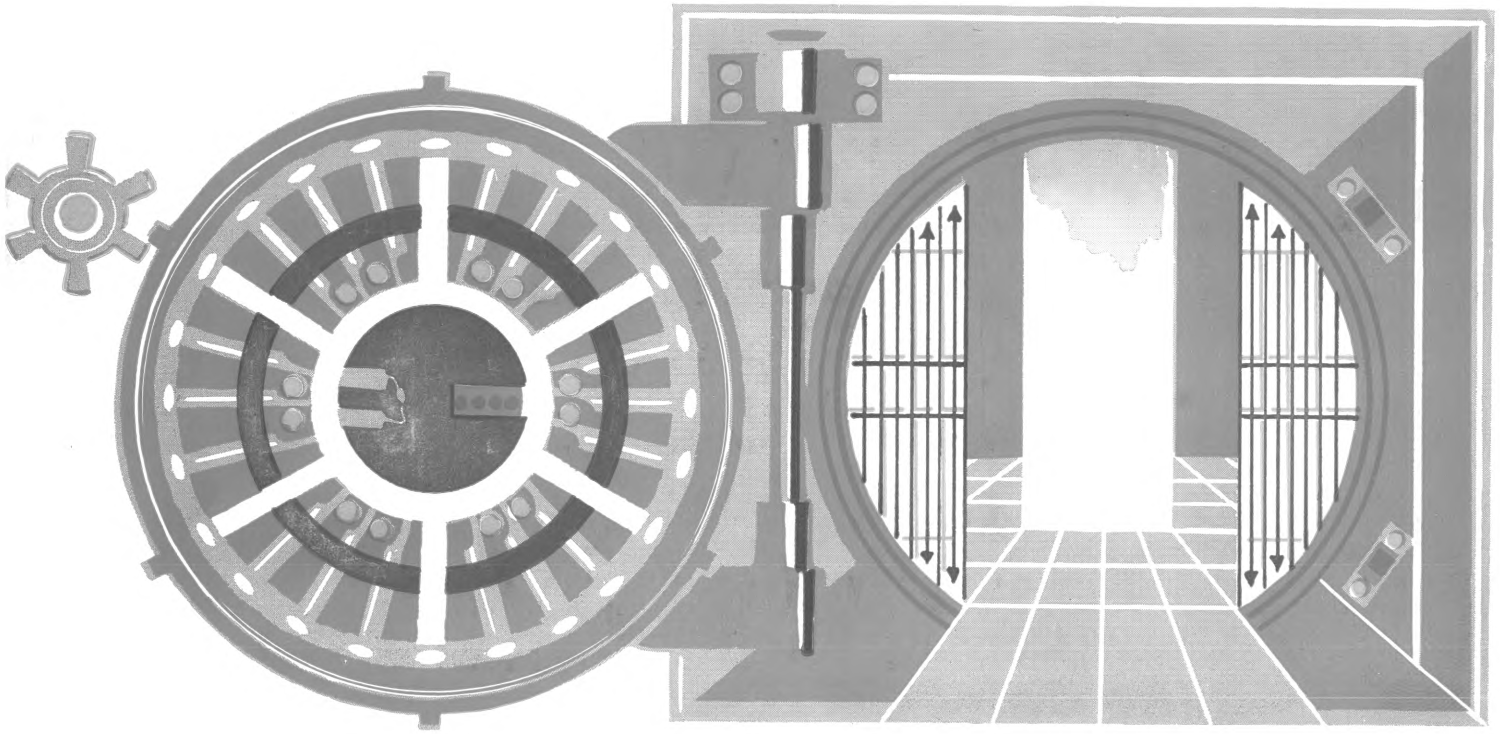


THIRTY-NINTH ANNUAL REPORT

FEDERAL RESERVE BANK OF RICHMOND

1953

THIRTY-NINTH ANNUAL REPORT

OF THE

FEDERAL RESERVE BANK

OF RICHMOND

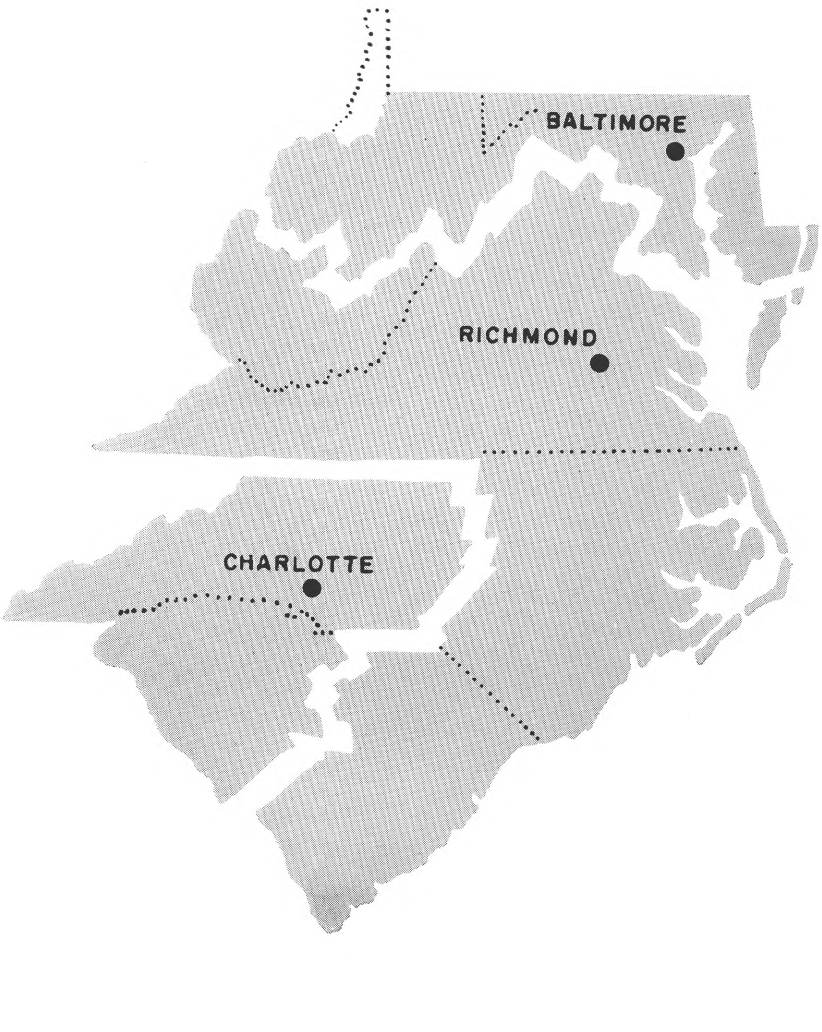
WITH BRANCHES IN

BALTIMORE AND CHARLOTTE

SERVING THE

FIFTH FEDERAL RESERVE DISTRICT

Contents



TO THE MEMBER BANKS

Once again we are pleased to present to you, our stockholders, a report on the major activities of this bank during the preceding year. As in the past two years, we have attempted to make this informal report more than the mere recitation of figures which many of you have already seen in our Annual Statement.

It is hoped that this type of report—with its brief commentaries on business and banking during 1953, descriptive notes on the major developments in the bank itself and a few sidelights on the significance of the operating figures—will provide a clearer picture of what goes on within the Federal Reserve Bank of Richmond and, at the same time, point up the part played by this bank in the economy of the Fifth Federal Reserve District.

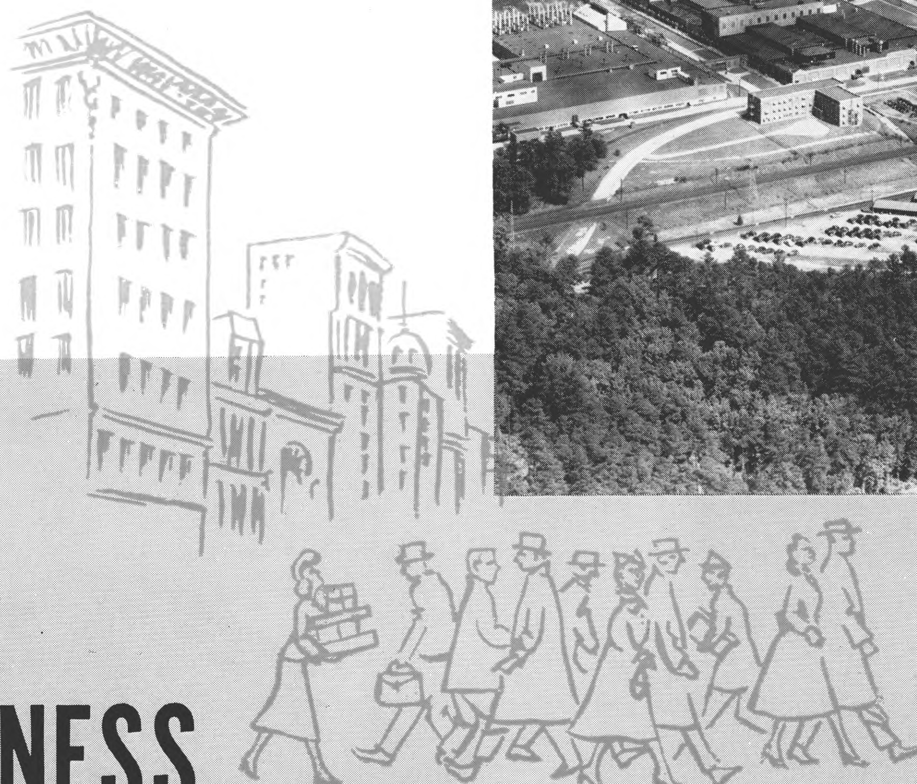
On behalf of the directors, officers, and staff of the bank I again extend appreciation for the cooperation accorded us by the member banks of this District.

