



*Annual
Report
Issue*

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BUSINESS REVIEW

Henry VIII Revisited

The problems and temptations of money creation.

What the '50's Told Us About the '60's

Business and Banking in 1959



FEDERAL RESERVE BANK OF PHILADELPHIA

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Forecasts for 1960. The Department of Research has compiled and analyzed several score 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 these releases are available on request of the Department of Research, Federal Reserve Bank of Philadelphia.



The Problems and Temptations of Money Creation

SCENE 1

Place: A classroom in one of America's oldest and most respected universities

Characters: The professor, his students

Time: The present

"Fundamental change!" roared the distinguished professor of economics, his students hanging on every word. "In the past 30 years our economy has undergone fundamental, structural change. No longer do we have the same competitive markets our elementary textbooks describe—a number of sellers with no one individual able to influence price. Today there are great concentrations of power.



"Today labor unions can force wages up faster than we can increase productivity. Giant business enterprises can pass these higher costs on to the consumer in the form of higher prices. And to maintain existing levels of employment we must buy all goods produced, even at higher prices. Where will we get the money needed to buy the same volume of goods at higher prices? If need be, we must *create the money*, turn on

the presses. A little inflation is better than unemployment . . ."

SCENE 2

Place: A town meeting

Characters: The candidate, voters

Time: The present

" . . . And, fellow citizens," the candidate continued, "let me point out that the greatest challenge we will face in the coming decade is growth. The Soviet Union's output is growing at a rate of 6 to 7 per cent a year. Our output has grown only about 3 to 4 per cent a year. To sustain our position of strength in the cold war we must increase our rate of growth. We must spend more on basic scientific research and education, build more rockets, send up more satellites.

"Yet we want to maintain our present standard of living, have new cars, homes, refrigerators, television sets.

"The only way we can satisfy all these desires is to increase our ability to produce, to augment our growth. And since low interest rates spur



productive effort, we must call on our monetary authorities—on the Federal Reserve—to maintain low interest rates.”

Since interest rates are determined by the demand for and supply of funds, the candidate might have concluded, the Fed can reduce rates only by increasing the supply of lendable funds, by *creating money*.

SCENE 3

Place: London

Characters: An old fishmonger, assorted herring
Time . . .

. . . The year was 1544. A chilly autumn wind chased swirling fingers of fog through the stalls of Billingsgate Square, the central fishmarket of London. The old fishmonger smiled with satisfaction at the silver shilling he clutched in his hand. In its place just a moment before had been a string of plump, fresh herring. He had made the morning's first sale while the shadows of night still lingered.

The raised edges of the shilling somehow made the old fishmonger feel warm and secure. What a pleasant sensation he felt as he ran his oily thumb over the embossed profile of Henry VIII. He tilted his head for a closer look at the coin in the first grey streaks of dawn.

It was then that the smile faded from his lips. For the first time he felt the chill of the morning. What once had been a splendid silver coin was now worn and blotched. Through a thin coating of silver, Henry VIII's nose protruded in a dull relief of copper.

“Blimey,” he thought, “Old Copper Nose 'as been at it again.”



“Old Copper Nose,” as King Henry was called, had indeed been at it again. Between 1526 and 1546, the silver content of the English shilling was reduced nearly 70 per cent. Henry melted the coins that his tax collectors brought into his mint and added base metal such as copper, thereby *creating additional money* to finance his spending programs.

Because the output of goods failed to keep pace with the expansion in the money supply, (and because people refused to accept debased coins at full face value) prices rose significantly. Rising prices, in turn, created a number of serious social problems. Inflation meant a redistribution of purchasing power between those with relatively fixed incomes and those with fluctuating incomes. It meant a steady deterioration in the value of savings.

THE PAST, THE PRESENT, AND THE FUTURE

Today, as in 1544, when money is created faster than goods can be produced, prices tend to rise. Here merge the past, the present, and the future. Whether the year is 1544, 1944, or 2044, prices rise. Whether the government creating money is royal or republican, dictatorial or democratic, prices rise. Whether the money is created by melting and adding base metals or by turning on printing presses, prices rise. Whether the money is used to build castles, wage wars, construct dams, or speed economic growth, prices rise.

If money is such an important part of our lives, who has the power to create it, to determine the quantity which will circulate? Ultimate authority over money creation has always been vested in the sovereign body politic, the State. Under the absolute monarchies of yesteryear, the State exercised this power directly. The king decided both how much money he would spend and how much would circulate.

With the coming of representative democracy, the people of many countries asked their governments to circumscribe this ultimate authority, to submit to checks and balances. Such limits reflect the “. . . wishes of the electorate as well as the fear of the administration of the day that unlimited power may be abused by the administration of the morrow because of partisan pressures or embarrassing fiscal difficulties.”¹

Limitations on the State's money-creating power were accomplished through a delegation of the money prerogative. The State remained the ultimate authority in money matters; its agents carried out the function. Through history, the State first allowed private bankers to determine the amount of money which would circulate. Then power to determine the limits of the money supply was delegated to professional money managers or central banks.

Yet from time to time, world events brought pressures on the State to reexamine its monetary prerogative; to attack new and complex social and economic problems through its money-creating powers. Wars, depressions, and struggles for international political status were but a few of the pressures on governments to kindle the melting pot or switch on the presses of State.

In this article we present an impressionistic portrait of the broad historical sweep of money creation. We shall examine the fundamental historical cycle described above: the pendulum-like swings of the power to create money between sovereign governments, private banks, and central banks. We shall take a look at the abuses which can result when the power to create and spend money is subject to the same immediate authority. We shall examine the forces which have led many to suspect that the historical

pendulum may be swinging once more toward unified control over money creation and spending; toward combining the day-to-day power to create money with the power to determine the direction and magnitude of current government spending programs.

SOVEREIGN CONTROL OVER MONEY CREATION: REGNUM PLUG NICKELUM

For hundreds and hundreds of years the power to create money was solely the prerogative of kings, princes, and emperors. And this power came in very handy, for the sovereign was continually beset by problems of finance. He had to finance wars, to pay the expenses of the court, and to meet the many other costs of State affairs.

To meet these expenses, the sovereign devised a number of plans. He taxed, borrowed, embarked on elaborate programs of military conquest, operated State-owned industries for profit, and when revenues from these other sources were insufficient to cover expenses, he debased the currency. Indeed, for every king who maintained monetary stability there were countless others who adulterated the currency in as many different ways.

Like Henry VIII, some melted the coin of the realm and added base metals. This method was a favorite not only of medieval European monarchs, but also of the Roman emperors who came before them.

Some sovereigns were so matter-of-fact about the business of debasement that they neglected to maintain even a semblance of relationship between precious metal and the coin of the realm. The English historian Macaulay describes the reign of James II of England in the following terms:

“. . . pots, pans, knockers of doors, pieces of ordnance which had long been past use,

¹ Karl R. Bopp, "Nationalization of the Bank of England and the Bank of France," *The Journal of Politics*, Vol. 8, No. 16 (August 1946).

were carried to the mint. In a short time lumps of base metal, nominally worth near a million sterling, intrinsically worth about a sixtieth part of that sum, were in circulation. A royal edict declared these pieces to be legal tender in all cases whatever. A mortgage for a thousand pounds was cleared off by a bag of counters made out of old kettles . . .²

And there were other ways in which the sovereign could debase the currency in the days before the printing press. Some kings (as well as citizens at large) were given to clipping small slices off the edges of coin. Fifty clips and the debaser had the wherewithal to create five new coins.



The practice of "sweating" was widespread. The sweater extracted particles of precious metal from the surface and edges of coins by shaking them together in a bag.

Other sovereigns used the technique of "drilling and plugging" to debase the currency. The core of the coin was drilled out and molten iron or bronze poured in.

And then there was "recoinage." The monarch would call in old coins, issue new ones of the same denominations and quality, but at lower weights.

What did the citizenry think of all this monetary mischief? In general they were appalled. But the practice was deeply ingrained in the monarchical culture. While a



THE SILVER CONTENT OF ROME'S CURRENCY AND WHY IT WANED

Reign began (A.D.)	Emperor	Per cent silver	Reason for debasing
98	Trajan	93	Debauched the currency to extend Rome's boundaries
117	Hadrian	87	Rimmed the empire with elaborate and expensive military fortifications
138	Antoninus Pius	75	Great humanist but fiscal failure: lowered taxes; gave to the poor; debased the currency
161	Marcus Aurelius	68	Fought costly defensive wars on all sides
193	Septimius Severus	50	Came to power and stayed there by lavishing expensive favors on the legions
218	Elagabalus	43	Pursued pleasure with all his might and with all Rome's resources
235	Maximinus	35	Scourged empire brutally for personal gain
238	Gordian	28	Financed the civil and foreign wars of a disintegrating empire
244	Philip	0.5	Battled contenders for the royal robes under the aegis of a crumbling currency
268	Claudius Victorinus	0.02	Held invaders in check with strength of sword and the melting pot of the imperial mint

Sources: Humphrey Michell, "The Edict of Diocletian," *Canadian Journal of Economics and Political Science*, February 1947. *Encyclopaedia Britannica*

² Thomas B. Macaulay, *The History of England from the Accession of James II*, (Philadelphia: J. B. Lippincott, 1868) Vol. III, pp. 169-170.

private citizen caught clipping a coin might be hanged, branded on the cheek, or relieved of an ear, the sovereign considered it his prerogative to debase the currency. Indeed, currency debasement was

MONEY HAS BEEN CREATED BY COINAGE FOR HUNDREDS OF YEARS



The coiner pictured here has just placed a blank metal disk between two dies and is proceeding to hammer the disk into a coin.

even given a sonorous Latin name, *morbus numericus*, as though it were an established principle of common law. The people resented it, but they could do little about it.

One indication of popular discontent with the situation was implicit in the concept of the *moneyage*. It was not rare for an entire kingdom to pledge a moneyage—a heavy tax levied triennially as a recompense for the king not to alter or debase the coin which he was entitled to do by his sovereign prerogative.

Even when a moneyage was pledged, however, the sovereign sometimes reneged on the agreement. Debasement often seemed the only way to extricate the kingdom from financial embarrassment.

