meanwhile the city installs the necessary public facilities. When the land is ready for development it is publicly advertised and new construction takes place in accordance with the established plan.

PARTICIPATION IN URBAN RENEWAL PROGRAM, JUNE 30, 1964



Source: Urban Renewal Administration.

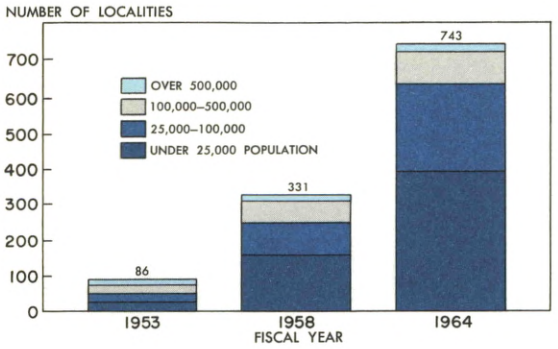
Where urban renewal works

The Federal Urban Renewal program is nationwide. An indication of its scope is the growing number of communities participating. From 31 communities with renewal projects at the end of the Urban Renewal Administration's first fiscal year in 1950, the number has grown to 743 as of 1964 at midyear. The 743 localities participating are distributed among 42 of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the Virgin Islands. Moreover, five of the eight states without localities participating in urban renewal have enabling legislation, as shown in the map.

Pennsylvania, with renewal projects in 85 localities, and New York in 66, are in the forefront of urban renewal. Other states with relatively large numbers of communities engaged in renewal are New Jersey, Michigan, Georgia, and California. In some communities the need for renewal may arise from the nature of its industries; in others it may be overcrowding or obsolescence and over-age of private and public facilities.

Urban renewal is taking place not only in most parts of the country but also in all kinds of communities. Large cities were among the first to take advantage of Federal assistance to replace their blight-stricken residential and industrial areas with modernized construction. Subsequently, communities of medium and small size followed, as shown in the chart. By 1964, over half of the localities participating in urban renewal were in communities of less than 25,000 population. Of course, well over half of the country's communities under 25,000 population are still untouched by urban renewal, though many of them have blighted areas.

LOCALITIES PARTICIPATING IN URBAN RENEWAL PROGRAM BY POPULATION SIZE GROUP, FISCAL YEAR 1953–1958–1964



Source: Urban Renewal Administration.

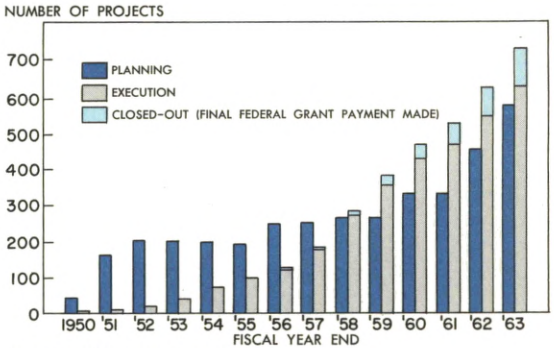
How urban renewal has grown

Over 1,300 urban renewal projects had been started as of mid-1963. The chart, "Urban Renewal Projects by Status," gives an over-all picture of the growth of urban renewal since its inception, showing progress in the successive stages—planning, execution, and completion of projects. It is not surprising to see the large gap between planning and execution in the early years because of the long lead time required for all the detail work of planning that must be done before wrecking crews can begin demolition, and also because of the scale of development. In 1958, for the first time, the number of projects under sledge hammer and trowel exceeded those in the paper-work and blueprint stage. Now project completions are mounting. By the end of fiscal 1963, over 100 projects had been completed, and numerous others were nearing that stage.

With many renewal projects in many communities still in various stages of advancement, it is difficult to comprehend the over-all accomplishments of the Urban Renewal Program, but it may be helpful to cite some benchmarks of progress. Through June, 1963, most of the Congressional authorization of $4 billion for urban renewal grants had been utilized, almost 30,000 acres of land had been slated for acquisition and redevelopment, approximately 129,000 structures had been demolished, and 157,000 families had been relocated from blighted areas undergoing renovation. Of the families relocated, 46 per cent, according to reports of participating agencies, went into standard private rental housing, about 21 per cent into standard sales housing, and about 25 per cent into public housing. The remainder—approximately 8 per cent—relocated themselves into quarters that did not conform with minimum standards of safety and sanitation. The latter did not avail themselves of the relocation services offered by the local agencies established for that purpose.