Sincerely yours,

Hugh Leach

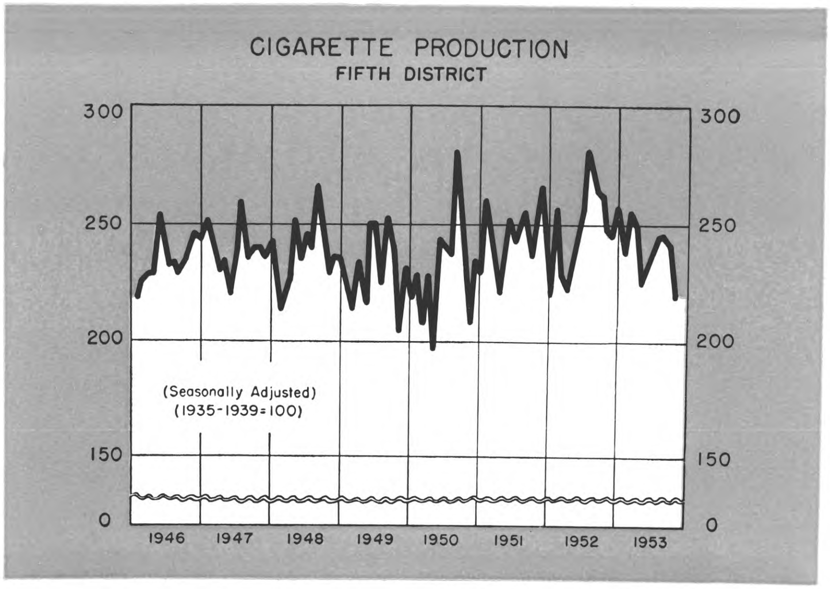
President

In the future when we speak of "the good old days," we are not likely to exaggerate so far as 1953 was concerned. The plus signs far outweighed the minuses. Economic activity, like the climbers of Mt. Everest in 1953, scaled new heights while, in the opposite direction, unemployment plumbed new depths. Based on an upsurge that began in the Fall of 1952 and hit a peak the following Summer, the output of goods and services during 1953 set another record in both dollar amount and physical volume.



BUSINESS AND BANKING IN 1953

The 1953 area of the above chart records an unusual episode in the long success story of cigarettes. Instead of the usual moderate rise in consumption, a slight decline occurred during 1953. Despite the boom performance of production in general last year, cigarette production in the Fifth District was off about 5%.



BUSINESS AND BANKING IN 1953

The major streams of spending all rose to contribute to a rise of approximately $19 billion in the value of all goods and services produced, swelling the latter to the highest point in our history. Individual consumers spent almost $11 billion more than they did in 1952; business enterprise boosted its aggregate outlays by almost $2 billion; and total government expenditures reached a record peacetime high about $7.4 billion over the preceding year. 1953 was **the** boom year of the long boom period.

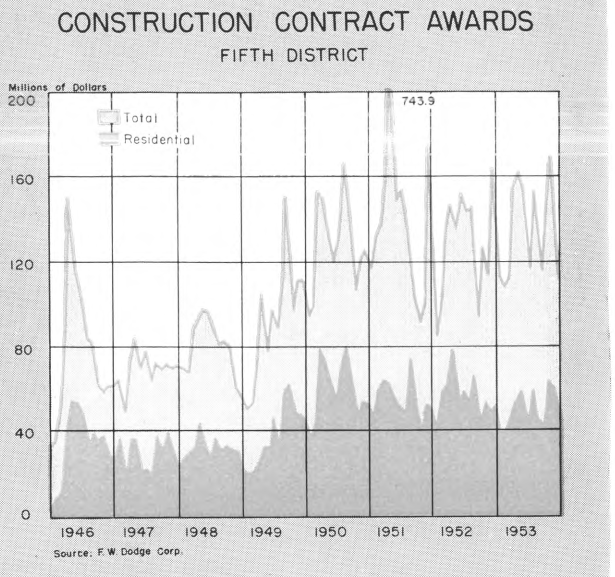
An important difference in the expansion of the economy last year as compared with the preceding two years was that growth in 1953 rested primarily on increased **private** spending. In 1951 and 1952, on the other hand, outlays for defense purposes accounted for about half the increase in all goods and services. That was an important difference, for it meant that more of the nation's production was for personal and business uses and thus raised our standard of living that much higher.

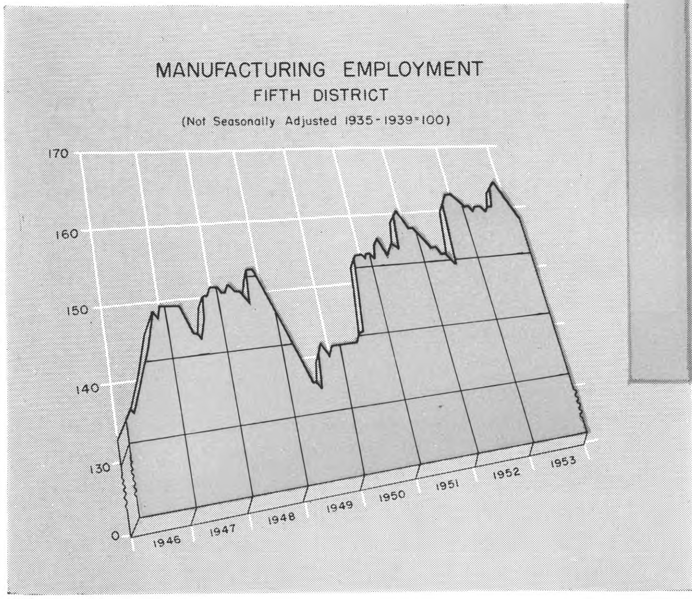
In Our Stride

For the past few years there has been a "mourners' bench" of diehards who kept croaking, "It can't last forever." They were referring to the high level of business activity and were implying that it would soon be followed by severely depressed conditions. Their forebodings were based mainly on such reasoning as, "What goes up must come down." There has been, of course, general agreement that the boom wouldn't go on forever, but its cessation wasn't anticipated willy-nilly, and most bankers and businessmen did not look for it to be replaced by a knock-down, drag-out depression. As one Fifth District business leader expressed it a year ago this time, "I think we shall have some downturn in 1953, but I don't expect anything so serious that we shall not be able to take it in our stride." The record of 1953 proved that to be a "smart" forecast.

A banker in this District recently wrote to us about downtrends in business activity evident at year-end. He said, "The main

It is often argued that total business activity is not likely to decline sharply while construction work is still strong. If true, it's a good sign for the District since construction contract awards here in the fourth quarter of 1953 ran close to the peak for the year. Total construction contracts awarded in this District were 4.8% ahead of 1952, as compared to a 37-state gain of 3.9%. Residential awards, however, declined 10% in the District and 2.6% nationally.





Manufacturing employment in 1953 reached the highest point in the history of this five-state area. At 163 last September the District index of manufacturing employment exceeded the previous record of 161 set a decade earlier when the war-time economy was at the zenith of its economic achievement. However, 1953 marked also the first time since the recession-year 1949 that factory employment wound up the year at a lower level than existed at the opening of the year.

thing about a recession or readjustment, or whatever you economists call it, is that it would reflect a movement away from extremes in business sentiment as well as in business activity. I think that would be a healthy change." Extremes in business attitudes involve immoderate and unreasonable expectations—a boom or bust philosophy.

As 1953 closed shop, business sentiment and expectations were not marked by extremes. In general, moderate attitudes prevailed despite the sharp contrast between the volume and trend of business during the last few months of the year and the record for the full year. One of the interesting developments toward the close of 1953 was the rising optimism on the part of businessmen—concurrently with reports of production cutbacks, employment layoffs, declining order backlogs, and inventory difficulties in this or that line.

Such optimism in the midst of less optimistic trends seemed to have considerable support. That the bloom was off the boom was generally recognized, but it wasn't interpreted as evidence of a forthcoming depression. In general, it was regarded as an interim of adjustments from peak activity that would mark the completion of the transition from a sellers' market to a buyers' market and the return of competition from its limbo of the past decade and more. The prevalent view of the situation was that we were in a short-run adjustment to more "normal" conditions, but that in the long-run we seemed to be still on the way up.

Banking—At Record Levels

For Fifth District member banks, the year 1953 was one of sustained operations at record levels. It was, however, a year of slackening rate of growth. Total assets of the member banks increased during 1953, but at a rate less than one-sixth that in 1952.

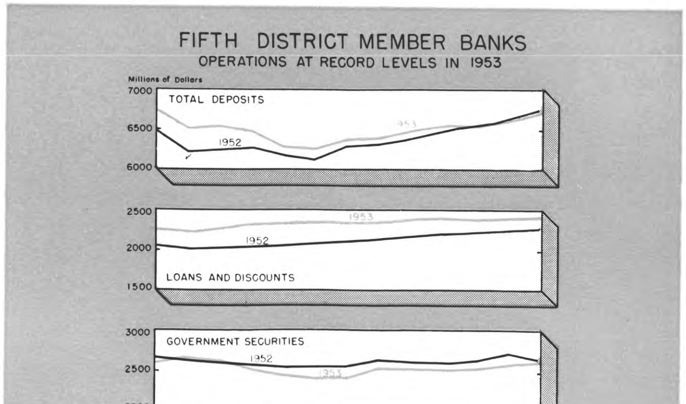
The primary cause of the failure to expand as rapidly as in 1952 lay in the decisions of bank borrowers. Although borrowers' demands for credit were at the highest level ever reached, their demands did not expand to as great an extent as in the year before. The banks' loan expansion was only about 6 per cent as compared with an 11 per cent growth in 1952. The sharpest difference between the two years is found in the usually expanded demand for bank credit in the Fall and early Winter months. In 1952, this demand from both business firms and consumers was sharply above expectations. In 1953, demands were much weaker than expected—although still at a very high level.