And such a valuable mechanism was given its full share of praise. Kings and princes hailed control over the money supply as one of their most priceless privileges. But they were not to enjoy this privilege forever. Beginning in England toward the end of the seventeenth century the concept of the monarchy was undergoing a

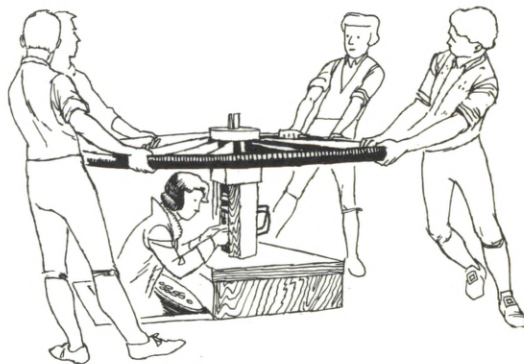
fundamental face lifting. Parliamentary democracy replaced the divine right of kings. And with this popular assumption of power went the right to create money.

Yet hardly had Parliament withdrawn its foot from the royal seat of King James' breeches when money creation began to slip out of the legislative grasp.

Who dared to poach on the Parliamentary prerogative? None other than the money lender, the fledgling banker.

THE PENDULUM SWINGS: MONEY CREATION PASSES FROM SOVEREIGN TO PRIVATE HANDS

Since time immemorial, there have been bankers. They have plied their trade in ancient Babylon,



In the seventeenth century an improved method of coining was introduced: the coining press. The coiner in the pit has placed a blank between two dies. The four workmen will turn the wheel, sending a screw column and die spinning down on the blank. The pit man must be nimble; otherwise he will lose a finger joint, as many have done before him.

Greece, and Rome. But they did not begin to create money until the end of the seventeenth century.

Prior to that time the banker was simply a financial middleman. If his depositors should leave 20 gold coins with him for safekeeping, he

might lend out a portion of these, feeling that all his clients would not demand repayment on the same day. But he could lend *only* the 20 coins left with him and no more. The banker thereby increased the *rate of circulation* of existing money. But he could not increase the *over-all supply* of money.

Soon, however, the banker was to become more than a mere middleman. He was to discover the possibilities of the bank note.

The bank note began its career humbly enough, as the banker's receipt for a deposit of gold. It was valuable to the depositor only as a means of getting his money back. Yet it could not have taken long for the banker and his client to recognize the latent possibilities in this receipt.

With his gold receipt, the banker's client could take advantage of a real convenience. When he needed to make a payment, he could simply give the creditor his gold receipt instead of going to his banker, withdrawing gold and delivering it in person. The creditor, in turn, could pay his creditor in the same fashion. And so the process could continue a dozen times or more. The banker's receipt or "bank note" became a medium of exchange, a sort of "stand-in" for gold.

Seeing his receipts circulating as a means of payment, the banker began to get ideas. If merchants and others accepted his notes, why not lend notes rather than gold coin, keeping the

THE BANKER: FROM FINANCIAL MIDDLEMAN TO CREATOR OF MONEY

Early bankers could lend only the gold coins left on deposit with them. They could not create additional money.



At most, the enterprising banker pictured here could lend 20 gold coins. If prudent, he would lend even less, preferring to keep some coins in reserve to pay any of his depositors who might wish to withdraw their funds.

gold as a reserve to redeem notes on demand. Chances were that only a small and reasonably predictable amount of notes would be presented for payment in any one day, most likely in amounts which could easily be met from the banker's gold reserve.

Thus the banker no longer needed to limit his lending to the 20 gold coins he held as deposits. He might have several times 20 coins outstanding in bank notes, the exact amount depending on the rate at which the notes were presented for repayment. And later, as people began to use checks, the banker could lend simply by crediting a checking account.

In short, either by manufacturing bank notes or by crediting a checking account, the banker became a creator of money.

But why did the State allow the banker to participate in money creation? At first, the banker's notes were simply not considered money.

Once borrowers and others began to accept the banker's notes, he could create money.



Rather than lending the 20 gold coins, he could keep them as a reserve in his safe lending his notes instead. He might lend notes worth 40 gold coins, feeling that all of the notes would never be presented for payment in coin on the same day.

Instead, they were thought of as a sort of warehouse receipt, a promise to pay gold or silver on demand. They were contracts between the banker and his customer. And everyone, including bankers, had the basic freedom to enter into contracts.

There were still other reasons why the State did not circumscribe the activities of the banker. Since the purse of government often contained little more than a velvet lining, the banker might come in handy in a fiscal pinch. Moreover, the explosion of economic activity associated with

the commercial and industrial revolutions stimulated a strong demand for money, both for industrial investment and to facilitate an unprecedented expansion in trade. The development of the philosophy of *laissez faire* popularized the idea that government interference in business, even in the business of creating money, should be held to a minimum. Indeed, *laissez faire* was to set the stage for an unprecedented expansion in banking. And with this expansion came a concentration of money creation in private hands.

LAISSEZ-FAIRE BANKING

The year was 1763. The bespectacled professor sat down at his desk, inked his quill, and began to compose the lecture he would deliver to his students on the following day.

“. . . Give monopolies to no bank . . . encourage the erection of as many as possible. When several are established in a country, a mutual jealousy prevails, they are continually making unexpected runs on one another. This puts them on their guard and obliges them to provide themselves against such demands . . . it is manifest that banks are beneficial to the commerce of a country, and that it is a bad police to restrain them.”³

And so the eminent Professor Smith applied his *laissez-faire* ideas to the business of banking. Let the government keep hands off. Competition and competition alone was needed to assure that the proper number of banks issued the proper volume of bank notes. Overissue, so characteristic of sovereign money creation, would be a problem of the past. Since bankers were required to convert their notes into gold on demand, and since these notes might be pre-

sented for payment at any time by other banks or by individuals, bankers would carefully limit the volume of notes they issued.

And if this were not enough, there existed a second safeguard against overissue—the so-called “real bills” doctrine. According to this theory, if bankers issued money only to finance production—goods in process—there would be no problem of overissue. Such loans would be self-liquidating; they would be repaid from sales in a few months. Thus the money supply would not outgrow production. There was no danger of an overissue of money—or so the theory ran.

In a period dominated by such ideas, the number of banks and bankers multiplied rapidly. In 1750 one authority tells us that there were not yet a dozen “bankers’ shoppes” outside London. By shortly after the turn of the century, there were about 800 note-issuing banks in Great Britain. Across the sea, in the United States, the number of banks increased from 88 in 1811 to 208 in 1816. By mid-century, notes of nearly 1,500 different banks were in circulation.

The private banker could create a note-issuing bank with only a little capital, the ability to attract deposits of gold and silver, and access to a printing press. Relatively little governmental regulation was encountered.

Though governments still retained the right to issue money, it became increasingly hard for them to do so. Only in time of war was the State likely to reassert its prerogative in fundamental fashion. This was the heyday of *laissez faire*, the golden age of private control over money creation.

But the era was not without its monetary problems. And dark those problems were. One word summed them up: panic!

Mere mention of the years 1753, 1773, 1793, and 1825 brought chills to the spine of the most

³ Edwin Cannan (Ed.) *Lectures on Justice, Police, Revenue and Arms*, delivered by Adam Smith at the University of Glasgow in 1763. (New York: Kelley and Millman, Inc.), 1956, p. 195.

conservative banker. During these periods of crisis bank runs were everyday occurrences. Failures were legion. Production and trade ground to a halt. Prices and employment underwent mercurial gyrations. Like the sovereign before him, the private banker proved a poor money manager. It was evident that something had to be done.

ENTER THE CENTRAL BANK

Two distinct maladies affected money and banking: overissue of notes and lack of a source of ultimate liquidity.

The first malady proved epidemically contagious. In spite of Adam Smith, the pledge of convertibility, and the real bills doctrine, the lure of profit and the pink haze of business optimism often led the banker to overextend his credit, to issue notes excessively against his limited supply of gold and silver. With such a pyramiding of credit on a small base of liquidity, any unexpected event might set off a money crisis—a war, the fear of foreign invasion, rumor as to the ability of the banks to meet their demand liabilities.

With such an event, bank notes would come home to roost. Long queues of depositors and note holders would line the dusty streets and fill the marble lobbies of the banks. To meet demands for cash, all banks would become sellers of securities and callers of loans. Everyone sought to turn his assets into cash, to sell. No one wanted to buy. There was no ultimate source of liquid funds from which the banks could borrow or discount their commercial paper. Result: bank failures, loss of savings, heartbreak.

But what was to be done about the panics? How was the problem to be solved? It was obvious that note issue should be limited and that some ultimate source of liquidity should be es-

tablished. But how? Should the State once more assume the day-to-day task of money creation? Two hundred years ago perhaps it would have. But this was the nineteenth century, the heyday of *laissez faire*. Walter Bagehot, in his classic *Lombard Street*, summed things up some years later by pointing out that government management of the money and banking system would mean that “. . . a trade peculiarly requiring consistency and special attainment would be managed by a shifting and untrained ruler. In fact, the whole plan would seem to an Englishman of business palpably absurd; he would not consider it, he would not think it worth considering.”⁴

Panic or no, the prevailing ideas could be capsuled in a single sentence: that government governed best which governed least.

Solutions to monetary problems were twofold: (1) allow the banks to continue creating money but limit by statute their ability to do so, and (2) encourage or create some “prime bank” to assume the function of lender of last resort, to buy when everyone wished to sell.

In short, central banks were established. The Bank of England, The Bank of France; all the world’s leading nations took advantage of the concept of the central bank.

In the United States the Federal Reserve System was created by Congress in 1913. With the Treasury, the Fed became the principal source of paper money. The Federal Reserve Act required member banks to keep reserves against their deposits. The System was charged by Congress among other things “. . . to furnish an elastic currency and . . . afford means of rediscounting commercial paper. . . .” In a sentence, the Fed was to manage the money supply in the public interest.

⁴ Walter Bagehot, *Lombard Street*, (London, 1873) p. 329.

Thus the historical pendulum of money creation had completed its first full swing. From the sovereign, the power to determine the limits of money creation was assumed by the private banker; then delegated to the professional money manager or central bank. And though policy objectives were to shift through time, the central bank remained firmly at the helm of the money supply throughout the remainder of the nineteenth and early twentieth centuries.

But hardly had the twentieth century passed its thirtieth anniversary, when the pressures of the times prompted the State to undertake the first in a series of fundamental reappraisals of its position in the scheme of money creation. To some observers, the historical pendulum of money creation appeared to be losing momentum in its swing toward the independent central bank.