Substantial progress has also been made in the expanding conservation program focusing on rehabilitation of urban properties capable of restoration without demolition. Most cities have some forlorn-looking properties, unhinged, unpointed, unpainted, and covered with the silt of time. Such buildings, too desolate for habitation but too good for condemnation, can be prime material for urban renewal's salvage program. Over 45,000 structures and 107,000 dwell-

URBAN RENEWAL PROJECTS BY STATUS, 1950–1963



Source: Urban Renewal Administration.

ing units have been selected for restoration and by June, 1963, work had been completed on more than 17,000 structures, including more than 25,000 dwellings.

Urban renewal in Philadelphia

Philadelphia is frequently cited, by unbiased outsiders, as a model of urban renewal. If the city deserves the tribute it may be a Toynbeean example of stimulus and response, for the city was in dire need of revitalization when urban renewal was begun.

For many years, historic old Philadelphia just drifted with the times until it had little distinction other than being old and historic. Then came the great depression of the thirties and the neglect of the war years. At the end of World War II, Philadelphia no longer looked like a first-class city. It was shabby, jaded, and frowzy.

In numerous residential areas row houses had degenerated into slums, ancient watermains were breaking and flooding streets, trash was collected in horse-drawn open vehicles and hauled to a dump in the south end of town where it was burned. The city's rivers were clogged with industrial waste, silt, and sewage. Even center city was afflicted with blight. Ancient structures abounded, and vacant spaces once occupied by buildings left rubble and ugly emptiness between unsightly party walls.

Like the earlier out-migration of elite citizens to the green countryside, stores moved to the suburbs and industries deserted the city, with consequent shrinkage of the urban tax base. As in other cities, the growing preference for commuting by private automobiles caused great congestion and left public transit facilities with falling revenues in the face of rising costs.

The origin of urban renewal in Philadelphia and its sustaining motivation may be attributed to the cooperative efforts of numerous organizations and civic-minded individuals in both public and private life. Not content to wait for Federal aid, local businessmen organized themselves into a Citizens Council on City Planning. The Redevelopment Authority was created by City Council in 1945, and the same year, Pennsylvania passed the Urban Renewal Law. A new City Charter broadened the legal base for renewal activities. Comprehensive over-all planning began with the formation of the City Planning Commission. Among other participating agencies were the Housing Authority, Parking Authority, Passenger Service Improvement Corporation, Industrial Development Corporation, the Greater Philadelphia Movement, and the Old Philadelphia Development Corporation.

With so many organizations, one might suppose there would have been overlapping of authority and working at cross purposes. On the contrary, all groups worked together and with the reform administration that came into City Hall in 1952, thoroughly dedicated to lift Philadelphia out of the doldrums. The new administration appointed an able Development Coordinator, enlarged the authority of the Planning Commission, and broadened the scope of renewal not only to clear slums but also to blot out the blight in central city right under the nose of William Penn atop City Hall.

The crowbar and spade work in center city began when the Pennsylvania Railroad removed its old Broad Street Station and the mile-long elevated tracks familiarly known as "the Chinese Wall." That opened the way for construction of the new Penn Center, consisting of a nine-building complex of modern offices, transit and bus terminals, hotels, shops, restaurants, underground concourses, sunken gardens, and pedestrian malls. This better-than-$100 million inner-city

improvement now nearing completion has given the city an entirely new image, justifiably referred to as a renaissance—but it is only the heart of the new birth.

East of Washington Square and not far from refurbished Independence Hall with its new Mall and other historic Philadelphia buildings is the Society Hill redevelopment. Society Hill has nothing to do with High Society, nor is it on a hill. It was named for an early commercial group known as the Society of Free Traders. Here substantial progress has already been made in converting several hundred old residences, long neglected, into town houses with retention of their Colonial architecture. Overlooking the restored Colonial houses are three multistory apartment towers built on the site of the old Dock Street produce market, which is now housed in the new Food Distribution Center on South Broad Street. Both the new and renovated units in Society Hill offer atmosphere and amenities designed to make urban living appealing.