The increase in consumer loans over the last three months of 1953 was only about one-third the increase in the comparable period of 1952. The change in the growth of commercial and industrial loans was even more striking. From September 30 through December 31, 1953, repayments on outstanding business loans were greater in total amount than the sum of all new loans made so that the amount on the books of the banks declined. In the same period of 1952, this group of loans expanded by 11 per cent.

Bankers started the year with fairly tight credit conditions which continued to tighten over the first four months. Free reserves were relatively scarce and to gain additional reserve funds the banks resorted to borrowing from the Federal Reserve. During this period, demand for credit was strong and interest rates all along the line were pushed upward. Beginning in early May the Federal Reserve began purchasing Treasury Bills as a measure to ease the money tightness and, in the first half of July, the Board of Governors lowered reserve requirements in anticipation of seasonal and Treasury credit needs. During the relatively tight money situation over the first half of the year the District's member banks sold almost one-tenth of their Government securities as a means of easing their reserve needs. By July, however, reserve conditions had changed to such an extent that it was possible for these banks to purchase Government securities in an amount equal to 60 per cent of those they had sold over the first six months. The banks ended 1953 with holdings of Governments just two per cent under the amount held at the beginning of the year.

Total deposits at the District's member banks experienced an unusually sharp decline over the first five months of 1953. By the end of May they had dropped 7 per cent below their level at the beginning of the year. By year's end, however, total

Banking in the Fifth District in 1953 was characterized by sustained operations at record levels. The rate of growth during the year was under that of 1952, but member banks closed the year with total loans on their books about 5% greater in amount than they had at the beginning of the year. In spite of the moderate loan expansion, however, total deposits at District member banks declined over the year.



deposits had climbed back to just slightly above the amount on the banks' books a year earlier. Demand deposits, considered alone, actually declined over the year—the first annual decline since 1949.

Because of a slightly higher dollar level of earning assets during 1953 and higher interest rates effective over much of the year, gross bank earnings in 1953 set an all-time record. Increased operating costs and a higher tax bill, however, kept net profits from rising in the same proportion.

The District's member banks earned the largest gross income in 1953 that has ever been recorded. They also paid the largest expense bill in their experience. Operating expenses of the average bank took 63.7 cents of every dollar of current earnings—leaving a net of 36.3 cents per earnings dollar. Provision for bad debt losses and payment of Federal income taxes absorbed an additional 15.3 cents out of the gross earnings dollar—leaving a net profit to the stockholders of 21.0 cents from each dollar their bank earned from the year's operations. This represents the smallest share of total earnings accruing to the benefit of the stockholders in any of the postwar years. It is well under the peak of 28.9 cents per earnings dollar the stockholders of the average bank realized in 1947.

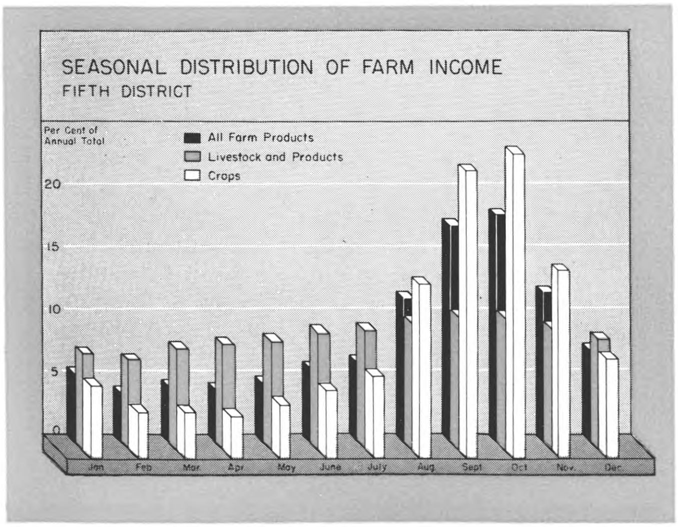
The net profits figure for 1953, for the average bank in this District, represented a net capital return of 8.3 per cent. The banks declared 38.8 per cent of their net profits as cash dividends in 1953, giving the stockholders a cash return on their capital equity of 2.9 per cent, slightly under the 3 per cent rate which had been maintained in the preceding three years.

In 1953, one-third of all the assets of the average member bank consisted of loans to customers. This one-third of total assets provided almost two-thirds of total earnings—60.7 cents of every earnings dollar. Over one-third of all assets was in the form of U. S. Government securities, but this one-third contributed less than twenty-five cents to each earnings dollar.

On the expense side, the amount of interest paid on time deposits took a real spurt in 1953. Thirteen and a half cents of each earnings dollar went to meet this mounting cost; in 1952 interest payments took 12.5 cents per dollar of earnings. A portion of the increased cost resulted from larger amounts held on deposit in savings accounts at the District's member banks A greater portion, however, probably came from a higher rate of interest paid by many of the banks in keeping with other interest rate developments.

Farmers' Income Declined

Fifth District farmers had a further drop in farm income in 1953 for the second consecutive year. The level of farm product prices has been falling most of the time since the post-Korean peak was reached in early 1951, while prices paid by farmers have dropped to a much smaller extent. Farm income has been lower despite the generally high over-all level of farm marketings.



Fifth District farm income from livestock and livestock products was fairly evenly distributed throughout the year. Income from crops was unevenly distributed, with nearly three-fourths coming within the four month period of August-November. Since about three dollars out of five come from crops, the seasonal pattern for total farm income rather closely resembles the pattern for crops.

A

Taking one consideration with another, the year 1953 was a memorable one for the Federal Reserve Bank of Richmond and its Baltimore and Charlotte branches. As it was a year of record or near-record business in the Fifth District, so was it a year of record or near-record busy-ness at the Federal Reserve Bank and branches that serve the District.

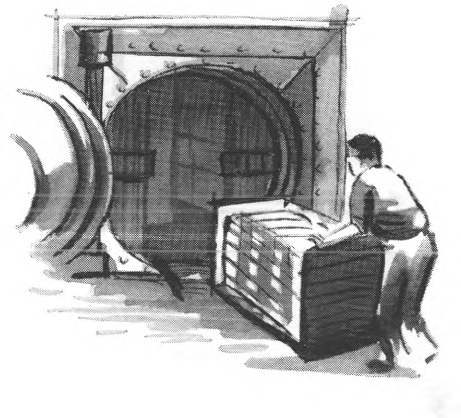
The figures on the volume of principal operations on Page 20 show an increase in activity in almost every item. The comparative statements on Pages 22 and 23 also reflect a busy year. But these figures represent only the routine things—for almost two score years the bank has handled checks, shipped money, reported earnings, and paid dividends—and the only remarkable thing about them is the evidence of satisfying and, it could be said, astonishing growth.

Other things, operational and otherwise, took place during the year. For instance:

In July the Federal Reserve Bank of Richmond became the nerve-center of the Federal Reserve System's Leased Wire network. This operation is described on Pages 8 and 9 of this report.

In the same month the bank, as a service to the Treasury, took over the destruction of unfit United States Notes and Silver Certificates for the Fifth District. This procedure is outlined on Page 15.

YEAR'S ACTIVITY



Toward the close of the year the bank was setting up a new office to accept and hold deposits of the thousands of post offices of the Fifth District.

Outside the operational field there were other new departures. For instance:

Early in the year the bank produced an educational motion picture—a treatise on the ups and downs of the dollar called "Your Money's Worth." (See Page 18.)

In June, for the first time in history, the Conference of Presidents of the Federal Reserve Banks met here. The president of this bank is the chairman of that organization which is instrumental in the development of Federal Reserve policy.

In December the bank conducted a Central Banking Seminar for teachers of money and banking in Fifth District colleges.

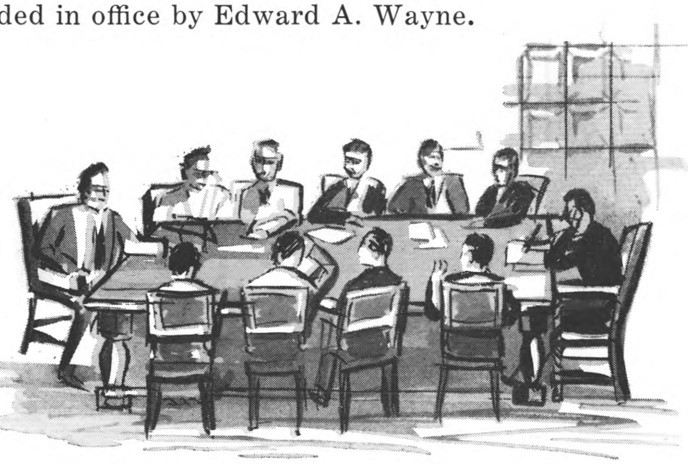
The end of 1953 brought to an end seventeen years of service to the bank by Charles P. McCormick, who retired as a director and chairman of the board.