THE STATE, THE TWENTIETH CENTURY, AND MONEY CREATION

The State's monetary reappraisal was not conceived in a vacuum. The reevaluation was prompted by the pressure of real events; of fundamental and far-reaching social, economic, and political upheavals. The first of these events was to be graphically imprinted in the minds of men for years to come. It was the Great Depression of the 1930's.

Money and the Great Depression

Of course the world had seen panics and periods of business stagnation before. The eighteenth and nineteenth centuries had their full share. But nothing heretofore could compare in depth or breadth with the depression of the 1930's.

By 1933, one of the worst years of the depression, total spending in the United States as measured by gross national product was one-third less than in 1929. Stock prices fell pre-

cipitously. In one day, October 29, 1929, the *New York Times* industrial averages fell 43 points, with sales volume exceeding 16 million shares. Suicide rates in New York City leaped from 15.7 persons per 100,000 population in 1928 to 21.3 per 100,000 in 1932. And unemployment, the most telling statistic of all, reached a total of 13 million by 1933. Almost one out of every four persons in the labor force was unemployed.

What was to be done about these deplorable conditions? Economists and legislators racked their brains for explanations and for policy measures that would relieve the mounting pressure. Many patchwork measures were undertaken. Perhaps the most significant program was deficit spending, the so-called "pump priming" measures.

Stated very simply, the deficit spending theorists decided that the decline in production and employment had resulted from the large drop in total spending. The remedy, therefore, was to increase spending. If the private sector of our economy—consumers and businessmen—would not spend more, then the public sector must take up the slack, spending on bridges, highways, schools, and relief. Only then could we again enjoy full employment and capacity production.

But how was the government to finance this increase in spending? More taxes might well absorb funds that would otherwise be spent by individuals and businesses, thus bringing no net increase in spending. To borrow existing savings could deprive industry of the funds it needed, discouraging any spark of investment that might still be flickering. The answer, then, was to encourage the banking system to *create* money.

And, said some economists, creating money to reemploy workers would cost society nothing. They reasoned that labor, to the *individual busi-*

ness, was a variable cost which ceased when employment ceased. But to the *economy as a whole*, labor was a fixed or overhead cost which went on whether the worker was employed or not. After all, workers had to eat! Thus it paid society to create the money to employ workers as long as they produced something more than nothing. Moreover, if money creation should help to increase prices, so much the better. For the drop in prices which accompanied the depression was considered a burden on debtors and a detriment to recovery in production and employment.*

Thus over the years the theoretical way was paved for State deficit spending. And under the new theories the central bank would be justified in creating the money needed by the State to finance these expenditures. Deficit was piled on deficit throughout the depression years, and economic conditions slowly improved. Yet when the depression had waned, there were other pressures on the State to assert a larger role in money creation. For by that time Poland had been attacked. World War II had begun.

The monetary prerogative and World War II

In one sense, wars in the twentieth century have been no different from wars in the past. That sense: the supply of money and the extent of the sovereign's role in money creation still tend to vary directly with external pressure on national borders.

So it was in Rome during the barbarian invasions; in France and England in the 100 Years' War; in America during the Revolutionary War when the phrase "not worth a continental" described anything of little value, in-

* Many economists concluded, however, that an increase in the money supply would raise production rather than prices since we were operating our industrial plant far below capacity. Thus money creation would not lead to debasement.

cluding the Continental currency created to finance the fighting. It was true in America during the Civil War when "greenbacks" depreciated substantially as a result of overissue; in France during the Revolution when the *assignats* became bits of worthless paper; and in Germany during and after World War I, when at one time 300 paper mills worked at top speed to deliver note paper to the Reichsbank while 150 printing companies kept 2,000 note presses running night and day solely to print Reichsbank notes. In short, when borders are threatened the State reasserts its monetary prerogative.

And World War II was no exception. It is estimated that total military expenditures of the combatant nations surpassed \$1 trillion, over 6 times those of World War I. Remembering that \$1 billion is a thousand million, and \$1 trillion a thousand billion, one can readily realize the astronomical size of these expenditures. As in the past, this spending was financed in the established pattern: partly by taxing, partly by selling bonds to patriotic citizens, and partly by creating money.

Some of the belligerents created money just as Germany did during World War I, by turning on the printing presses. Others used a more sophisticated technique which became possible with development of modern deposit banking and a broad securities market.

A simplified illustration of the sophisticated system would run something like this. The central bank would buy government securities in the open market, paying for them with newly created bank reserves as shown in the illustration above. The banking system could use these reserves to buy new issues of government securities. Some of these new securities could be sold to the central bank, new reserves created, and so the cycle would begin anew.

It was a long way from the Roman technique, but it had similar results. Through direct controls and rationing, prices could be held down during the war, even though demand deposit money might increase a thousandfold. But after the war. . .

Thus the world had seen two cata-

clysmic upheavals since the twenties—depression and World War II. What other pressures was the twentieth century to exert on the sovereign and his monetary prerogative?

The war, in fact, was to have a secondary impact on the State's conception of its role in money creation. For World War II was the fountainhead of the postwar stampede toward economic development. But what did economic development have to do with money and the State?

Money, the State, and economic growth

The war acquainted many of the underdeveloped countries of the world with new goods and new techniques. It aroused new wants in the masses of the underprivileged.

The native squatting in the burning sands of Africa saw jeeps and K-rations. The South American Indian heard glowing tales of airplanes and ships, of cigarettes and electricity. With this awareness came desire; desire to participate in the better things of life; to share in

IN A MODERN DEPOSIT BANKING SYSTEM MONEY IS CREATED IN A ROUND-ABOUT FASHION . . .

1. When the central banker decides that the money supply should be increased . . .

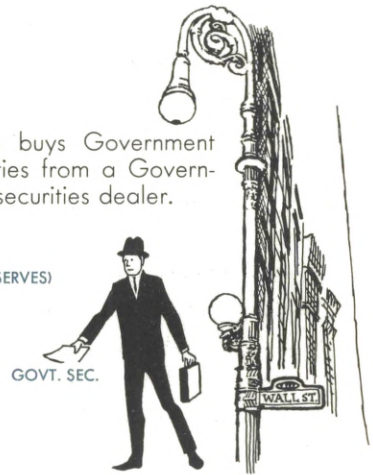


2. He enters his new asset — the securities — in his books and credits the reserve account of the commercial bank where the Government securities dealer keeps his checking account, thus creating new bank reserves.



+ GOVT. SEC.
+ COMM. BANK (RESERVES)

. . . he buys Government securities from a Government securities dealer.



3. This commercial bank in turn enters the reserves in its books as an asset and credits the securities dealer's checking account.



+ RESERVES
+ SEC. DEALER

4. With additional reserves, the bank can make new loans. In lending, the bank simply credits the borrower's checking account, thereby creating new demand deposit money.



+ LOANS
+ DEPOSIT

the fruits of machine production.

Just as desire for the good life affected the individual citizen, so it pervaded his government. And the State took steps to satisfy these desires. Government ministries were soon buzzing with elaborate plans to construct roads, dams, and electric generating facilities; to build steel mills, oil rigs, and petroleum refineries. In a few

words, desire for the better things of life led to State-encouraged or directed programs of economic development.

But how were the underdeveloped nations to finance their development programs? The world recognized the desirability of economic development, yet the means to achieve that end was a problem.

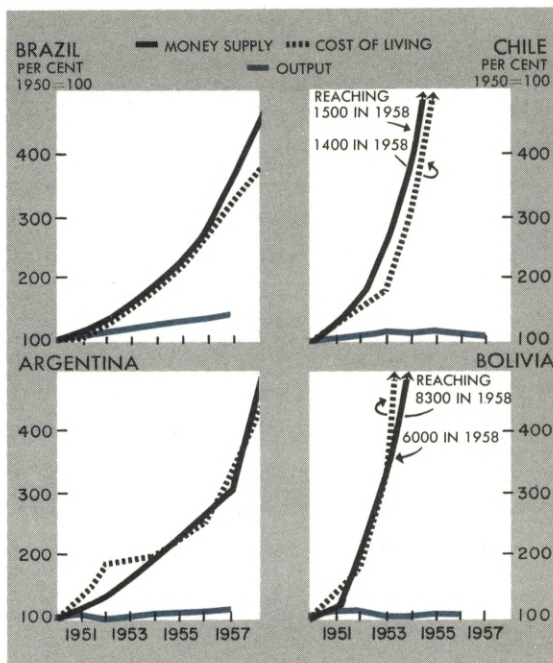
Some nations chose traditional methods of finance, encouraging savings, and soliciting foreign loans. Others took what appeared to be a more direct route to economic development. Since they regarded available savings as insufficient to provide the funds needed to raise production to desired levels, many countries reasserted their age-old monetary prerogative. They charged their central banks with the task of financing growth. The central banks were to create the money needed to bid resources away from other uses and into development programs; to finance through inflation. No longer was the central banker an independent, professional money manager. He was an engine of inflation; just as he would have been as royal coiner to Henry VIII.⁵

Depression, war, economic growth—were there still other pressures on the State and its monetary prerogative? The answer was yes, for the fever of economic growth was not destined to be the exclusive preserve of the world's underdeveloped nations. Growth was to receive great emphasis even in the developed lands. And just as war had sparked the desire for growth in the underdeveloped countries, so it was to feed that flame in the great and powerful nations. But it was war of a different kind—cold war.

⁵ For a lucid discussion of the theory and consequences of economic development by way of inflation, see Federal Reserve Bank of New York "Inflation and Economic Development," *Monthly Review*, August 1959, p. 122.

INFLATION AND ECONOMIC DEVELOPMENT

... *When money is created faster than goods can be produced, prices tend to rise, the currency is debased.*



Note: Output is here measured by gross national product in Bolivia, gross domestic product elsewhere.

Sources: United Nations, International Monetary Fund.

Money, growth, and the cold war

Cold war competition between the world's two great power blocs began shortly after World War II. It has continued to this very moment. It is intense, now.

This competition has placed a high priority on economic growth. The Soviet Union, as noted earlier, is expanding its gross national product at a rate of 6 to 7 per cent a year, concentrating on industrial investment and research, on drill presses and generators, sputniks and hydroelectricity. Meanwhile, the United States' GNP has grown at an annual rate of 3 to 4 per cent with more emphasis on the production of con-

sumer goods, on cars, refrigerators, and television sets.