In Philadelphia, as elsewhere, slum clearance was the original objective of redevelopment and it has been a continuing objective, though the methods of procedure have changed with experience. With the typical American penchant for getting things done, the bulldozer technique of slum clearance was used at the outset. That was the method used in the early 1950's but the results were disappointing because the people dislodged from the old slums just moved to the edges of the area, creating new slums. The frustrating experience pointed up the fact that slum dwellers were low-income people who just could not afford the new residences.

Progress toward the solution took two different approaches. One was new public housing on cleared sites scattered in small groups throughout the area, with ample provision for open space. Morton is an example of this type of public housing. The other was greater effort in salvaging substandard housing capable of rehabilitation. In the Haddington area the Philadelphia Housing Authority bought old houses, rehabilitated them for public housing, and turned them over to needy families. Mill Creek in West Philadelphia, Whitman in South Philadelphia, and Nicetown in North Philadelphia are examples of conservation and rehabilitation under the Redevelopment Authority program.

Eastwick in southwestern Philadelphia is the city's largest single project. In terms of acreage, it is the biggest renewal project in the country. Eastwick was formerly a 2,500-acre seedy and weedy wasteland with residential structures unfit for human occupation. Renewal plans there called for integrated development. The new houses originally built are occupied or sold. Owing to the huge size of the project and some unforeseen obstacles, progress has not come up to earlier expectations, but occupants are again moving into new homes as they reach completion.

Thus far, slum clearance in Philadelphia has already removed 8,500 blighted structures and more are slated to go, under the more than 50 renewal projects in various stages of progress.

The City Planning Commission has among its objectives under study an eight-block-long Market East project extending from City Hall to Independence Mall. This is to consist of a huge terminal linking rail and rubber transportation media, providing parking facilities and pedestrian concourses lined with shops. The underlying purpose of the Market East project is to bring shoppers back to town to stores that can compete with the elegant shops that have sprung up in the suburbs.

A major urban renewal development is Uni-

versity City in West Philadelphia. There, five institutions: University of Pennsylvania, Drexel Institute of Technology, Presbyterian Hospital, College of Pharmacy and Science, and Philadelphia General Hospital have gone together to form the West Philadelphia Corporation to create a comprehensive educational, science and research center. For at least a quarter of a century these institutions have been hampered in their growth by seriously blighted conditions in their immediate surroundings. The Philadelphia Redevelopment Authority has been able to take advantage of the grant-in-aid credits created by the University of Pennsylvania's property acquisition program, and with city and Federal contributions has energized a redevelopment effort of far-reaching potentialities. The Science Center, involving expenditures of $80 million over the next eight to 10 years, is estimated to create 5,000 new jobs and to increase educational, medical, and research activities of inestimable value to metropolitan Philadelphia and to the state.

Urban renewal's sidewalk superintendents

Urban renewal has recently encountered a spate of criticism from sidewalk superintendents—professional and amateur. Urban renewal is criticized for its architecture, its overemphasis upon bricks and mortar, its failure to eliminate slums, its bulldozer tactics and displacement of people, its snailpaced progress and alleged lack of clearly defined objectives.

It is asserted that urban renewal legislation is ill-conceived, that the central administration is too paper-bound, that local agencies formulate their petitions to Washington more in terms of money than ideas, that city planners are "blue sky," that slum dwellers get pushed around, and that blight grows faster than its eradication. The severest critics maintain that urban renewal is a failure and should close shop.

Probably the most serious of these indictments is the removal of people and businesses preparatory to slum clearance by exercise of the power of eminent domain. Though upheld by the courts, the process is criticized as an arbitrary infringement upon the rights of the dispossessed families. In answer to the charge, the Urban Renewal Administration points out that as a prerequisite for Federal assistance a local agency must provide decent, safe, and sanitary housing for dispossessed families, and provision is made for follow-up of all those required to move. Of families being moved currently in Philadelphia, for example, 96 per cent are successfully relocated to safe and sanitary housing. Some inevitably relocate without seeking assistance of the relocation office. A prominent builder operating in a number of urban areas points out that virtually the only direction that slum evacuees can move is up.

Slum clearance is the most vulnerable spot of urban renewal and there is where the sharpest shafts are hurled. The reason for the disappointing progress in slum clearance is the inability of the private housing industry to build houses that low-income families can afford. The Housing Act offers financial aid in making up part of the difference between the cost and reuse value of sites, commonly called the land write-down. But the value of land is only a small fraction of the monthly rent or purchase price. Newly built housing, therefore, is seldom within the means of the lowest income groups.