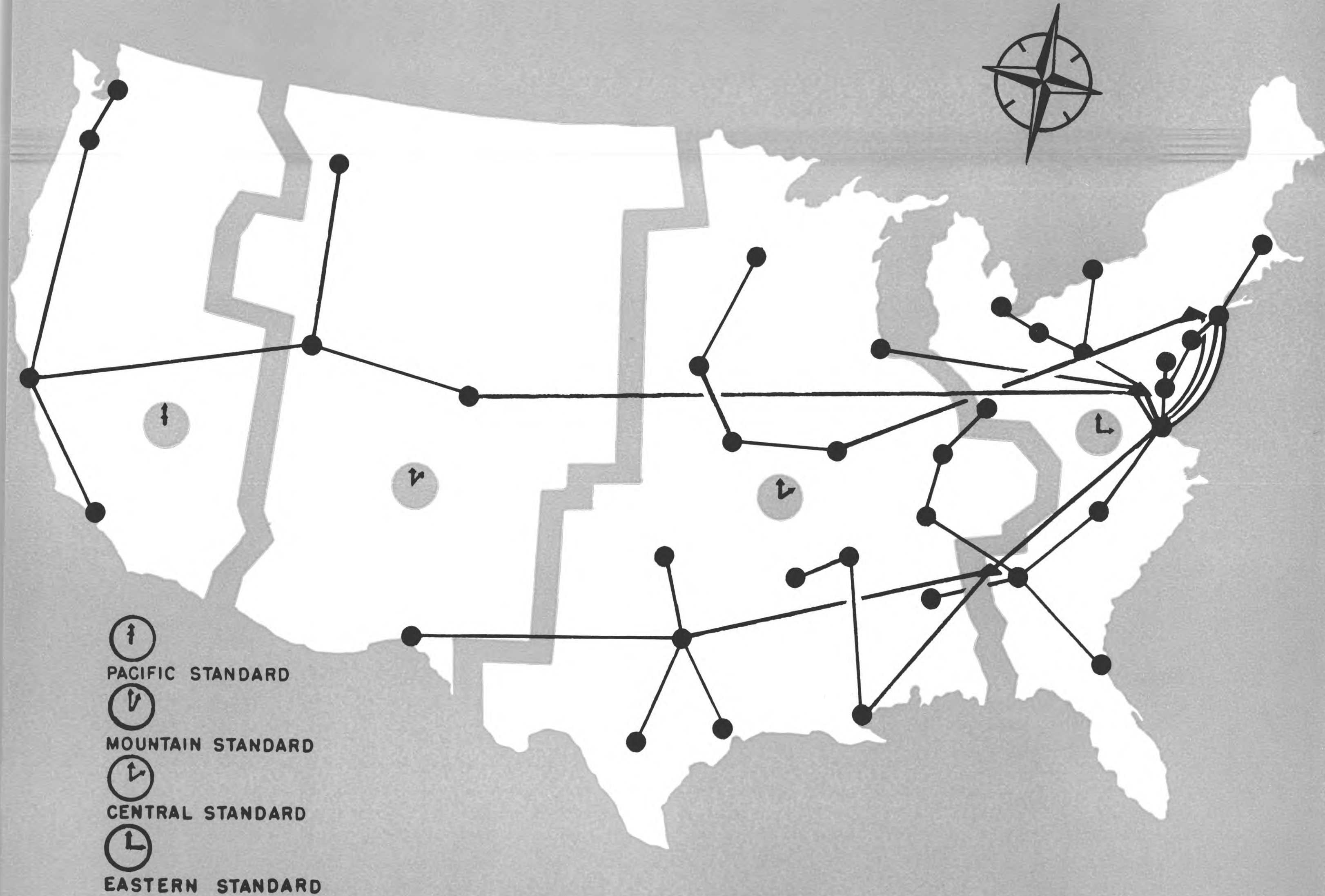
He was succeeded as chairman and Federal Reserve Agent by John B. Woodward, Jr., chairman of the board of the Newport News Shipbuilding and Dry Dock Company, a Class C director and deputy chairman since 1949. W. G. Wysor, management counsel of Southern States Cooperative, Inc., Richmond, a Class C director since 1937, was named deputy chairman. Alonzo G. Decker, Jr., vice president of the Black and Decker Manufacturing Company, was appointed a Class C director.

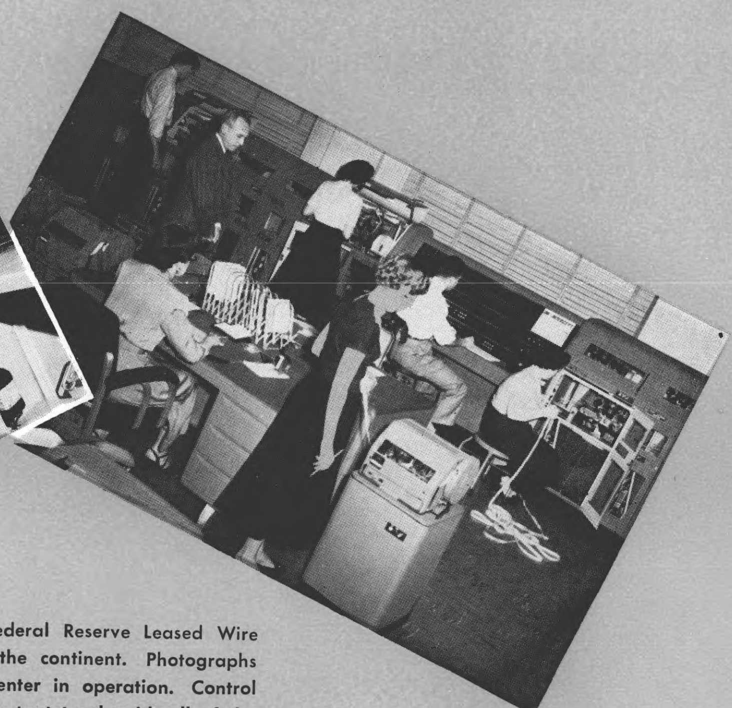
In November the member banks elected Wm. A. L. Sibley, vice president and treasurer of Monarch Mills, Union, South Carolina, a Class B director to succeed Cary L. Page, president and treasurer of Jackson Mills, Wellford, South Carolina, who retired from the board after six years of service on December 31. John A. Sydenstricker, executive vice president of the First National Bank in Marlinton, West Virginia, was re-elected to his fifth term as Class A director.

New directors named at the branches were, at Baltimore, Clarence R. Zarfoss, vice president of the Western Maryland Railway Company, appointed to succeed Mr. Decker on January 1, 1954, and, at Charlotte, T. Henry Wilson, president and treasurer of Henredon Furniture Industries, Inc., Morganton, North Carolina. [On January 8, 1954, William H. Grier, executive vice president of the Rock Hill Printing and Finishing Company, Rock Hill, South Carolina, was appointed to the Charlotte branch board.]

The year also brought the retirement of First Vice President John S. Walden, Jr. Mr. Walden had been with the bank for more than thirty-four years and had been first vice president since 1936. He was succeeded in office by Edward A. Wayne.







The above map shows the Federal Reserve Leased Wire System network which spans the continent. Photographs are views of the Switching Center in operation. Control panel keeps the operator in constant touch with all of the points on the network.

One of the Federal Reserve Banks' major contributions to the efficiency of the American banking system, and one little known to the public generally, is the operation of the Federal Reserve Leased Wire network for the quick transfer of funds. Millions of dollars in bank credit are shifted about the country daily—in a matter of minutes—over this network.

In 1953, with the installation of a new electronic Switching Center here, the Federal Reserve Bank of Richmond became the headquarters of this vast complex, which links together forty-six stations in thirty-seven cities throughout the nation, bringing the twelve Federal Reserve Banks and their twenty-four branches—and through them the nearly 7,000 commercial member banks—within seconds of each other. In addition, the Leased Wire system serves the Federal Reserve System's Board of Governors, the Washington and Chicago offices of the United States Treasury, and the Reconstruction Finance Corporation and the Commodity Credit Corporation.

Astronomical figures are commonplace to the people concerned with the Leased Wire operation. Over this network in 1953 a total of $788,211,526,290.57 was transferred. Seven hundred and eighty-eight billion dollars is almost three times the size of the national debt. It is almost $5,000 for every person in the United States.

As a service to its member banks of the Fifth District, the Federal Reserve Bank of Richmond in 1953 handled 86,675 of their messages, transferring $33,048,412,526.69 in funds via the Leased Wire. That was an average of some $130,000,000 daily.

This, in outline, is the transfer procedure: A customer of a member bank in North Carolina needs to get $5,000 to Minneapolis quickly to complete a business deal. His bank asks the Federal Reserve Bank to transfer the funds. The Federal Reserve Bank, deducting the $5,000 from the member bank's reserve account here, wires the Minneapolis Reserve Bank to credit the sum to the account of the designated bank there, with notice that it is for the concern with which the North Carolinian is transacting his business. The entire operation might be handled in less than half an hour.

The Leased Wire service is not new, but the system inaugurated in 1953 is new and unique. Developed by the Bell Telephone Laboratories and provided to the Federal Reserve under contract by the American Telephone and Telegraph Company, it is a teletypewriter communications system almost entirely automatic in operation. A coded message typed at the Jacksonville branch of the Atlanta Federal Reserve Bank, for example, is fed into a machine on punched tape and is transmitted instantly at a rate of 75 words a minute to any one, several, or all of the stations on the network, passing through the Switching Center at Richmond to its destination "untouched by human hand."

SWITCHING CENTER

TRANSIT

During the course of a year hundreds of visitors are taken on guided tours of the Federal Reserve Bank of Richmond and its Baltimore and Charlotte branches, the visitors including bankers, business people, women's groups, college classes, high school students, and occasionally some younger fry, like the lively pack of Cub Scouts that came into the Head Office recently. These lads were particularly interested in the shooting irons of the Protection Force and the fascinating gadgets in the furnace room and repair shops, but to avoid short-circuiting their educational tour the guides took them also through some of the banking areas, among these the Transit, or check collection, Department.

Here the guide remarked casually that figures indicating the total dollar amount of the checks that would be handled by the bank and its branches in 1953 would probably add up to more than $70 billion.

Said one of the young tourists, incredulously: "There ain't that much money!"