This presents a pressing problem. If we are to sustain our position of strength in the cold war, yet continue to raise our high standards of living, most agree that we must raise our rate of growth; raise our output per man-hour, even increase our man-hours. Only then can we satisfy all our wants and desires. Only then can we have missiles *and* automobiles, space research *and* split-level houses.

But while most agree that growth is desirable, indeed imperative, the plan we should follow to *achieve* that growth is a subject of great and heated debate. And of the many plans offered, the age-old solution—the “money answer”—seems to some the most expedient of all.

The “money answer” has many variations. Some emphasize the desirability of improving our private standard of living. Others consider the real challenge of our times to be in the public sector, in education, basic research, and defense.

Yet whatever the point of emphasis, all variations of the money answer have one factor in common. They call on the central bank to maintain low interest rates as a spur to productive effort. How would such a central bank policy affect the money supply?

An interest rate is a price, the price of money. Like any other price, the level of interest rates depends on supply and demand. To hold interest rates down, a central bank would have to increase the supply of lendable funds. It would have to *create* money. In such a situation the supply of money would probably bear little relation to the production of goods. Prices would tend to rise. As in the underdeveloped lands, the central banker would be minting the silveroid shilling of Henry VIII.

Depression, war, growth, cold war—are there yet other pressures on the State and its monetary prerogative? Once again the answer is yes. That pressure: the concept of cost-push inflation.

Cost-push pressures and money creation

The cost-push theory of inflation rests on the premise that fundamental changes have taken place in our economy during the twentieth century. The theory points out that business firms have expanded in size and influence. Labor unions have grown in strength and bargaining power. Indeed, according to the cost-push thesis, labor today is so powerful at the bargaining table that it can push up wages faster than productivity (output per man-hour). Consequently, costs per unit of output increase. And rising costs are a source of great concern to management.

As costs rise, management has two choices. It can absorb the increased cost and thus experience falling profit margins; or it can pass costs on to the consumer in the form of higher prices if in a market position to do so. Since business has grown in influence and market power, there is a tendency to choose the latter alternative—to raise prices rather than lose profits.

But what does this have to do with money and the State? Plenty, say the cost-push theorists.

In 1946, Congress passed a law—the Employment Act of 1946—which, among other things, calls upon the Federal Government to help maintain maximum employment. To achieve this objective, it is necessary for virtually all goods produced to be purchased, even at higher price levels generated by cost-push pressures. If some goods are not bought, business will lay off workers. There will be unemployment.

But where will we get the additional money to purchase the same amount of goods at higher

prices? Not every salary of every worker will be raised.

For a time, we shall be able to draw down our cash balances and savings accounts. But there is a limit to the extent people will spend their hard-earned savings and part with cash. At this point they will decrease their consumption. Then, conclude the cost-push theorists, the Federal Government is forced to step in. To maintain employment, the State must take steps to increase the amount of money available for spending. In short, it would be forced to *manufacture money*. Once more the central banker would become a handmaiden to Henry VIII.

Depression, war, growth, cost-push inflation: the twentieth century has cloaked its monetary pressures in diverse identities. And in recent years, these pressures have assumed yet a new alias. Who could guess that the very mechanism through which we have created money in the past would generate pressures to manufacture even more money in the future? It might seem odd, but that is precisely what has happened. Problems connected with the enormous war-induced national debt have led many to advocate measures that would put the sovereign back in the business of creating money—creating money with little reference to the needs of commerce and trade.

Money and the national debt

In 1929, the national debt was a little less than \$20 billion. By 1940, the deficits of the depression years pushed the nation's I.O.U.'s past the \$50 billion mark. Then came the long, grim war years. Government budgets soared, shoving the debt beyond \$275 billion in 1945. At present, the Federal Government's gross indebtedness exceeds \$290 billion.

And since the war, rising debt has been ac-

companied by an upward trend in interest rates. The rate on long-term Government bonds has climbed from $2\frac{1}{3}$ per cent at the end of the war to more than 4 per cent today as all sectors of our economy have stepped up their borrowing to finance an ever-increasing volume of expenditures. Similarly, short-term rates on Treasury bills have soared beyond $4\frac{1}{2}$ per cent from a war-depressed level of $\frac{3}{8}$ ths of 1 per cent, also in response to rising credit demand.

With an expanding gross debt and a rising interest rate structure, Government interest costs have increased significantly. In fiscal 1951 the Government spent \$5.7 billion servicing the Federal debt. For fiscal 1960, it is estimated that debt service will exceed \$9 billion. Today, interest charges alone are greater than the total national budget as late as the year 1940.

High costs have led to an intensive search for ways to relieve the debt servicing burden. From this search have come at least two possible answers.

Many recommend reducing the size of the debt, using budgetary surpluses generated during years of business prosperity to pay off holders of Government securities.

Others would call on the Federal Reserve System to help reduce interest *costs* by depressing interest *rates*, by "supporting the Government securities market." Yet, as noted earlier, the Fed can reduce interest rates only by increasing the supply of lendable funds, by creating money. Thus, to consistently support a given level of interest rates, the central bank might well be forced to allow an economically undesirable expansion in the money supply.

IN CONCLUSION

Deciding how much money should circulate is no easy task. It was not easy in the sixteenth

century, in the nineteenth century, nor today.

Kings and emperors have been entrusted with the task. In many cases they were guided more by current problems of State finance than by the over-all interest of the public.

Private bankers fell heir to the job of managing the money supply. But in spite of such nineteenth century incantations as convertibility and "real bills," they proved poorly prepared to accept the challenge of money creation—a challenge in which the profit motive is a poor substitute for over-all viewpoint and public interest.

Finally, central bankers were given the task. In their early days they, too, lacked the experience, broad outlook, and professional qualifications required for successful management of the money supply. Even at the turn of the present century they did not envisage a positive monetary policy designed to even out fluctuations in the business cycle. They might refuse to adopt a thorough-going policy of monetary ease during periods of depressed business activity. Or they might expand the credit base too rapidly during the upswing in the business cycle.

But through the years the central banker acquired an expanding fund of theoretical and technical knowledge—knowledge he needed to help him set his objectives, knowledge of the tools required to carry out those objectives. In short, the central banker has become an ever more effective money manager. Broadly speaking, he attempts to adjust the money supply so as to promote a flow of spending just sufficient to purchase all the goods and services a fully employed and constantly growing economy can produce at prices that are relatively stable. It is a difficult task—one that requires topnotch professional training, first-hand experience, and keen, perceptive judgment. The viewpoint must be over-all; the motive, public interest.

Yet, in spite of the progress of the central banker, we have seen that there are fundamental pressures on the State to attack new and complex economic and social problems through its money-creating powers. The problems of growth, cold war, and changing market structure have led some to recommend the age-old solution of money debasement.

Will we accept this solution? The subjects of a monarchy had little choice in days when kings ruled by divine right. But today we live in a democracy. The people have the final say. What could lead the people to accept monetary debasement as a solution to the problems of the times?

Two factors work in favor of those who advocate a systematic program of monetary debasement. One is a question of knowledge, the other of objectives.

As to knowledge, while citizens of a democracy can indeed do something about currency debasement, it is difficult to arouse sufficient resentment against would-be debasers. Such resentment seems to vary inversely with the sophistication of the technique used to debase. In olden days, when people could see the result of debasement in the nose of the personality adorning the coin, it was easy to arouse the ire of the citizenry, even though they could do little to stop it. In an economy in which money is created through a process of central bank purchases of securities and commercial bank lending, it is difficult to keep the eyes of an audience off the ceiling when one mentions the procedure by which the State can debase the currency. If we are to avoid once and for all the consequences of monetary debasement, we must have more knowledge of monetary problems and procedures.

A second factor assists those who advocate a systematic program of currency debasement. That factor is simply this: the ends sought by

such debasement are extremely desirable—growth, full employment, military security. But even if currency debasement could bring us these desirable ends (which is most doubtful) we should realize that there are alternative *means* to achieve them. Is currency debasement the better of the alternatives?

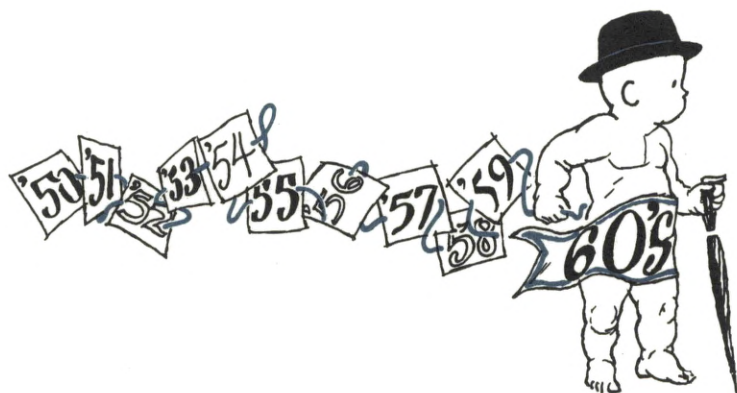
If the problem of cost-push unemployment results from changed market structure and power concentration, it would seem more logical to attack the problem at its roots, within that market structure rather than “solving it” by debasing our currency. If we need greater public expenditures in the areas of education, basic research, and defense why not first try to redirect some of our existing public expenditures? If this proves

insufficient, greater taxes would be a fairer answer than currency debasement. Better a modern-day *moneyage*, equitably based than inflation—the cruelest and most arbitrary tax of all.

It has been said that history repeats itself—that men do not learn from the errors of the past. Today, it is possible that we have reached an important juncture in the historical cycle of money creation. This juncture involves a fundamental choice. Will we continue to insulate the function of money creation from the day-to-day financial pressures that beseech the sovereign? Or will we follow the lead of Henry VIII—Old Copper Nose revisited? These are the problems, and the temptations, of money creation.



WHAT THE '50's TOLD US ABOUT



THE '60's

A rash of books and articles on the 1960's reminds us that a decade is ending, a new one beginning. Much of what we read suggests that the 1960's will be like the 1950's only more so. Maybe this is an accurate projection. Certainly the future is a continuation of the past. But in looking back over our own lifetime, the 1950's seem quite different from the 1940's, which seemed quite different from the 1930's, which seemed quite different from the 1920's.

More than this, casual reflection strongly suggests that what took place and what we learned in the previous decade shaped the character of the succeeding decade. The excesses, the speculative binge in the 1920's, led to the depression-ridden next ten years. So, too, did desperation and preoccupation with internal affairs in the 1930's lead to the war-torn 1940's. Finally, the previous two decades, predominantly characterized by depression and war, shaped the 1950's.