Some progress toward a solution of this basic difficulty has been made under the Mitchell-Lama program in New York City. The essence of that program is a 50-year municipal loan up to 90 per cent of development costs at low rate of in-

terest plus a 50 per cent tax abatement for a fixed number of years. Under such a plan it is possible to replace slums with satisfactory housing for low-income families.

An entirely different program inaugurated by the Ford Foundation concentrates on renewal of urban people—the families who live in the "gray areas" of cities. Grants have been made to 41 slum schools as focal points for projects designed to improve the educational and employment opportunities of disadvantaged groups. The underlying basis of the experiment is the conviction that social planning must accompany physical planning.

The problems of substandard housing, health, and sanitation, school drop-outs, unemployment and crime are all so closely related to each other and of such tremendous magnitude that now, for the first time, a Federal Anti-Poverty Program has been devised to deal with them in a comprehensive manner.

Urban renewal's accomplishments

Urban renewal has instilled new life in American cities from coast to coast. In the heart of Boston, which was as bad as if not worse off than Philadelphia, a multi-million-dollar Government center of Federal, state, and private office buildings is replacing a 60-acre slumdom.

An insurance building resembling a tall boat in drydock is the eye-catcher of Hartford's Constitution Plaza built on reclaimed land alongside the Connecticut River.

One of the most amazing transformations is Pittsburgh's Golden Triangle—a family of sleek skyscrapers occupying what formerly looked like the junkyard of a steel mill at the source of the Ohio River.

Cleveland's Erieview Plaza Building is the showpiece of a quarter-billion-dollar renewal complex capitalizing on the city's vast lakescape.

In like manner, St. Louis is making the best of its Mississippi River waterfront formerly dominated by weatherbeaten warehouses. A 630-foot Gateway Arch, symbolic of westward expansion also symbolizes the city's urban modernization.

San Francisco's Golden Gateway apartment-town-house project and the half-billion-dollar Century City in Los Angeles are among the outstanding renewal developments on the West Coast.

In all of these cities as well as in Baltimore, Norfolk, Nashville, Minneapolis, and many others the stamp of urban renewal is the vastly improved appearance of their downtown business districts. Gone are the solid rows of ancient buildings with dirty faces. The new center-city look sports more open space, more glass, more class.

One of the best ways to strengthen the economic base of a city is to spruce it up with modern architecture, utilizing new building materials and new ideas as reflected in the handiwork of numerous urban-renewal re-creations. This stimulates new private investment, attracts new industries, keeps some of the older ones that are flirting with the idea of moving elsewhere. An old-line Philadelphia firm of considerable size and prestige that had been "looking around" joined the renaissance with a magnificent structure of its own. Urban renewal has far-reaching generative effects.

In reply to a critic bemoaning urban renewal's burden on the city treasury, William Rafsky, a leader in the Philadelphia program, points out that "civic improvement programs have resulted in an increase in assessments, reversing a trend of declining real-estate values" and that "they have made possible civic services with no recent tax increase."

Urban renewal adds immeasurably to the amenities of urban living in such developments as Lincoln Center, the Golden Triangle, and the Golden Gate. With the continuing concentration of population in metropolitan areas there is a growing need for more cultural facilities. Moreover, the variety and quality of such facilities play an important role in attracting industries with large complements of scientific and research personnel.

In former generations, cities took great pride in citing their rates of population growth from one Census enumeration to another. They seemed to be oblivious to the accumulation of problems generated by the very process of growth until conditions became intolerably acute. Some of the worst aspects of urban living are now being remedied with Federally aided renewal efforts planned and executed by local agencies. Much of the criticism of urban renewal is based upon mistakes made in the early years of the program, and urban renewal frequently gets blamed for things outside its jurisdiction—such as property condemnation for construction of highways and other improvements. This is not to say that urban renewal has achieved perfection, but the program is making a commendable contribution toward better urban living. "In our urban areas," said President Johnson, "the central problem today is to protect and restore man's satisfaction in belonging to a community where he can find security and significance."

NEW RELEASE

Forecasts for 1965. 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.

1964: THE EXPANSION THAT WOULDN'T DIE

Bears got burned in '64. They watched the business expansion celebrate its third birthday early in the year and decided its death was imminent; peacetime expansions typically ran about 30 to 36 months, they said, settling in for the cold downswing. But the present business expansion has not fit into the mold of past business upswings. Instead of slowing down in 1964, the economy gained momentum, and most observers predict this momentum will continue in 1965.