Well, there ain't. At least not in folding money and jingling coin. The total volume of currency and coin in circulation late in 1953 was some $30,807,000,000 for the United States as a whole.

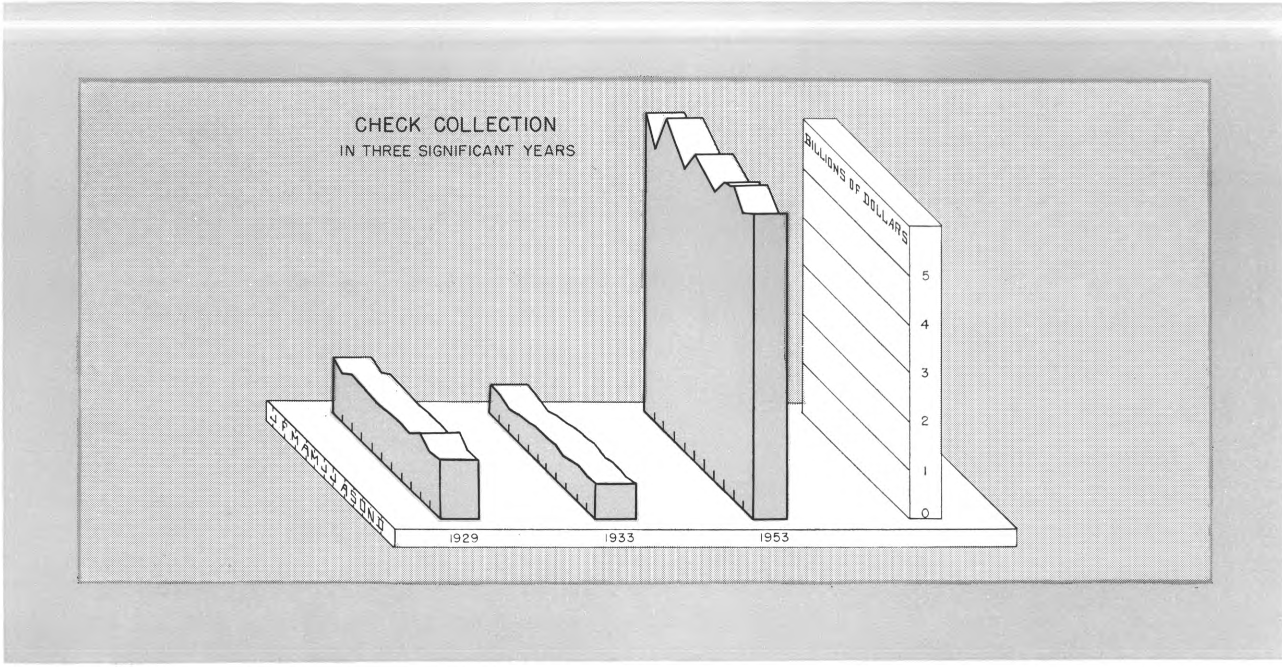
The important thing is, though, that that $70 billion—in credit—does exist, does flow, and that the business of handling money in the form of checks is one of the most significant features of the American banking system and, for that matter, the familiar American way of life.

As it turned out the bank and its branches in 1953 collected the huge total of $73,205,707,000 in checks, almost $5 billion more than in 1952, the previous record year. That was a daily average (299 days) of $244,835,140. The average amount per item was $333.

Acres of Checks

The total represented 219,709,000 individual pieces of paper, an increase of ten million over 1952. Laid end to end these pieces of paper would make a continuous ribbon some 21,000 miles long; spread out as a single sheet they would cover an area of some 420 acres, almost five times the size of the average Fifth District farm.

A breakdown of the figures by office shows that the Richmond Head Office handled 112,985,000 checks amounting to $39,011,318,000; Baltimore 60,859,000 amounting to $16,342,211,000; and Charlotte 45,865,000 amounting to $17,852,178,000.



The vast changes in the dollar amount of checks handled by the Federal Reserve Bank of Richmond and its Baltimore and Charlotte branches is illustrated in this chart, which shows the month by month totals for the boom year 1929, the deep depression year 1933, and the most robust boom year of all time, 1953. Total amount in 1929 was $14,118,820,000; in 1933 it was $7,659,951,000, and in 1953 it was $73,205,707,000.

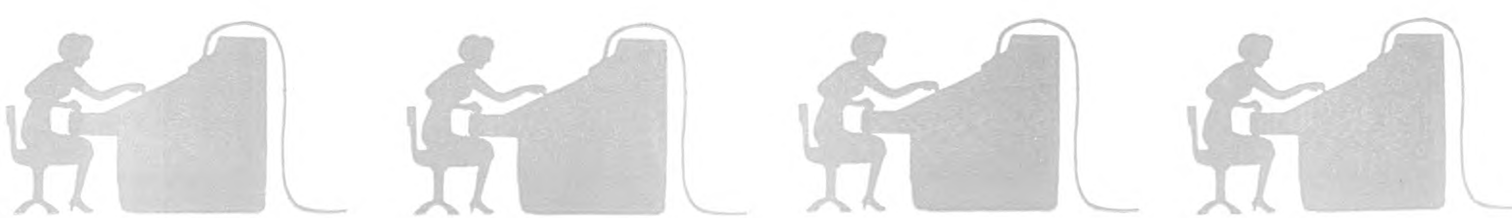
A significant clutch of figures, these point up a number of things that are taken as commonplace in the American economy—for instance, the whopping amount of money that flows about the country constantly in the form of checks and the part played by the Federal Reserve Banks in simplifying and expediting this steadily increasing flow.

A hundred years ago actual currency and coin were in much more general use in the transaction of business. Since then the use of bank deposits has increased to such an extent that some 90 per cent of the nation's business today is carried on by check payments—the estimated dollar volume of checks written in the United States in a year is upward of $1,750,000,000,000 (one and three-quarters trillion dollars).

The Travels of a Check

The use of bank deposits is facilitated by the services of the Federal Reserve Banks in clearing and collecting checks through the reserve accounts of member banks. This is the way that system operates:

Suppose a shoe manufacturer in Lynchburg, Virginia, sells $1,000 worth of shoes to a dealer in Dry Gulch, Texas, and receives in payment a check on a bank in Dry Gulch. The check is an order on the Dry Gulch bank to pay the Lynchburg concern $1,000. The Lynchburg manufacturer does



TRANSIT

not want to travel to Texas to get his money, nor does he want to pay postage and insurance on a shipment of currency. He does not ordinarily want currency at all. What he wants is to have the $1,000 credited to his bank account. So he deposits the check in his bank. The Lynchburg bank does not want currency for the check; it wants credit in its reserve account at the Federal Reserve Bank of Richmond.

So it sends the check to the Richmond Reserve Bank. There the check is proved and recorded and forwarded, along with others drawn on banks down Texas way, to the Federal Reserve Bank of Dallas, which in turn sends it along to the bank in Dry Gulch. The Dry Gulch bank charges the check to the account of the depositor who wrote it, and either remits the amount to the Dallas Reserve Bank or authorizes the Reserve Bank to charge the amount to the reserve account of the Dry Gulch bank. The Federal Reserve Bank of Dallas thereupon credits the Federal Reserve Bank of Richmond, and the Richmond Reserve Bank credits the account of the Lynchburg bank.

So, without the exchange of any folding money at all, the $1,000 from the bank account of the Dry Gulch merchant is transferred to the bank account of the Lynchburg manufacturer. And it doesn't take very long. The check itself gets prompt handling all along the way. From the time the Lynchburg firm deposits the check until it gets back home to be deducted from the Dry Gulch retailer's account is only three or four days, maybe a little longer if weather slows the air mail from Richmond to Dallas. **But** the Lynchburg bank and the shoe manufacturer get credit for the $1,000 within two days after the check reaches the Richmond Reserve Bank, since a system designed to expedite check collection enables the Reserve Bank to credit the account of the Lynchburg bank with the amount of the checks received according to a prearranged time schedule.

A Lot of Paper Work

Since promptness is so important in collecting checks, member banks with a considerable volume of checks payable in

other Federal Reserve districts may send those checks directly to the Federal Reserve Banks of those districts, in a sense bypassing the local Reserve Bank. The Lynchburg bank, therefore, might have sent the $1,000 check directly to the Federal Reserve Bank of Dallas, at the same time notifying the Richmond Reserve Bank of the action. The Richmond Reserve Bank would have credited the Lynchburg bank's reserve account, just as if the check had cleared through Richmond.

This same procedure is followed at the Baltimore and Charlotte branches, which handle the checks and hold the reserve accounts of the member banks in their respective territories.

With the hundreds of millions of dollars in checks constantly flowing, the collection procedure naturally involves a great deal of bookkeeping, of debiting here and crediting there. The Lynchburg bank got credit in its account in the Richmond Reserve Bank for the Dry Gulch merchant's $1,000 and for hundreds of other checks on the same day. But also on the same day its reserve account was charged for the many checks its customers had written. Constantly adjusting figures, the Federal Reserve Bank keeps tab to the penny each day on the amount in the reserve accounts of hundreds of member banks.