If this is more than just a little true—that events and impressions of the immediate past

shape the future—then it would seem fruitful to try to determine what the fifties told us.

At the outset let it be clear that what we've learned may or may not prove to be eternal truth. Recall that in the latter 1920's we thought we were in a "new era of perpetual prosperity." In the 1930's we thought we had a "mature economy." And who can forget that in the early 1940's, it was generally believed that the population would reach a maximum of about 153 million between 1970 and 1980.

At the time each made a lot of sense. To some extent, too, the apparent truth of each led to the events and actions which have made these notions seem so naive in retrospect. In other words, what we *believe* to be true shapes our actions, whether or not we can look back later and see that it was false.

So what we are looking for in our Impressions from the Fifties is not ultimate truth. Rather it is what at this moment of history our society believes to be the truth. Now for the search.

1949 VS. 1959

It is difficult to get at a subject as large as this. One way to start is to recreate 1949. What were we reading, thinking, and doing then? Following this, a brief fill-in on the intervening years should help us with our conclusions.

Remembering 1949

Take yourself back to 1949 and try to see us as we were then. It isn't easy. Many things that seem obvious now were not so obvious then. It is almost embarrassing to remember some of them.

The first really postwar cars were on display. They were longer, lower, and more powerful than their pre-war counterparts. Television was a bold new force in our society. Everyone was beginning to want to own a set, and sales reflected this urge. The impact of this new Goliath on other industries—such as motion pictures, radio, publishing, advertising, and spectator sports—on our mores, and on our politics was being widely discussed.

Swing was still king. Phonograph records were selling well, and seemed ready to boom when the battle of speeds was settled. Consumers pondered about 33 $\frac{1}{3}$, 45, and 78 r.p.m. records, and seemed to be deciding that they wanted to be able to play all three. Night clubs, restaurants, movies, and spectator sporting events had been doing capacity business since the war. A lot of money and attention was going into clothing as returning G.I.'s replenished their wardrobes and their wives adopted new-length skirts. Food sales began to soar as consumers upgraded their menus.

But 1949 was the year of our first postwar recession. This sobered us. Some of our leading economists and business writers were suggesting that inflation was about over. More than this, the

tone of many articles and speeches of that time suggested that prices might go back to pre-war levels—or close to it.

There seemed to be general agreement, too, that the years immediately preceding World War II were the norm; that war and postwar years were abnormal; that unemployment and business distress would return once the economy got back on a peacetime footing.

The stock market was sluggish. It hardly began to register the postwar boom. Some—and many were business leaders—suggested that it had become obsolete.



Our business community seemed terribly concerned about Socialism. What was happening in Great Britain and elsewhere heightened anxiety. A continuous stream of articles about “Socialism U.S.A.” or

“Creeping Socialism,” or “Socialism by Default” poured from the business press.

Out of this anxiety sprang an interest in “Big Government.” Paper work imposed on businessmen by bureaucrats was frequently a subject of heated conversation. Many believed that Big Government could be made significantly smaller by applying business practices to encourage efficiency.

Similarly, the enormity of the public debt was a source of comment and concern. We weren't sure how to live with it—or even if we could. Government securities prices were being supported under an agreement between the Treasury and the Federal Reserve System. A change in this policy, it was feared, would create uneasiness about the nation's credit and disorder in financial markets.

Signs symptomatic of chronic illness were discernible in certain of our basic industries, i.e., farm, coal, and railroad. Farm surpluses revealed our ability to produce more food than we were willing to consume. Coal had lost relatively to oil and natural gas as a source of fuel energy. Fare increases pushed the cost of rail travel above air. More freight was going by truck and plane, too.

Labor-management strife was constantly in the news. Labor unions, shored up by legislation and favorable public opinion in the 1930's, met management head-on in tests of strength in the healthy business climate of the latter 1940's. Awesome displays of sheer power sent thinkers searching for new ways of settling labor-management differences.

A call for a new credo was sent out by our business community. "Where are our bright young conservative writers?" businessmen asked. It was apparent to nearly all that a good many of the rules of the economic game as played in America were changed in the 1930's. But what did these rule changes mean? It was still essentially the same game—or was it?

Beyond our borders the fall of China to the Communists made the biggest impression on Americans. Many blamed traitorous actions of some Americans "in high places." "Reds" were searched out. At times it seemed as if we "found" more than existed.

To summarize in a sentence how we felt in 1949, perhaps it could be said that we were proud of our position in the world order, but somewhat apprehensive about our business system under peacetime conditions. We had played a decisive role in bringing the big war to a successful conclusion. Development of the atomic bomb and clear superiority of our industrial machine made us confident of our preeminent

position in the world. Few doubted that we would occupy about the same position in the world society ten years later.

But America had some nagging doubts about itself. Mostly they concerned our business system. Heads all over the nation nodded when a famous businessman in early 1950 cautioned: "The thing that hit us in 1929 cannot be assumed not to happen again. Personally I have been waiting for years for the ax to fall, and I am becoming more convinced momentarily that it is not far away." The depression was not forgotten.

Some specifics on the fifties

Between 1949 and 1959 a lot happened. And probably few could agree on just what should be chronicled. But here is a fast romp through the period.

At the turn of the decade, it was almost possible to detect a nationwide sigh of relief. Sacrifices, heartaches, and burdensome problems of the forties were behind us. It seemed only right that by some natural law the ten momentous years of the forties should be balanced by a decade of comparative tranquility in the fifties. If this is what many of us thought, or wished, we were brought up short by the outbreak of fighting in Korea about six months after the "tranquil decade" began.

Of course, we know now that it was a false start. The fifties were not to be like the forties after all. The war was relatively short-lived and never demanded the same all-out effort required for World War II.

But we learned quite a bit from the Korean incident. Some of what we learned most of us haven't forgotten. For example, we learned how necessary it was to maintain a posture of military readiness, and what a tremendous produc-

tive machine we had. Guns and butter were both supplied without inflation once the initial phases of scare-buying were over.

Important, too, we became convinced that damaging inflation probably could not be checked if Government securities prices were not permitted to move more freely. The huge Government debt couldn't be isolated or ignored. It was within the playing field. It had to get into the economic game. Pegs were pulled from under Government securities prices, and monetary policy was used to help check rather than feed inflation.

But the Korean war obscured other lessons. The recession of 1949 had been reversed and business activity was bursting through to new peaks when the fighting started. In the frantic buying period that followed, perspective was lost. Some were left with the impression that the outbreak of fighting had brought us out of a recession.

Certain sectors of the economy, lagging since the end of World War II, got new life and hope from activity generated by the Korean crisis. Old factories and shipyards were reactivated. But as the war crisis passed, basic postwar trends re-emerged. Chronic employment problems amid general nationwide prosperity popped up again in a few of our older industrialized areas.

One of the big stories of the early fifties involved a new type labor-management agreement forged in Detroit. In essence, what it did was tie hourly wage rates to changes in the cost of living, in theory—to the Consumer Price Index, in fact.

Its proponents, among other things, said: (1) longer-term union-management contracts were desirable, but (2) the recent history of sharp changes in the over-all price level put long-term

contracts out of the question unless (3) wage rates were tied to changes in over-all prices.

Opponents pointed out that as these agreements spread another "built in" inflationary bias would be added to our economic system. In other words, price rises would beget cost rises which would beget price rises, etc.

What did we learn from this new type agreement? Possibly that its proponents and opponents were both right, to some extent at least.

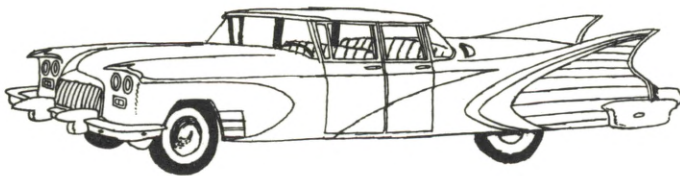
The recession of late 1953 and early 1954 and the subsequent recovery period contained many economic lessons. This recession came about as the economy adjusted to a substantial reduction in Government spending made possible by the end of fighting in Korea. The brevity and shallowness of the recession showed us again that a decline in defense spending did not have to bring about a severe contraction in over-all business activity.

It illustrated, too, that tight money was not a fetish of our money managers. Money tightened after pegs were removed from the Government securities market in 1951. It continued tight as business boomed in 1952 and on into 1953. But even before many of our comprehensive indicators of activity turned down, actions were taken to begin to reverse this policy.

These prompt monetary measures, reduction in income tax rates, plus built-in stabilizers—unemployment insurance—went a long way toward moderating the recession.

A new confidence in our business system began to become evident. In the ensuing recovery and boom, the stock market, long quiet, began to assert itself. Investors seemed at last to believe that ours maybe was not a mature economy after all.

Business activity zoomed in 1955. A tremendous surge in demand for houses and cars



in the latter half of 1954 and into 1955 sparked this boom. Changes in credit terms, which made money seem easier for house and car buyers, made an important contribution to the surges in demand. Many insured mortgages were written for 30-year maturities, and auto loans of 36-month maturities became commonplace.

Hard competition between two giant automobile manufacturers put a severe strain on dealer-producer relationships in this period. New dealer franchise agreements were worked out to prevent what the dealers construed to be overloading.

“Motivation Research” became a familiar term to nearly all Americans in these mid-fifties. Why we buy what we buy is not easy to determine—especially in an economy as affluent as ours was becoming. Some depth studies by motivation researchers provided fascinating reasons why some items sold and others did not. In general, the attention paid “M.R.” served as a constant reminder as to just how far our economy had progressed from the days when items could be readily classified as necessities or luxuries.

The behavior of our economy in 1956, 1957, and 1958 emphasized the changed character of our business system. Prices rose throughout those years. Yet, industrial production was fairly level after hitting a peak in 1955, until it plummeted sharply in late 1957 and early 1958. Unemployment also leveled after declining sharply in 1955. It never got back to the lows attained in 1951, 1952, and 1953. In the recession, beginning late in 1957, unemployment

nearly doubled. Real income per capita grew slowly then declined in the recession. In other words, over-all price and wage rises occurred despite the fact that over-all demand was not excessive.

Within the broad totals the changes were even more mystifying. For example, sales of American-made automobiles fell below year-ago levels in 1956, 1957, and 1958. In fact in 1958, 40 per cent fewer cars were sold than in 1955. Employment in the automobile industry in each year was below year-ago levels. Yet in each of those years the price of new cars rose, as did the hourly wage rate.