Indeed, the economy seems to have strengthened its underpinnings in the year just ended. Especially significant was the rise in output accompanied by relatively stable prices. The economy was also strengthened by an intangible: confidence. It was a confidence born of positive expectations and bred in moderation. The man-in-the-street was confident prosperity could be sustained; confident his job was secure. The businessman was confident demand for his product would continue strong; he produced record quantities of goods, but maintained relatively low inventory-sales ratios. Consumers bought large quantities of almost everything; but their eyes did not grow dangerously larger than their pocketbooks.

A statistical profile of 1964 makes very pleasant viewing. Americans produced $623 billion of goods and services, an increase of 7 per cent over 1963. The consumer price index rose a modest one per cent, while the wholesale price index continued steady around 1957–59 levels. Business capital spending rose to almost $45 billion and seems destined for an annual rate of $48 billion in the first three months of this year. Expansion of productive facilities has increased demand for workers in many industries, providing an additional stimulus to growth.

Two major problems remained unsolved however—unemployment and imbalance in our international accounts. Unemployment declined to about 5 per cent of the labor force at year's end. Lowering this figure in 1965 will be particularly difficult because young persons entering the labor force are expected to number approximately 500,000 more than in recent years.

On the balance-of-payments front, some progress was made in the past year. The deficit on regular transactions is expected to decline from the $3.3 billion recorded in 1963, due in part to prosperity abroad and stable domestic prices, both of which stimulated exports of American products.

Passage of the Interest Equalization Tax on foreign securities also contributed to the improvement in our payments position.

Public policy in '64: taxes, money and credit

In the year just ended, Congress took a historic step toward using fiscal policy as an economic tool when it authorized a two-stage reduction in personal and corporate tax rates. Designed to stimulate further growth and employment, this cut increased private spending power when, if a normal postwar business cycle had been in operation, private demand might have weakened. The increased spending which seems to have stemmed from the tax cut helped sustain the expansion last year.

Further fiscal innovation may be in the offing in 1965. In his State of the Union message, President Johnson said: "Congress can reinforce this confidence [in the economy] by insuring that its procedures permit rapid action on temporary income tax cuts. And special funds for job-creating public programs should be made available for immediate use if recession threatens." This Executive request for discretionary fiscal authority was coupled with announcement of the President's intention to ask Congress to eliminate certain excise taxes to stimulate further growth and employment. In addition to spurring domestic activity, fiscal policy, it is hoped, may also help our balance of payments by creating an expanding economy with desirable investment opportunities for American and foreign businessmen.

Monetary policy, too, must be shaped with an eye not only on domestic activity, but also on the balance of payments. On the monetary scene, 1964 was characterized by the Federal Reserve's continuing efforts to stimulate expansion at home while strengthening our international accounts. The Federal Reserve's policies have been carried out in such a way as to help maintain short-term interest rates reasonably competitive with those abroad, while letting long-term rates stay relatively low and encouraging the flow of funds through the mortgage and capital markets as a spur to domestic business. These policies are popularly called "Operation Twist."

The actual behavior of interest rates and investment flows in the year just ended came encouragingly close to matching the policy objectives of the Fed. Long-term interest rates fluctuated within a narrow range. Rates on long-term Government securities, for example, started the year at around 4.15 per cent, rose modestly to about 4.20 in the spring, then settled near the 4.15 per cent level at year's end. State and local Government securities also closed out the year at lower rates than in January, as did many corporate issues.

Meanwhile, new corporate security offerings from December 1963 to December 1964 exceeded those of the like year-earlier period, as did business loans at commercial banks and mortgage credit extended. Latest data further suggest that state and local governments issued a larger volume of securities in 1964 than in 1963. The money supply also rose—by about 4 per cent in 1964 compared to a 3.3 per cent annual rate since February 1961.

Steady long-term interest rates and sizable money and credit flows were accompanied in 1964 by a gradual firming in short-term interest rates after mid-year and then by a sizable jump in these rates following the Fed's November hike in the discount rate (to 4 from 3½ per cent). The Board of Governors' official press release said this about the discount rate move:

The actions were taken following a rise in

official and market rates in London, where an increase in the bank rate from 5 to 7 per cent was announced by the Bank of England today. They also follow recent advances in rates on the European Continent.