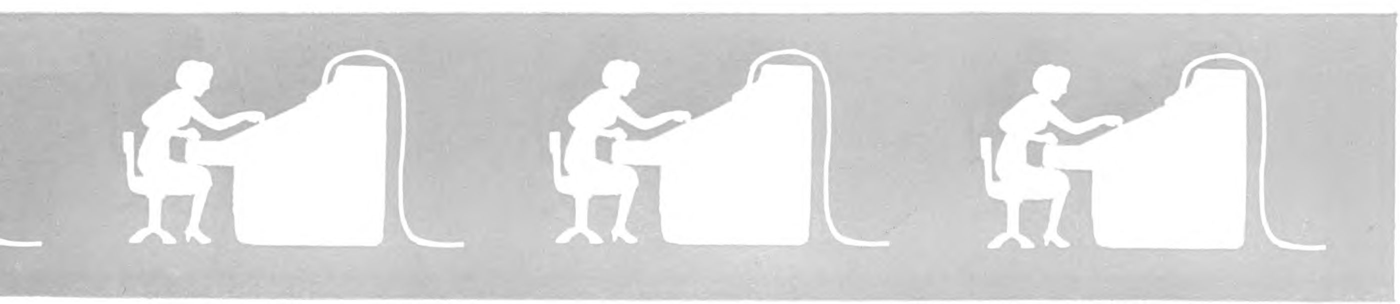
The Federal Reserve Banks themselves settle their accounts with each other daily, making telegraphic transfers of funds through the Interdistrict Settlement Fund in Washington. The Leased Wire network, mentioned on Pages 8 and 9 of this report, is kept humming by this daily adjustment.

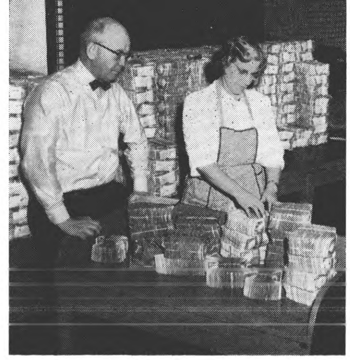
Collection Steadily Improving

The Federal Reserve Banks, working with the American Bankers Association and the commercial banks of the nation, have made great progress in simplifying and otherwise improving the process of clearing and collecting checks, in transferring money about the country. In days gone by it was necessary to ship currency and gold between financial centers—at great cost, great risk, and great loss of time. Now, with the Federal Reserve's constantly improving system, the means by which payments are made for goods and services and by which monetary obligations are settled is cheaper, faster, and safer.

Included in the work of the Transit Department is the handling of large numbers of Government checks, the dollar amount of which also runs into high figures. Last year the Federal Reserve Bank of Richmond and its two branches handled 30,781,000 of Uncle Sam's checks (armed forces, social security, etc.) in an amount totalling $5,634,901,000. Both totals exceeded the 1952 figures of 29,699,000 items amounting to $5,235,191,000.

Under a new procedure instituted in 1952 Transit also handles United States Postal Money Orders. Last year the bank and its branches processed 28,847,000 of these, $505,849,000 in dollar amount. The previous year's figures had been 29,427,000 items and $498,519,000.





MONEY

Further evidence of prosperity, or at least well-being, in the Fifth District in 1953 may be found in figures of the Money Departments of the Federal Reserve Bank and its Baltimore and Charlotte branches. In response to the demands of people for currency and coin these departments handled more than ever before. The total of $5,672,118,202 in currency and coin received and paid out exceeded 1952's record total by $105,369,776.

Interestingly, the gain was all at the Baltimore and Charlotte offices; the Head Office handled fewer dollars and cents than in 1952. In amount of currency received and paid out Richmond's total in 1953 was $2,837,655,487 against $2,861,933,184 in 1952; Baltimore's $1,571,117,783 against $1,503,242,647; Charlotte's $1,160,551,444 against $1,097,718,177.

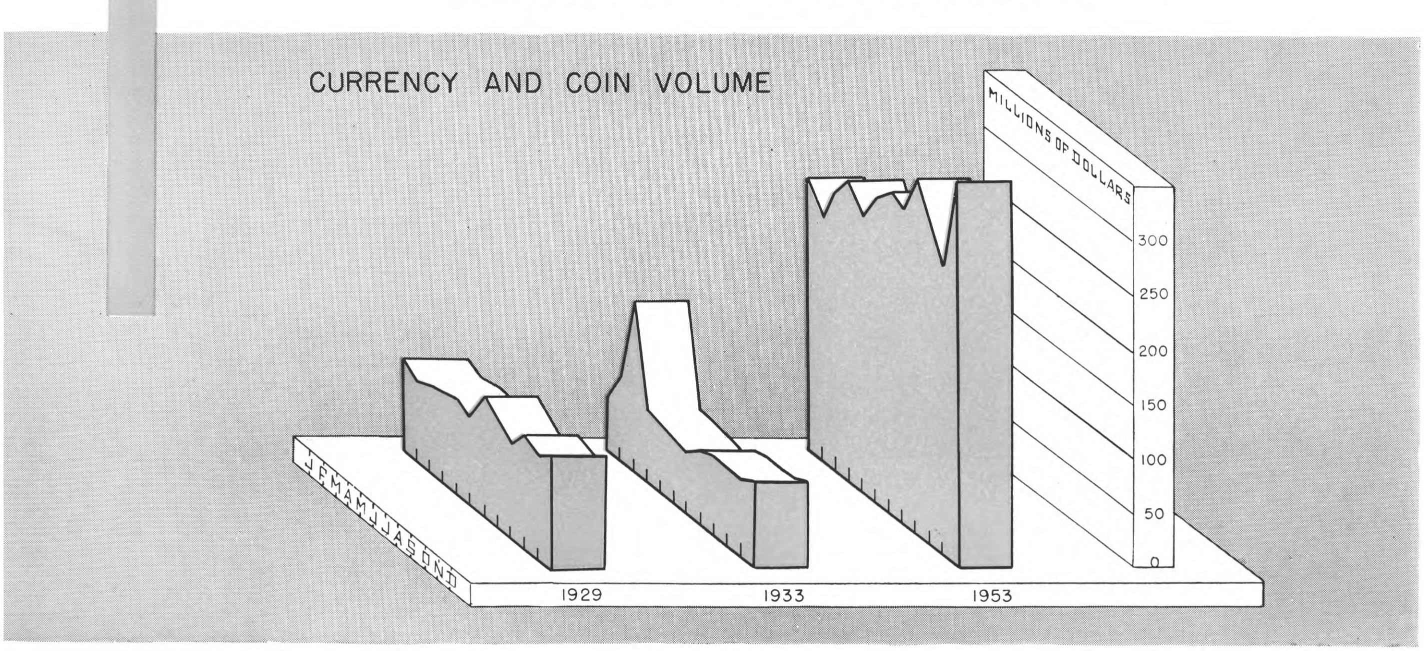
In coins received and paid out Richmond's total amounted to $23,334,653 against $34,808,342 in 1952; Baltimore's $64,073,440 against $54,615,290 in 1952; Charlotte's $15,385,395 against a total of $14,430,786 in 1952.

Thus Richmond's total "handle" of currency and coin received and paid out was down $35,751,386 from 1952; while Baltimore's was up $77,333,286 and Charlotte's up $63,787,876.

Reasons for the decline in the Head Office territory and the increases in the Baltimore and Charlotte areas are hard come by. They depend upon so many variable factors, not excluding even weather conditions, that pin-pointing them accurately is not possible.

It is possible, however, to relate the increase in the use of spending money to such things as the generally robust state of business and virtually full employment.

1929 was the peak year of the boom of the 1920s. 1933 was the darkest year of the great depression. 1953 was the biggest boom year the nation had ever known. The chart shows the marked contrast in the public's demands for currency and coin in those significant years, as represented in the dollar amount of currency and coin shipped to and received from member banks month by month by the Federal Reserve Bank of Richmond and its Baltimore and Charlotte branches.



"They have money to burn at the Federal Reserve Bank of Richmond. And that's what they're doing—burning $700,000 worth of money every working day."

So read the lead on a Page One story in a Richmond newspaper one day in 1953. The story caused quite a stir. It was the first public mention made in this area of the new currency destruction procedure worked out between the Treasury and the Federal Reserve Banks. Under the new system, unfit United States Notes and Silver Certificates are destroyed by burning at the Federal Reserve Banks instead of being sent back to Washington to be burned.

That doesn't mean, as the newspaper account went on to say, that the money is forever lost. Unfit currency would be withdrawn anyway—and replaced with crisp new bills. So no money is being lost; in fact, money is being saved. The Treasury figures that a billion and a quarter pieces of worn out currency, making, if laid flat, a stack as high as 900 Washington Monuments, will be verified and destroyed annually by the twelve Federal Reserve Banks at substantial savings to the Government. Reduced shipping costs alone are expected to save some $200,000.

In an incinerator especially installed for the job, the Richmond Reserve Bank destroys an average of $700,000 a day. Unfit United States Notes and Silver Certificates ($1 to $10 denominations) returned to the Reserve Bank from commercial banks are sorted, counted, and canceled, their face value verified and recorded, and then tossed into the 2800 degree gas furnace, where they go up in smoke. The ashes are inspected to make sure of total destruction.

The Federal Reserve Bank does not destroy its own Federal Reserve Notes. In accordance with law, when these become unfit they are destroyed at the Treasury.