These developments and others called for explanations. Was there no longer rhyme or reason in the economy? Just what kind of a business system do we have anyway?

Rhyme and reason have not left, some said. It is just that we have a new type inflation—“cost-push inflation.” Briefly, the cost-pushers said that large corporations and large labor unions were powerful enough to set prices and wages irrespective of current market conditions. Prices were thus pushed higher by cost-plus pricing, not pulled higher by excessive demand.

In a related vein, but not specifically associated with conditions in the three years observed, much was written and said about the “new capitalism” evolving in the United States. What might loosely be called laissez-faire economics had been a less than totally adequate explanation of our business system for quite some time. It was still used as a more or less official creed of the businessman in the late 1940’s. By the fifties, developments in our economy were such as to cause our business system to seek a new creed.

In general, attempts at forging a new justification fell into two main categories: (1) those that said that prices, profits, and resource allo-

cation still are determined essentially by the invisible hand of competition—though perhaps a different kind of competition; and (2) those who said that the new managers are the guiding hand that determines prices, profits, and resource allocation in a beneficent way.

But in spite of all of the thought that has gone into the development of a new business creed, we still do not have one. In fact, the *laissez-faire* doctrine—or something closely akin to it—probably has as much support from the business community as any of the newer philosophies.

In the latter 1950's, irrefutable evidences of Russian scientific achievements had a tremendous impact on our society. On October 4, 1957, the Russians shocked and bewildered us with their first Sputnik. Attitudes of the American people have changed drastically since that time.

At the subconscious level, at least, our society became a little uneasy, perhaps conscience-stricken. It was as if we suddenly said to ourselves: "Here we are fussing around with useless decorations, while the Russians are making serious scientific advances."

The automobile industry observed that many consumers no longer wanted elaborate ornamentation and functionless chrome. Apparel makers strove for simplicity. At local levels it was easier to get a bill passed to raise teachers' salaries. College professors found more sympathetic ears. Scientific wizards began to replace football players as the big men on campus.

In addition to these observable changes that the Sputnik helped cause, it has had another more profound effect. The sudden realization that we are not the best and first in everything has given us a slight inferiority complex. For the first time, Americans seem not so willing to take for granted that in the long-run our way will automatically be the world's way.

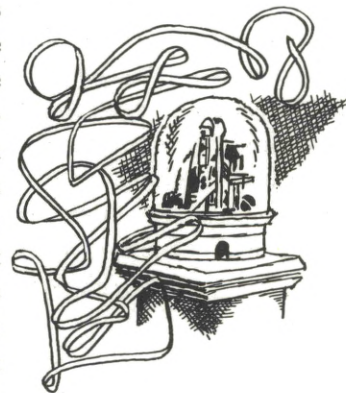
Finally, in 1959 the steel strike has given us a comeuppance. Coming on the heels of Russian scientific achievements and boasts about their future economic potential, it has added to our small but growing national inferiority complex. Rightly or wrongly, Americans in all walks of life wonder where are we heading if we can do nothing to prevent these incredibly expensive strikes.

America, 1959 style

The ten generally prosperous years of the fifties have changed us a great deal. As a nation we are better fed, better housed, better clothed, better transported, and better equipped than we were in 1949—better than we or any other nation have ever been.

Looking back at the section that briefly depicted how we were in 1949, some changes are quite apparent. For example, cars are getting shorter and less powerful; no one considers the stock market obsolete; Socialism seems not to be an issue any longer; Big Government pretty much is taken for granted; consumer debt gets a lot more attention; prosperity and inflation are taken for the norm; and unemployment and business distress are abnormal.

Other things have not changed so much, however, or it seems the more they have changed the more they have stayed the same. The impact of television on our mores is still being widely discussed. Grave problems in the farm, coal, and



railroad industries remain unsolved. Labor-management strife is in the news. The call for a new business creed grows louder but is otherwise unchanged.

The changes just mentioned and the things that haven't changed, of course, are important. They are also fairly obvious. We have only to look around to see them. It is more interesting to try to discern some of the more subtle differences between our society in 1949 and 1959—keeping in mind the very substantial improvement in our material well-being, keeping in mind, too, that improvement in our material well-being has contributed to these other changes.

It seems safe to start out by saying that one change in our society since 1949 is that differences among us have narrowed. Proportionately more of us live in about the same manner. We own our own homes, buy a new car when we think we need one, take vacations. Fewer among us are rock-ribbed Republicans or staunch Democrats. Religious differences may have blurred somewhat also. All around us, the steel strike notwithstanding, there seems to be more of a tendency to try to find common ground for agreement.

Other distinctions seem to have blurred, too. Things aren't so clear as they used to be and there's no use kidding ourselves that they are. Right and wrong are not so easily distinguished. There are many more self-confessed sinners among us, and many fewer self-styled saints.

Fewer among us think we have the answers. More of us have come to the conclusion that many of life's problems cannot be solved at all. The threat of an atomic war is so terrifying to us as to lose its ability to frighten us at all. Most of us seem numb at the prospect. Many have adopted a fatalistic attitude toward it.

The enormity and seeming insolubility of many

of the world's big issues have perhaps made us more interested in ourselves than formerly. It's as if we turned away—decided to get back to something we have a chance of comprehending. We psychoanalyze ourselves, try to determine why we really do what we do, say what we say, act the way we act. Many more of us are preoccupied with our own health. Businessmen are forever talking about heart attacks, and their wives about cancer.

We feel that we are more sophisticated than we were in the forties. We think we use our incomes more wisely, and don't just buy something flashy to impress our neighbors. We're more cynical about advertising, but probably just as affected by it. We abhor being considered "square," although most of us have a hazy impression about just what that means. Foreign goods are more likely to appeal to us. For the time at least, they strike us as being different and sophisticated. They provide variety in our consuming lives. They are a kind of subconscious offset to the narrowing of differences all around us.

In fact, the narrowing of differences in incomes and elsewhere is probably having a large effect on our spending habits. Because most of us can afford to do nearly the same thing as the next fellow, we have a sort of compulsion to do something different. New style trends are more difficult to establish. When almost everyone can afford to be in style there's less point to it. Women's clothes have no dominant theme at present. Women are beginning to wear what they like, think they look best in, feel gives them individuality, distinction. Men's clothing stores must carry a variety of suit styles; Ivy, Continental, and American Ambassador at least seem to be necessary. Men's shirts feature pointed, round, eyelit, tab, spread, semi-spread,

and button-down collars. And there appears to be no dominant trend. It seems as if a new cigarette brand name comes on the market every month. Rambler, Thunderbird, Corvair, Corvette, Imperial, Dart, Falcon, Valiant, and Lark are all rather recent additions to the automobile sweepstakes. There is an unmistakable trend away from following the leader; an unmistakable urge to express ourselves, achieve an identity through our spending patterns that we feel we are losing elsewhere.

In 1949 it was possible to say that Americans did not question their preeminent position in the world order, but were apprehensive about the way their business system might work under peacetime conditions. Attitudes have changed.

Now there is a feeling that we have lost standing in the world order. The previously mentioned Sputniks have a great deal to do with this feeling. But we think we see other evidences of our declining position. We read about an outflow of gold, we see automobile imports rising and exports falling, and we learn that Russia and some other nations are growing industrially more rapidly.

Paradoxically, we have much more confidence about our own business system than was the case ten years ago. The dreaded depression never happened. It didn't even come close. Rising prices have plagued us, but until now, at least, have not overwhelmed us. To be sure, we've had a recession every fourth year or so. But most people have been affected only slightly. In any event, the recessions have been nothing like the Great Depression.

Impressions from the fifties—an influence on the sixties

This brief run-through of the fifties is incomplete. Yet it is also, in a sense, excessive be-

cause, probably, only a few impressions from the fifties have been etched deeply enough into the subconscious of our society to change substantially how we shall live in the 1960's.

And they are not necessarily the impressions that come immediately to mind. Some observers have said that America at present feels fat, humorless, a little ashamed, and pessimistic. Maybe so, but these impressions are the products of a mood of the moment.



They grow out of Russian moon rockets, quiz show scandals, and the steel strike. They will pass.

Other impressions will remain. It is possible to select three powerful, pervasive impressions that we as a people have consciously and subconsciously gleaned from the fifties. We as a society think we have learned:

1. That we shall probably never again have a depression remotely resembling the catastrophe of 1929.
2. That Socialism is not just around the corner.
3. That Russia is a strong—and will grow to be a stronger—economic challenger for the heavyweight championship of the world.

Let it be re-emphasized that what a society thinks it has learned has not always proved to be eternal truth. Any one or all three of the pervasive impressions mentioned could appear as foolish in the 1970's as the new era philosophy of the 1920's looked in the 1930's, or the mature economy thesis of the 1930's looks today. The point is, however, that each of these three impressions may well influence the behavior of our society in the 1960's. But how?

The depression

Let's start with number one—the idea that the Great Depression doesn't haunt us as in former years. Probably no event, not even World War II, so shocked and scared Americans as the Great Depression. To say that it has influenced our thinking ever since is an understatement.

The effects deriving out of our preoccupation with averting another depression have been manifold. In a broad, general way very likely memories of the depression caused us to sell ourselves short in the fifties. Almost anything that went wrong with the economy was compared with the depression and tolerated by most of us.

Persistently rising prices were compared with the depression and tolerated—in some quarters lauded. The recessions that hit every third or fourth year seemed shallow and brief, perhaps because we compared them with the Great Depression. So what if farm surpluses were piling high in storage bins, if some facets of our tax system seemed out of tune with the times. Don't rock the boat too hard! Remember the Great Depression.

This is, perhaps, an overly simple picture of the way we as a society have been influenced by the Great Depression. Obviously, not all of us were so preoccupied with the spectre of another depression as to close or even half-close our eyes to other problems in our economy. But a good many of us in our society did, and even many who thought their eyes were wide open could not persuade themselves that any economic problem could begin to compare with the next depression.

This is possibly as it should have been; in any event, it's how it was. We needed the fifties, each year of the period, to rid ourselves of the lingering depression psychosis.

If this psychosis has been a stultifying force

in the fifties will its partial erosion release activity in the sixties? Very likely.