The Federal Reserve actions were aimed at countering possible capital outflows that might be prompted by any widening spread between interest rates in this country and the higher rates abroad . . .

Despite the subsequent rise in short rates, the longer end of the market remained relatively stable, as already mentioned, and the "yield curve" at year's end bore notable resemblance to a firm but flat posturepedic mattress.

THE THIRD DISTRICT IN 1964

Business

For the Third Federal Reserve District, 1964 was a more prosperous year than its predecessor. While the District's growth failed to match that of the nation, there was improvement. Unemployment in the District's metropolitan areas was down considerably from 1963, as shown in the accompanying table. The Philadelphia Metropolitan Area was removed from the Labor Department's list of areas of substantial unemployment for the first time in four years. But several areas continued to show higher unemployment than the national average. The District's economic position has improved largely because of the continuing growth of the national economy. Generally, the District gains momentum only after the national economy has embarked on its upward climb.

UNEMPLOYMENT IN MAJOR LABOR MARKET AREAS
THIRD FEDERAL RESERVE DISTRICT

Per Cent of Labor Force Unemployed	Number of Areas		
	November 1962	November 1963	November 1964
1.5 to 2.9	1	2	2
3.0 to 5.9	6	5	6
6.0 to 8.9	2	4	5
9.0 to 11.9	3	2	0
12.0 or more	1	0	0
Total	13	13	13

LOCAL BUSINESS INDICATORS
THIRD FEDERAL RESERVE DISTRICT
PER CENT CHANGE 1963 TO 1964

Employment (12 areas)**	+ 1.0
Factory payrolls**	+ 1.0
Total production worker man-hours**	− 3.0
Electric power consumed by manufacturers**	+ 8.0
Anthracite coal output*	−10.1
Construction contracts	+ 6.0
Residential*	− 8.8
Nonresidential*	+31.9
Public works and utilities*	− 7.5
Car loadings (Philadelphia region—52 weeks)	− 4.2
Retail sales, total (excluding national chains)*	unavailable for District
Department store sales*	+10.1
Automobile registrations (48 counties, eastern Pennsylvania)**	− 6.5
Bank debits (20 cities)*	+ 3.4

*First eleven months
**First ten months

District business indicators rose on balance during 1964 led by nonresidential construction which rose almost 32 per cent. Residential construction contracts and those of public works and utilities declined, but the dollar value of all construction contracts rose.

Department store sales for the first eleven months rose more than 10 per cent. Automobile registrations were off somewhat from last year, partially attributable to last-quarter work stoppages at automobile makers' plants.

In the manufacturing area, electric power consumption rose, as did employment and factory payrolls. Total production worker manhours fell slightly, however. Anthracite coal output declined 10 per cent, compared with a 15 per cent increase in 1963.

THIRD DISTRICT BANKING
(*millions of dollars*)

	December 28, 1962	December 20, 1963	Change in 1963	December 30, 1964	Change in 1964
Reserve City Banks					
Loans	$2,584	$2,794	+210	$3,090	+296
Investments	1,037	1,058	+ 21	1,057	− 1
Deposits	4,263	4,312	+ 49	4,730	+418
Country Banks					
Loans	3,507	3,813	+306	4,081	+268
Investments	2,710	2,777	+ 67	2,794	+ 17
Deposits	6,446	6,765	+319	7,097	+332

Banking

Net loans of Third District reserve city banks increased more than 10 per cent in 1964. Net loans at country banks rose almost 7 per cent. District country banks added securities to their portfolios in the year just ended; reserve city banks liquidated securities on balance.

Deposits at reserve city banks increased a healthy 10 per cent while deposits at country banks rose about 5 per cent during the year. Loan deposit ratios at District reserve city banks remained almost constant at 65 per cent. Loan deposit ratios at country banks rose slightly to 58 per cent.

Reserve bank operations

During the year 1964, 112 member banks, about 27 per cent of the total number, borrowed from the Reserve Bank. The average daily balance extended to member banks declined to $5.9 million in 1964 from $7.4 million in 1963.

Collection of checks showed an increase over 1963. In all, more than 244 million checks were cleared, with an aggregate face amount of almost $73 billion. Transfers of funds and the dollar amount of currency counted increased over last year, while coins counted slumped sharply. Some $14.5 billion in marketable securities were delivered or redeemed.