MONEY TO BURN

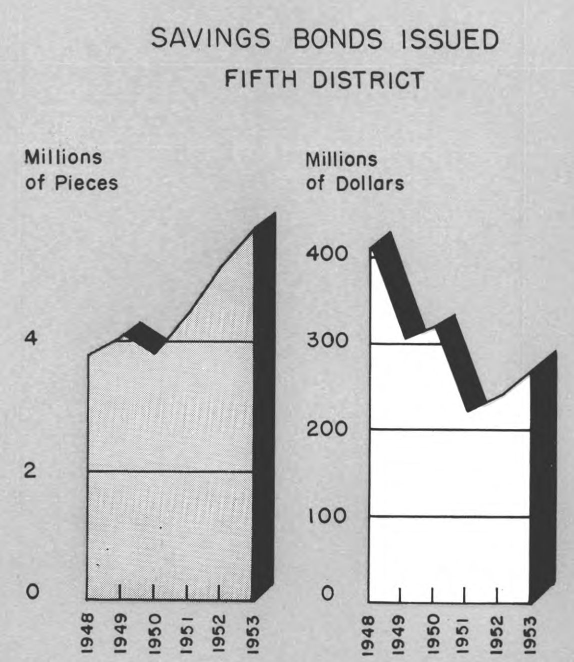
FISCAL AGENCY

As long as the Federal Government is in debt, as long as it has to service its debt regularly, and as long as it has to borrow new funds from time to time, Fiscal Agency is going to be a busy shop. As "Fiscal Agent for the United States Government," Federal Reserve Banks issue, service, and redeem Government securities of all kinds. The task of handling the multitudinous public debt operations involved is the special province of the Fiscal Agency Departments. Last year, to give an idea of the size of the job, Fiscal Agency—at Richmond, Baltimore, and Charlotte—handled around 13.8 million individual Savings Bond transactions in connection with the issuance, redemption, and safekeeping of these popular investments.

Regardless of where sales or redemptions of Savings Bonds are made (most of the transactions occur at commercial banks or other qualified issuing agents), a major portion of the bookkeeping is done in the Fiscal Agency Departments of the Federal Reserve Banks. This is a responsibility that required each of the 13.8 million items handled to be treated as carefully as though it were the only one of the year.

Although belittled by comparison with the preceding figure, other Fiscal Agency operations arising from servicing the public debt add up to an impressive amount of work. All told, the three Fiscal Agency Departments handled some 630,000 individual items in processing Government securities other than Savings Bonds and in performing such other services as paying Government coupons.

Another principal service performed by Federal Reserve Banks as fiscal agent for the Government is the receipt of such funds as withheld income taxes and payments by buyers of Government securities which are recorded to the credit of the Treasury in the Treasury Tax and Loan Account. During 1953 operations in connection with Treasury Tax and Loan Accounts required Fiscal Agency to handle about 141,000 transactions with a total value of over $4 billion.



The $271 million of U. S. Savings Bonds issued in this District in 1953 was 10.7% greater than in 1952—the largest annual gain of the post World War II period.

ECONOMIC RESEARCH

The Research Department of the Federal Reserve Bank is a fact-finding—and interpreting—agency, charged with the responsibility of keeping the bank's officers and directors and the Board of Governors of the Federal Reserve System supplied with current, accurate information on business and credit conditions. The by-product of this work is a steady stream of information of interest and value to bankers, businessmen, farmers, and others, made available through the bank's publications, through the press and radio, through individual reports, lectures and personal visits.

Economic research for Federal Reserve policy formation consists mainly of the collection and interpretation of information to answer such questions as: What is the current condition of the economy? What role is credit playing? What changes are in prospect? What changes in Federal Reserve policy are indicated or what would be the effects of some policy if adopted?

Much of this information comes from Government agencies, trade associations, and private reporting services. It comes in quantity; in 1953 the bank received (and economists and statisticians studied) more than 10,000 reports from such sources. In addition, the bank collects credit and trade statistics directly from banks and other concerns all over the Fifth District. During 1953 its economists and statisticians pored over some 23,000 reports from banks, department, furniture, and appliance stores, building inspectors, consumer loan companies, and credit unions. Some of these reports contained as few as two items, some as many as 440 separate entries. From this avalanche of material the Research Department supplied more than 1,000 reports to banks and business firms and some 500 detailed reports to the Board of Governors, in addition to providing facts and figures for upward of 500 news releases and data for bank publications.

Of particular interest to Fifth District member bankers in 1953, as in other years, was the involved compilation of member bank operating ratios, individual studies made for each of the nearly 500 member banks of the District.

In addition, members of the department's staff participated in the preparation and presentation of such bank-sponsored projects as the Central Banking Seminar and the illustrated lecture program, "Your Money's Worth," and in a series of agricultural credit meetings sponsored by the North Carolina Bankers Association.

Several basic research projects were begun in 1953: A study of the seasonal factors in individual member bank loans and deposits; a study of the impact of real estate finance on financial institutions; the first of a series of studies of the industrial structure of areas of the Fifth District; and a further study in the analysis of interregional flows of funds.

YOUR MONEY'S WORTH

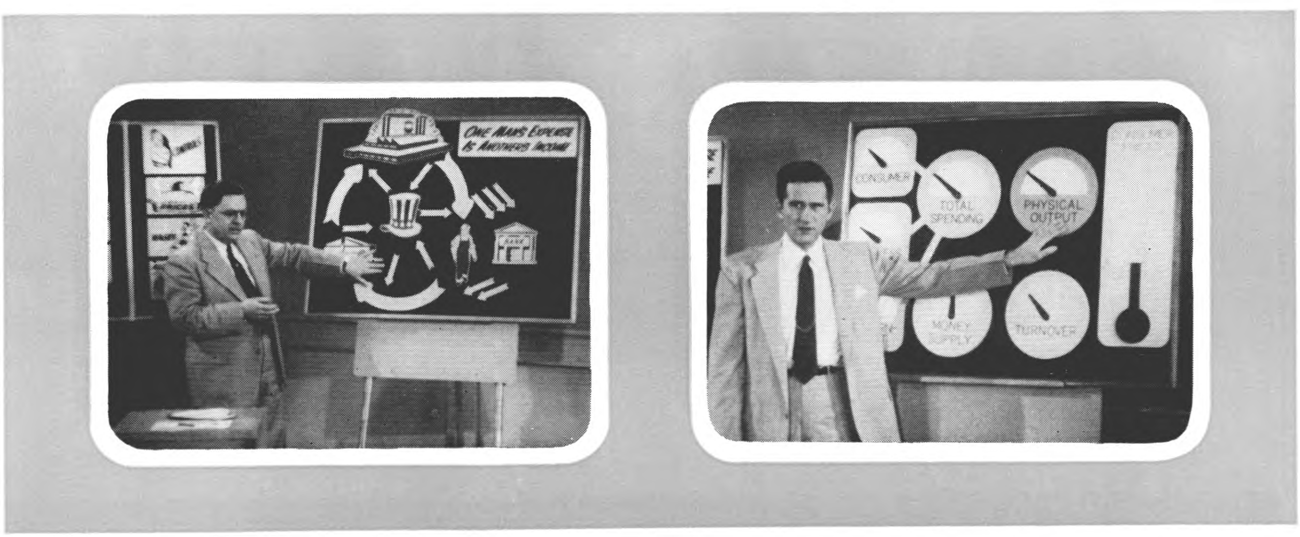
If it is true that one picture is worth a thousand words (anyone who ever wrote a thousand words would dispute it), then a picture produced by the Federal Reserve Bank of Richmond in 1953 is probably worth a few in an annual report on the bank's activities. **Your Money's Worth,** a 38-minute, 16-mm. film in sound and color, has proved a genuine contribution to economic education. It was written, acted, and produced by this bank.

Based on an illustrated lecture program designed to explain the factors making for changes in the value of money and the role of the Federal Reserve System in contributing to economic stability—a program described by a professor of money and banking as a "full course in economics and monetary policy in one easy lesson"—the motion picture **Your Money's Worth** was released in April. Since that time it has been seen by more than 50,000 persons—bankers, business men and women, industrial managers and employees, trade union members, college and high school teachers and students, Federal Government personnel, farmers, and others.

It has been booked for showing at "Explaining Your Business" Seminars of the Chamber of Commerce of the United States, and that organization is publishing a promotional brochure to recommend the film to local chambers of commerce in all sections of the country.

The Industrial College of the Armed Forces used the film for a period of several months in courses in economics. The Association of American Law Schools is including **Your Money's Worth** in a list of selected films recommended for classroom work.

Typical of the comments that have been made are these: From a Texas banker—"It is one of the most splendidly presented films on the background of inflation that I have ever been privileged to view"; from a Wilmington, Delaware industrialist—"We are glad to add **Your Money's Worth** to the films we will be able to recommend"; from a Wisconsin industrial concern—". . . a very excellent explanation of the function of money and the various causes of the changes in value of money"; from a Fifth District college dean—"A very fine film"; from a North Carolina banker—"A telling story of the effects every action has upon our monetary system. I wish it could be seen by every thinking person in our community."



GENERAL SERVICES

As may be deduced from the foregoing and following pages, it takes a sizeable organization to do the amount of work that is done in the Federal Reserve Bank. Behind the front office and the operating departments are the people whose work is essential to keeping the wheels turning. These are the people of the General Service, the Building and Equipment, and the Printing and Supplies departments.

Buildings of the size of the Head Office and the Baltimore and Charlotte branches require a considerable amount of maintenance. Most of this work is done, for economical reasons, by staff personnel. The bank has its own mechanics, steamfitters, plumbers, electricians, carpenters, painters, metal-workers, janitors and maids, and others to do the jobs that seem ever in need of doing.

The Head Office, for instance, has 314 typewriters that must be kept in writing condition. It has 229 calculating machines of various kinds. It has 640 desks and 2,881 chairs. It has seventeen elevators. It has a heating system of four boilers and an air-conditioning system with two main units and eight sub-units. It has 432 windows to be kept clean.

Every item of physical property acquired by the bank comes through the purchasing office, from an $11,000 incinerator to 100-for-a-nickel paper clips. In 1953, for example, the purchasing office bought 27,480 pencils (and, in case of error, 1,823 erasers), 907 typewriter ribbons, two automobiles, 424 bottles of ink (only 26 of them red ink), 5,498 light bulbs, 445 mops, 8,500 pounds of soap, 71,000 pounds of paper. It also bought 12,000 aspirin tablets, another necessity of bank operation.