As a potential depression sinks further from view, other economic problems will probably be seen in new perspective. The persistent rise in over-all price levels may not be so glibly accepted. It may be seen as a problem in its own right. This will be even more likely, if, as is nearly sure to happen, the influx of foreign goods continues. Price comparisons among nations may loom larger in the sixties. Nearly all of us will probably be in more of a mood to halt persistently rising prices. Therefore, more likely we will be successful in doing just that.

Recessions, statistically, will probably approximate what we've experienced in the fifties. They will seem larger in the sixties, however. The Great Depression yardstick probably won't be the standard against which they are measured. But by seeming larger, actually they could get smaller. A free society that is convinced it can never suffer another Great Depression is ready to try to prevent recessions periodically scheduled every fourth year or so.

Other economic problems left over from the fifties similarly will seem larger in the sixties; actually, perhaps, get smaller. The prosperous decade behind us provides a new backdrop for comparison. It, along with the lessened fear of depression, will bring about a general raising of our economic sights.

Socialism

It is almost difficult—maybe a little embarrassing—to remember how wrought-up we were about the menace of Socialism in the early fifties. Though we are still on guard, the temper of our times has changed dramatically.

For a variety of reasons, Socialism in this country seems not so imminent today—in fact, it

seems quite remote. Perhaps it was never imminent. But a lot of people thought it was and their actions and the actions of others were influenced by this feeling. Naturally, therefore, if this feeling no longer exists—at least not nearly to the same degree—its absence might be expected to influence us in the sixties.

Much as with the fear of depression, the fear of Socialism to some extent caused us to sell ourselves short in the fifties. This was particularly true in the earlier years of the decade. New ideas were suspect, in part, simply because they were new. Only orthodox ideas were encouraged by the general climate. Imaginations were constricted.

By now, we're no longer constantly looking back over our shoulders at a conjured-up socialistic menace. The climate has changed. The nonconformist is not inhibited from espousing changes. New ideas are sought out and viewed hopefully. Imaginative thinking is encouraged.

No one can say exactly what this means for the sixties. Probably, however, it means that our society will have more new ideas to "chew on" than in the fifties. And not only might we develop more ideas, we might also find they are bigger and bolder ideas.

Russia

Finally, Russia may have a large influence on us in the sixties. Of course, Russia influenced our actions in the fifties. But for the most part in the fifties our drive was to stay ahead of Russia militarily. In the sixties Russia has promised to challenge us on the broadest economic grounds.

The rate of growth in the Russian economy is being watched carefully. Economic growth in this country came in for a great deal of study this past year, but will probably come in for considerably more in the sixties.

Despite our long lead and seeming invincibility as economic champion of the world, recent evidence suggests Russia will make the match a lively one. Russian Sputniks have tended to offset some of our vaunted evidences of higher living standards. Other spectacular achievements by Russian scientists are to be expected. American scientists are preparing to answer in kind.

Again the general effect is to bring about a raising of sights, a feeling that what has seemed good enough won't do, an environment that encourages more and bolder new ideas.

Conclusion

A pattern, therefore, is established. If out of the fifties three pervasive impressions have been formed, and if the three impressions have the effects outlined here, then the course is clear. The sixties will not be like the fifties after all. Our values could undergo a big change. A high standard of living will likely be taken for granted. Persistent inflation and periodic recessions will grow less tolerable. The rest of the world will seem more important to us. We'll probably be much less contented, smug, and stuffy than we were for most of the fifties. But maybe we'll have a lot more to be contented about. In ridding ourselves of two psychoses in the past decade we've made our society—the freest in the world—freer. We have removed from our subconscious two forces that have narrowed our viewpoint and submerged new ideas. How strong and impregnable a position this puts us in to face the challenges of the sixties!

The change in the character of our society will probably come about slowly and almost imperceptibly. It has begun already. When the change becomes more apparent the tendency for many people will be to look back and say, "*This* was the turning point. *This* was the event that

caused the change.” They will not be wholly right, no matter what they choose. All days and all events leave us with impressions no one of which is completely decisive because each is the unconscious product of that which has gone before. Of course some are infinitely more important than others. Sometimes it takes many days and many events to form one powerful impression—as with all the days and all the events

it took to leave us with the impression that a depression wouldn’t recur or Socialism was remote. Other times one day and one event can have tremendous impact—as with the shattering suddenness of the first Sputnik. But all the days, all the events, and all the impressions from the fifties have helped change us, and if it had not been for each of them the sixties would not be as they will be.

BUSINESS AND BANKING

IN 1959



Business activity, measured by gross national product, reached record levels in 1959, although the strike in the steel industry beginning in July cast a massive shadow over the economic scene. Comparison of average levels with those in 1958 reveals increased employment, production and construction, higher personal income, and more active retail trade. Accompanying these changes, prices at wholesale for commodities other than farm products and foods rose early in the year, consumer prices have been tending upward, and money rates have advanced to the highest levels of the postwar period.

Business conditions in the Third District

The Third Federal Reserve District shared in the general recovery, although some of the gains recorded here were less marked than in the country as a whole. In the accompanying table

of indicators, the only unfavorable changes from 1958 were in the output of anthracite coal and in construction contracts awarded for public works and utilities. Factory payrolls and working time, electric power consumption, car loadings, residential construction contracts, and retail sales all show gains. Another favorable indicator is to be found in the capital expenditures of manufacturers. In the Philadelphia area the total rose from \$314 million in 1958 to \$357 million in 1959, and it is expected that this level will be maintained in 1960. Taken as a whole, the indicators make a surprisingly good showing in view of the impact of the steel strike upon an area which turns out much primary steel and is studded with steel-consuming industries.

Despite the improvement in general business over the past year, figures for 14 labor market areas in the Third District show that 6½ per cent

BUSINESS INDICATORS

Third Federal Reserve District
Percent change 1958 to 1959

	Change		Change
Employment (14 areas)*	+ 1%	Car loadings (Philadelphia region)*	+ 7%
Unemployment (14 areas)*	-16	Retail sales, total (excluding national chains)**	+10
Factory payrolls*	+ 9	Department store sales*	+ 5
Factory working time*	+ 4	Automobile registrations (48 counties, eastern Pennsylvania)**	+27
Electric power consumed by manufacturers*	+ 8	Bank debits (20 cities)*	+11
Anthracite coal output*	- 9		
Construction contracts:			
Residential*	+26		
Nonresidential*	+ 9		
Public works and utilities*	-49		

* First eleven months. ** First ten months.

UNEMPLOYMENT IN MAJOR LABOR MARKET AREAS

Third Federal Reserve District

Percent of labor force unemployed:	Number of Areas			
	Nov. '59	Nov. '58	Nov. '57	Nov. '56
1.5 to 2.9%	1	0	1	3
3.0 5.9%	7	3	7	5
6.0 8.9%	2	5	1	2
9.0 11.9%	0	1	4	3
12% or more	3	4	0	0
Total number	13	13	13	13

Source: U. S. Department of Labor.

of the labor force was unemployed in November 1959. Obviously, the District still faces a major problem in coping with distressed areas, particularly in the anthracite region, where production of coal has been declining from year to year. Late in 1959 substantial labor surpluses were reported in nine minor labor market areas and in three major areas the per cent of labor force unemployed was 12 per cent or more, according to estimates of the United States Department of Labor.

Commercial bank operations

The demand for bank credit was strong during 1959, whether for mortgage money, business loans, or consumer credit. In meeting this demand, member banks in the Third Federal Reserve District increased their loans from \$4,347 million at the end of 1958 to \$4,911 million late in December 1959. This increase of well over a

half-billion dollars was exceeded only in 1955, and was four times as great as in 1958.

Unlike 1958, when easier reserve positions induced banks to add heavily to their investments, holdings of securities were reduced considerably in 1959. To maintain reserve positions, banks borrowed more actively from the Reserve Bank and purchased substantial amounts of federal funds from other lenders. These changes reflected chiefly the operations of reserve city banks, which reported net borrowed reserves over most of the year. Country banks as a group continued to have free reserves, but the average for the year was lower than in 1958.

Changes over the past two years in some of the principal statement items are summarized below.

Credit expansion and rising money rates and bond yields were reflected in the earnings of banks. Consolidated reports for the year as a whole are not yet available, but figures for the

MEMBER BANKS

Third Federal Reserve District

(Millions \$)	Dec. 31, 1957	Dec. 31, 1958	Change in 1958	Dec. 30, 1959	Change in 1959*
Loans	4,209	4,347	+138	4,911	+564
Investments	3,174	3,589	+415	3,321	-268
Total earning assets	7,383	7,936	+553	8,232	+296
Deposits (less cash items in process of collection) ...	8,032	8,549	+517	8,710	+161

* Through December 30.

first six months of 1959 indicate the trend. Comparison with a year earlier showed a pronounced increase in total earnings, principally from loan portfolios, and a partly offsetting increase in current expenses. Higher net current earnings did not tell the whole tale; adjustments changed the picture materially. Charge-offs and losses were heavier than in early 1958, and profits on securities dropped sharply. These developments were only partly balanced by lower income tax payments. Net profits available for distribution were down materially from the level a year earlier, when profits on securities were exceptional, but were more in line with experience in other recent years.

Reserve Bank operations

Lending operations of the Reserve Bank were more active in 1959. While exceeded in some of the other postwar years, credit extended to member banks increased to a daily average of \$42 million in 1959 from \$13 million in 1958. Moreover, the number of banks accommodated—224—was the largest in any year since the early 1930's, despite a reduction in the total number of members as a result of mergers and consolidations.

Service operations of the Bank showed diverse changes from 1958 to 1959. In number, the volume of checks handled increased moderately, and increases also were reported in transfers of funds and in the processing of depository receipts for withheld taxes. But the record shows declines in the number of pieces of currency and coin counted, in postal money orders, non-cash collections, and in the handling of postmasters' deposits. Plus signs predominate in the dollar figures. Particularly significant was the growth in transfers of funds from \$49 billion in 1957 and \$59 billion in 1958 to nearly \$70 billion in 1959. This growth in transfers doubtless

was due in part to the increasing use of federal funds transactions as a means of adjusting reserve positions. Fiscal agency operations involving marketable securities also increased markedly, a reflection of numerous issues for cash and extensive refunding operations during 1959.

Of special interest is the designation of this Bank as one of five Reserve Banks to test pilot installations of high-speed electronic equipment for processing checks. This affords us the opportunity to observe and test the effectiveness of such equipment for the handling of checks having magnetic ink imprints. Cooperation from banks and business concerns is necessary for continued progress in the adoption of such checks, as recommended by the American Bankers Association. Testing of the new equipment is particularly timely as a rising tide of paper checks is anticipated. Our selection is part of a System program to evaluate equipment that will enable the Reserve Banks to continue to improve their services to member banks.