DIRECTORS AND OFFICERS

At the election held in the fall of 1964, two new directors were elected by member banks to serve for three-year terms beginning January 1, 1965. Lloyd W. Kuhn, President of the Bendersville National Bank, Bendersville, Pennsylvania, was elected as a Class A director by member banks in Electoral Group 3. He succeeds Eugene T. Gramley. Banks in Group 1 elected Bayard L. England, Chairman of the Board, Atlantic City Electric Company, Atlantic City, New Jersey as a Class B director to succeed Frank R. Palmer.

The Board of Governors of the Federal Reserve System redesignated Walter E. Hoadley as Chairman of the Board of Directors and Federal Reserve Agent for the year 1965. Willis J. Winn was reappointed as a Class C director for an additional three-year term, and was designated as Deputy Chairman of the Board of Directors for the year 1965. D. Robert Yarnall, Jr., President, Yarnall-Waring Company, Philadelphia, Pennsylvania was appointed as a Class C director for the unexpired portion of a term which ends December 31, 1965. He succeeds David C. Bevan, who resigned effective December 31, 1964.

The Board of Directors of this Bank reappointed 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 during 1965.

Two officers resigned during 1964 to accept positions in commercial banking. John R. Bunting, Vice President, became associated on June 1 with The First Pennsylvania Banking and Trust Company, Philadelphia, Pennsylvania, as Vice President and Economist. Harold E. Ikeler, Jr. accepted an official appointment on August 17 as Auditor of Girard Trust Bank, Philadelphia, Pennsylvania.

David C. Melnicoff returned to the Bank following a number of years in private industry and was appointed Vice President on June 1, succeeding Mr. Bunting. Effective January 1, 1965, three promotions occurred on the official staff. Jack P. Besse (Assistant Cashier) and William A. James (Personnel Officer) became Assistant Vice Presidents; and Lawrence C. Murdoch, Jr. (Business Economist) became Assistant Vice President and Assistant Secretary. Also effective January 1, 1965, two members of the Bank staff were promoted to officer positions. Thomas K. Desch (Bank Examiner-nonofficial) became Examining Officer, and A. Lamont Magee (Assistant General Auditor-nonofficial) became Assistant General Auditor with official status.

DIRECTORS AS OF JANUARY 1, 1965

Group		Term expires December 31
	CLASS A	
1	BENJAMIN F. SAWIN Vice Chairman of Board and Chairman of Executive Committee, Provident National Bank Philadelphia, Pennsylvania	1965
2	CHARLES R. SHARBAUGH President, Cambria County National Bank of Carrolltown, Carrolltown, Pennsylvania	1966
3	LLOYD W. KUHN President, The Bendersville National Bank Bendersville, Pennsylvania	1967
	CLASS B	
1	BAYARD L. ENGLAND Chairman, Atlantic City Electric Company Atlantic City, New Jersey	1967
2	RALPH K. GOTTSHALL 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
	WILLIS J. WINN, Deputy Chairman Dean, Wharton School of Finance and Commerce, University of Pennsylvania Philadelphia, Pennsylvania	1967
	D. ROBERT YARNALL, JR. President, Yarnall-Waring Company Philadelphia, Pennsylvania	1965

OFFICERS AS OF JANUARY 1, 1965

KARL R. BOPP
President

ROBERT N. HILKERT
First Vice President
HUGH BARRIE
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
DAVID C. MELNICOFF
Vice President
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
JACK P. BESSE
Assistant Vice President
JOSEPH M. CASE
Assistant Vice President
RALPH E. HAAS
Assistant Vice President
WILLIAM A. JAMES
Assistant Vice President
WARREN R. MOLL
Assistant Vice President
LAWRENCE C. MURDOCH, JR.
Assistant Vice President and Assistant Secretary
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
THOMAS K. DESCH
Examining Officer
WILLIAM L. ENSOR
Examining Officer
JACK H. JAMES
Examining Officer
LEONARD E. MARKFORD
Examining Officer
JAMES A. AGNEW, JR.
Assistant Cashier
FRED A. MURRAY
Director of Plant

G. WILLIAM METZ
General Auditor
A. LAMONT MAGEE
Assistant General Auditor

STATEMENT OF CONDITION

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted in dollar figures)	End of year 1964	1963
ASSETS		
Gold certificate reserves:		
Gold certificate account	$ 759,801	$ 727,618
Redemption fund—Federal Reserve notes	85,890	79,072
Total gold certificate reserves	$ 845,691	$ 806,690
Federal Reserve notes of other Federal Reserve Banks	51,395	35,360
Other cash	4,523	6,406
Loans and securities:		
Discounts and advances	2,135	2,826
United States Government securities	2,002,859	1,830,795
Total loans and securities	$2,004,994	$1,833,621
Uncollected cash items	492,199	453,604
Bank premises	2,741	3,012
All other assets	30,267	22,143
Total assets	$3,431,810	$3,160,836
LIABILITIES		
Federal Reserve notes	$2,077,102	$1,917,598
Deposits:		
Member bank reserve accounts	783,819	767,443
United States Government	74,653	32,367
Foreign	12,320	9,280
Other deposits	6,586	6,145
Total deposits	$ 877,378	$ 815,235
Deferred availability cash items	384,021	340,893
All other liabilities	35,081	4,241
Total liabilities	$3,373,582	$3,077,967
CAPITAL ACCOUNTS		
Capital paid in	$ 29,114	$ 27,623
Surplus	29,114	55,246
Total liabilities and capital accounts	$3,431,810	$3,160,836
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	28.6%	29.5%

EARNINGS AND EXPENSES

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted)	1964	1963
Earnings from:		
United States Government securities	$71,095	$61,406
Other sources	600	420
Total current earnings	$71,695	$61,826
Net expenses:		
Operating expenses*	8,577	8,926
Cost of Federal Reserve currency	891	551
Assessment for expenses of Board of Governors	483	435
Total net expenses	$ 9,951	$ 9,912
Current net earnings	61,744	51,914
Additions to current net earnings:		
Profit on sales of U.S. Government securities (net)	33	18
All other	32	38
Total additions	$ 65	$ 56
Deductions from current net earnings:		
Miscellaneous non-operating expenses	1	3
Total deductions	$ 1	$ 3
Net additions	64	53
Net earnings before payments to U.S. Treasury	$61,808	$51,967
Dividends paid	$ 1,716	$ 1,638
Paid to U.S. Treasury (interest on Federal Reserve notes)	86,224	48,852
Transferred to or deducted from (—) Surplus	$ 26,132	$ 1,477

* After deducting reimbursable or recoverable expenses.

VOLUME OF OPERATIONS

FEDERAL RESERVE BANK OF PHILADELPHIA

	1964	1963	1962
Number of pieces (000's omitted)			
Collections:			
Ordinary checks*	244,500	215,700	196,700
Government checks (paper and card)	28,700	28,800	27,300
Postal money orders (card)	17,200	15,200	14,100
Non-cash items	863	835	734
Food stamp coupons	3,572	3,699	506
Clearing operations in connection with direct sendings and wire and group clearing plans**	702	704	682
Transfers of funds	193	178	163
Currency counted	269,600	274,100	264,300
Coins counted	136,800	346,700	444,400
Discounts and advances to member banks	1	1	1
Depositary receipts for withheld taxes	606	586	566
Postal receipts (remittances)	309	308	310
Fiscal agency activities:			
Marketable securities delivered or redeemed	539	421	439
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including reissues)	8,759	8,436	7,699
Redemptions	6,334	6,311	6,856
Coupons redeemed (Government and agencies)	1,141	1,163	1,221
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	$ 72,735	$ 68,600	$ 66,200
Government checks (paper and card)	6,097	6,259	6,165
Postal money orders (card)	247	261	254
Non-cash items	239	185	164
Food stamp coupons	5	5	1
Clearing operations in connection with direct sendings and wire and group clearing plans**	44,770	41,031	39,031
Transfers of funds	134,480	123,253	108,662
Currency counted	1,987	1,935	1,844
Coins counted	21	44	52
Discounts and advances to member banks	863	1,192	485
Depositary receipts for withheld taxes	2,522	2,605	2,406
Postal receipts (remittances)	931	888	872
Fiscal agency activities:			
Marketable securities delivered or redeemed	14,486	13,745	12,807
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including reissues)	444	444	396
Redemptions	346	344	468
Coupons redeemed (Government and agencies)	146	175	158

* Checks handled in sealed packages counted as units.
** Debit and credit items.