Bank and public relations activities of the Bank represent its response to the very real public interest in the Federal Reserve System and its operations. This response includes visits to banks, addresses, and compliance with requests for tours, films, coin exhibits, and publications. There was a substantial increase in the number of tours through the Bank conducted for organized groups. Chapters of the American Institute of Banking accounted for about one-fourth of the 2,000 visitors. In December an experimental two-day conference was held for second echelon officers of member banks with deposits of \$8–15 million. At this conference many facets of bank operations were discussed, particularly those involving relations with the Reserve Bank, and economic developments were explored.

DIRECTORS AND OFFICERS

In the fall of 1959, Frederic A. Potts, President of the Philadelphia National Bank, was elected a Class A director by the banks in Group 1. He succeeds Geoffrey S. Smith and will serve for a term of three years beginning January 1, 1960. R. Russell Pippin was reelected as a Class B director by the banks in Group 2.

The Board of Governors of the Federal Reserve System appointed David C. Bevan, Vice President, Finance, of the Pennsylvania Railroad Company, as a Class C director for a term ending December 31, 1962. He succeeds Lester V. Chandler. Henderson Supplee, Jr. was reappointed Chairman of the Board of this Bank and Federal Reserve Agent for the year 1960, and Walter E. Hoadley, Jr. was named Deputy Chairman.

Casimir A. Sienkiewicz will continue as the District's representative on the Federal Advisory Council during 1960, under appointment by the Board of Directors of this Bank.

Effective January 1, 1960, Warren R. Moll, formerly Head of the Department of Collections, was appointed as an Assistant Cashier.

DIRECTORS AS OF JANUARY 1960

Group		Term expires December 31
	CLASS A	
1	FREDERIC A. POTTS President, The Philadelphia National Bank, Philadelphia, Pennsylvania	1962
2	WILLIAM B. BROSIUS President, National Bank of Chester County and Trust Company, West Chester, Pennsylvania	1960
3	O. ALBERT JOHNSON President, The First National Bank of Eldred, Eldred, Pennsylvania	1961
	CLASS B	
1	FRANK R. PALMER Chairman, The Carpenter Steel Company, Reading, Pennsylvania	1961
2	R. RUSSELL PIPPIN Treasurer, E. I. du Pont de Nemours & Company, Wilmington, Delaware	1962
3	BAYARD L. ENGLAND Chairman, Atlantic City Electric Company, Atlantic City, New Jersey	1960
	CLASS C	
	HENDERSON SUPPLEE, JR., Chairman President, The Atlantic Refining Company, Philadelphia, Pennsylvania	1961
	WALTER E. HOADLEY, JR., Deputy Chairman Treasurer, Armstrong Cork Company, Lancaster, Pennsylvania	1960
	DAVID C. BEVAN Vice President, Finance, Pennsylvania Railroad Company, Philadelphia, Pennsylvania	1962

OFFICERS AS OF JANUARY 1960

KARL R. BOPP
President

ROBERT N. HILKERT
First Vice President

JOSEPH R. CAMPBELL
Vice President

WALLACE M. CATANACH
Vice President

DAVID P. EASTBURN
Vice President

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

PHILIP M. POORMAN
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

JOHN R. BUNTING, JR.
Business Economist

EDWARD A. AFF
Assistant Vice President

HUGH BARRIE
Assistant Vice President

NORMAN G. DASH
Assistant Vice President

ZELL G. FENNER
Assistant Vice President

GEORGE J. LAVIN
Assistant Vice President
and Assistant Secretary

HARRY W. ROEDER
Assistant Vice President

JOSEPH M. CASE
Chief Examiner

RALPH E. HAAS
Assistant Cashier

ROY HETHERINGTON
Assistant Cashier

WILLIAM A. JAMES
Personnel Officer

WARREN R. MOLL
Assistant Cashier

FRED A. MURRAY
Director of Plant

HENRY J. NELSON
Assistant Cashier

RUSSELL P. SUDDERS
Assistant Cashier

HERMAN B. HAFFNER
General Auditor

STATEMENT OF CONDITION
FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted in dollar figures)	End of year		
	1959	1958	1957
ASSETS			
Gold certificate reserves:			
Gold certificates.....	\$1,050,113	\$1,037,847	\$1,182,730
Redemption fund—Fed. Res. notes.....	60,965	60,195	60,901
Total gold certificate reserves.....	\$1,111,078	\$1,098,042	\$1,243,631
Fed. Res. notes of other Fed. Res. Banks.....	43,544	47,991	38,556
Other cash.....	18,085	16,950	15,057
Loans and securities:			
Discounts and advances.....	43,055	6,720	5,490
Industrial loans.....	—	—	173
United States Government securities.....	1,517,281	1,509,042	1,384,545
Total loans and securities.....	\$1,560,336	\$1,515,762	\$1,390,208
Due from foreign banks.....	1	1	1
Uncollected cash items.....	394,830	332,939	345,425
Bank premises.....	4,036	4,245	4,513
All other assets.....	14,638	8,181	12,740
Total assets.....	\$3,146,548	\$3,024,111	\$3,050,131
LIABILITIES			
Federal Reserve notes.....	\$1,807,990	\$1,751,391	\$1,738,756
Deposits:			
Member bank reserve accounts.....	892,994	863,417	874,740
United States Government.....	37,645	22,996	30,221
Foreign.....	22,968	16,215	23,870
Other deposits.....	32,548	4,013	12,955
Total deposits.....	\$ 986,155	\$ 906,641	\$ 941,786
Deferred availability cash items.....	281,609	275,287	279,334
All other liabilities.....	1,513	1,253	623
Total liabilities.....	\$3,077,267	\$2,934,572	\$2,960,499
CAPITAL ACCOUNTS			
Capital paid in.....	\$ 22,819	\$ 21,894	\$ 21,192
Surplus—Section 7.....	45,638*	59,607	55,923
Surplus—Section 13b.....	—	—	4,489
Reserves for contingencies.....	824*	8,038	8,028
Total liabilities and capital accounts.....	\$3,146,548	\$3,024,111	\$3,050,131
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined....	39.8%	41.3%	46.4%
Commitments to make industrial advances.....	—	—	\$ 26

* Net of adjustments authorized by Board of Governors of the Federal Reserve System.

EARNINGS AND EXPENSES

FEDERAL RESERVE BANK OF PHILADELPHIA

(000's omitted)	1959	1958	1957
Earnings from:			
U.S. Government securities.....	\$ 48,848	\$ 42,317	\$ 43,036
Other sources.....	1,510	341	2,172
Total current earnings.....	\$ 50,358	\$ 42,658	\$ 45,208
Net expenses:			
Operating expenses*.....	\$ 7,006	\$ 6,810	\$ 6,494
Cost of Federal Reserve currency.....	343	210	211
Assessment for expenses of Board of Govern- ors.....	427	408	528
Total net expenses.....	\$ 7,776	\$ 7,428	\$ 7,233
Current net earnings.....	\$ 42,582	\$ 35,230	\$ 37,975
Additions to current net earnings:			
Profits on sales of U.S. Government securities (net).....	\$ 11	\$ 10	\$ 10
Transferred from reserves for contingencies (net).....	7,208**	—	—
Reimbursement for fiscal agency expenses incurred in prior years.....	—	—	113
All other.....	3	—	—
Total additions.....	\$ 7,222	\$ 10	\$ 123
Deductions from current net earnings:			
Reserves for contingencies.....	\$ —	\$ 10	\$ 14
Retirement system (adjustment for revised benefits).....	—	—	604
All other.....	3	1	1
Total deductions.....	\$ 2	\$ 11	\$ 619
Net additions or deductions (—).....	\$ 7,220	\$ —1	\$ —496
Net earnings before payments to U.S. Treasury..	\$ 49,802	\$ 35,229	\$ 37,479
Dividends paid.....	1,349	1,294	1,263
Paid to U.S. Treasury (interest on Federal Re- serve notes).....	62,421	30,541	32,594
Transferred to or deducted from (—) Surplus....	\$ —13,968**	\$ 3,393	\$ 3,622

* After deducting reimbursable or recoverable expenses.

** Net of adjustments authorized by Board of Governors of the Federal Reserve System.

VOLUME OF OPERATIONS
FEDERAL RESERVE BANK OF PHILADELPHIA

	1959	1958	1957
Number of pieces (000's omitted)			
Collections:			
Ordinary checks*	173,600	168,000	162,800
Government checks (paper and card)	24,200	26,400	46,600
Postal money orders (card)	17,900	19,700	21,900
Non-cash items	700	800	1,000
Clearing operations in connection with direct sendings and wire and group clearing plans**			
Transfers of funds	742	792	864
Currency counted	133	119	115
Coins counted	299,200	303,100	314,600
Discounts and advances to member banks	491,100	511,500	425,000
Depository receipts for withheld taxes	2	1	2
Postal receipts (remittances)	505	492	486
Fiscal agency activities:	328	347	423
Marketable securities delivered or redeemed	353	334	345
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including re-issues)	7,536	7,930	8,944
Redemptions	6,766	6,223	7,461
Coupons redeemed (Government and agencies)	953	941	906
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	\$ 64,300	\$ 61,100	\$ 63,206
Government checks (paper and card)	4,974	4,890	5,876
Postal money orders (card)	287	306	337
Non-cash items	157	140	156
Clearing operations in connection with direct sendings and wire and group clearing plans**			
Transfers of funds	33,267	31,004	31,194
Currency counted	69,826	58,972	49,315
Coins counted	2,074	2,072	2,120
Discounts and advances to member banks	52	52	45
Depository receipts for withheld taxes	6,262	1,559	11,903
Postal receipts (remittances)	1,981	1,806	1,799
Fiscal agency activities:	842	825	870
Marketable securities delivered or redeemed	12,771	10,832	10,798
Savings bond transactions— (Federal Reserve Bank and agents)			
Issues (including re-issues)	382	413	444
Redemptions	531	462	620
Coupons redeemed (Government and agencies)	128	112	101

* Checks handled in sealed packages counted as units.

** Debit and credit items.

*Additional copies of this issue are available
upon request to the Department of Research,
Federal Reserve Bank of Philadelphia,
Philadelphia 1, Pa.*