Of particular importance is the Head Office's printing shop, which does most of the printing of the millions of forms, notices, announcements, pamphlets, and publications of the Head Office and the branches. The shop, equipped with a Linotype machine, 1,000 fonts of hand type, seven printing presses (flatbed, vertical, and job), and other paraphernalia of the trade, is capable of turning out almost any kind of printing job. (Many visitors ask whether it prints currency; it doesn't.)

Among the printing shop's productions in 1953 were: 84,625 copies of the bank's **Monthly Review,** 60,000 of the news letter **Agricultural Items,** 395,150 operating circulars, announcements of various kinds to banking institutions, and 13,314,481 forms for internal use. This annual report was printed in the bank's shop.

VOLUME OF PRINCIPAL OPERATIONS

	1953	1952
CHECKS HANDLED:		
Number	219,709,000	209,711,000
Amount	$73,205,707,000	$68,401,772,000
NONCASH COLLECTION ITEMS RECEIVED:		
Number	647,000	577,000
Amount	$ 178,912,000	$ 177,402,000
TRANSFERS OF FUNDS FOR MEMBER BANKS:		
(Includes transfers by wire and other means)		
Number	116,587	108,015
Amount	$46,308,358,000	$42,888,607,000
INTERDISTRICT SETTLEMENT FUND DAILY TRANSIT CLEARINGS:		
Total received from F. R. Banks and Branches	$47,130,690,000	$45,997,563,000
Total paid to F. R. Banks and Branches	$47,077,146,000	$45,959,836,000
CURRENCY AND COIN HANDLED:		
Currency received (including new notes):		
Number of notes	446,922,213	440,975,789
Amount	$ 2,799,986,561	$ 2,730,764,810
Currency paid out (including notes returned for redemption):		
Number of notes	443,781,984	440,657,818
Amount	$ 2,769,338,153	$ 2,732,129,198
Coin received (including new coin):		
Number of coins	665,153,777	692,755,298
Amount	$ 51,793,099	$ 51,969,404
Coin paid out (including coin returned for redemption):		
Number of coins	655,739,986	695,089,521
Amount	$ 51,000,389	$ 51,885,014
U. S. GOVERNMENT SECURITIES INCLUDING ARMED FORCES LEAVE BONDS (EXCLUSIVE OF SAVINGS BONDS) ISSUED, EXCHANGED AND REDEEMED:		
Number	141,000	120,000
Amount	$ 4,617,035,000	$ 4,538,059,000
U. S. SAVINGS BONDS—ISSUED:		
Number	5,620,000	5,211,000
Issue price	$ 270,616,000	$ 244,494,000
U. S. SAVINGS BONDS—REDEEMED:		
Number	7,397,000	6,791,000
Redemption value	$ 408,604,000	$ 356,248,000

THE BALANCE SHEET

There are balance sheets, and then there are balance sheets. To make head or tail of many of them, regrettably, takes a practiced eye, but balance sheets of Federal Reserve Banks may be even more puzzling to decipher. Take a look at the Comparative Statement of Condition on the next page, for example. Under "Assets" you will see an item called "Gold Certificates." Outside the Federal Reserve Banks no other banking institution lists these in its balance sheet. Why?

Briefly, this is the answer: In 1933 the Government ordered all privately held gold turned over to the Treasury. Then in 1934 Congress passed an act that prohibited the ownership and circulation of gold and in effect "nationalized" it as the base for our circulating money. Only Federal Reserve Banks can get close to the nation's monetary gold now, and even they are held at arm's length—their holdings are in gold certificates and entries on the Treasury's books representing claims to gold certificates. Very little actual gold is ever seen. Each Reserve Bank must have gold certificates equal to 25 per cent of its deposit and note liabilities. On December 31, 1953, this bank had gold certificates equal to 42.1 per cent of its deposits and note liabilities —sufficient to permit considerable expansion in the nation's basic money, should the need arise.

Also, you will note that this bank's holdings of U. S. Government securities declined from the total of the year before. Actually, the Federal Reserve System as a whole made net purchases during 1953. Purchases by the System increase member bank reserves—the high-powered dollars behind our deposit money. (Richmond's decline merely reflects a reallocation of System holdings among the twelve Reserve Banks and does not affect these reserves.)

Under "Liabilities" appears the item Federal Reserve Notes, something else that never appears as such in commercial bank statements. Federal Reserve Notes are paper money issued by the Federal Reserve Banks for the spending money of the nation; about 85 per cent of the country's paper money is in Federal Reserve Notes. This money is backed by gold certificates and Government securities. It gets into circulation as calls for currency are made upon the commercial banks that are members of the Federal Reserve System. These banks, to supply the demand for currency in their areas, get the money from the Reserve Bank, which charges the withdrawals to their reserve accounts.

These reserve accounts are probably the most important single item on a Reserve Bank's balance sheet, for they are the medium through which the Federal Reserve can influence the nation's credit and money supply. When commercial banks make loans or investments they add to the money supply. The extent to which they can make new loans and investments is governed by the amount of money they have in their reserve accounts; the amount, that is, over and above the legally required reserve of dollars that is based on a stated percentage of deposits. The Federal Reserve, therefore, by regulating the supply, availability, and cost of reserve funds exercises a monetary influence with effects felt throughout the entire economy.

One thing worth remembering is this: The Reserve Banks are empowered by law to issue new money in the form of either Federal Reserve Notes (currency) or deposit balances at the Reserve Banks (commonly called reserve funds). When the Reserve Banks purchase securities or make loans to member banks they use such newly created money to make payment. That is, whenever the Reserve Banks acquire earning assets they make additional reserve funds available to member banks—they do not, and cannot, use for this purpose reserve funds already to the credit of the member banks.

COMPARATIVE STATEMENT OF CONDITION

ASSETS:	December 31, 1953	December 31, 1952
Gold certificates	$1,064,891,949.85	$ 986,347,710.86
Redemption Fund for Federal Reserve notes	76,974,050.78	76,732,258.26
Total Gold Certificate Reserves	1,141,866,000.63	1,063,079,969.12
Other cash	22,579,777.93	27,616,071.82
Discounts and advances	1,950,000.00	5,704,500.00
Industrial loans	60,000.00	55,972.89
U. S. GOVERNMENT SECURITIES:		
Bills	153,962,000.00	50,148,000.00
Certificates	344,921,000.00	337,650,000.00
Notes	786,536,000.00	930,935,000.00
Bonds	215,919,000.00	305,631,000.00
Total U. S. Government securities	1,501,338,000.00	1,624,364,000.00
Total loans and securities	1,503,348,000.00	1,630,124,472.89
Due from foreign banks	1,134.38	1,157.07
Federal Reserve notes of other banks	30,147,320.00	50,710,320.00
Uncollected cash items	335,529,332.99	344,449,275.48
Bank premises	4,719,402.56	4,839,105.49
Other assets	8,852,436.09	10,887,104.00
TOTAL ASSETS	$3,047,043,404.58	$3,131,707,475.87

LIABILITIES:		
Federal Reserve notes	$1,849,093,270.00	$1,887,062,610.00
DEPOSITS:		
Member bank—reserve accounts	827,255,389.37	849,024,558.86
U. S. Treasurer—general account	11,126,571.48	28,743,413.17
Foreign	20,460,000.00	26,698,500.00
Other	6,762,414.24	7,707,068.83
Total Deposits	865,604,375.09	912,173,540.86
Deferred availability cash items	277,384,537.57	280,791,180.34
Other liabilities	762,447.99	689,240.93
TOTAL LIABILITIES	2,992,844,630.65	3,080,716,572.13

CAPITAL ACCOUNTS:		
Capital paid in	11,655,200.00	11,013,750.00
Surplus (Section 7)	31,749,515.58	29,247,937.12
Surplus (Section 13b)	3,349,144.81	3,349,144.81
Other capital accounts	7,444.913.54	7,380,071.81
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$3,047,043,404.58	$3,131,707,475.87

Contingent liability on Acceptances Purchased for Foreign Correspondents	$ 1,196,605.24	$ 1,009,398.56
Industrial Loan Commitments	51,190.55	70,422.37

COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

	1953	1952
EARNINGS:		
Discounts and advances	$ 710,297.11	$ 705,515.15
Interest earned on industrial loans under Section 13b	2,274.20	4,255.05
Fees received on commitments to make industrial loans	560.38	595.88
Interest on U. S. Government securities	33,343,105.55	29,636,349.03
Interest on other U. S. Government securities	————	4,417.81
Other earnings	11,127.96	7,056.82
Total Current Earnings	34,067,365.20	30,358,189.74
EXPENSES:		
Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses	6,932,124.38	6,386,630.07
Assessments for expenses of Board of Governors	206,400.00	209,100.00
Cost of Federal Reserve Currency	1,134,695.74	964,783.72
Total Net Expenses	8,273,220.12	7,560,513.79
Current Net Earnings	25,794,145.08	22,797,675.95
ADDITIONS TO AND DEDUCTIONS FROM CURRENT NET EARNINGS:		
Profits on sales of U. S. Government securities	129,574.04	130,497.44
Sundry additions	33.02	1,693.10
Total Additions	129,607.06	132,190.54
Retirement System (adjustment for revised benefits)	167,576.43	————
Sundry deductions	2,124.18	2,225.08
Total Deductions	169,700.61	2,225.08
Net Additions	————	129,965.46
Net Deductions	40,093.55	————
Transferred to Reserves for Contingencies	64,578.80	55,180.93
AVAILABLE FOR DIVIDENDS, PAYMENT TO TREASURER OF U. S. AND SURPLUS ACCOUNT	$25,689,472.73	$22,872,460.48
Dividends paid member banks	$ 676,502.00	$ 643,140.74
Payment to Treasurer of U. S.—Interest on outstanding Federal Reserve notes	22,511,392.27	20,006,070.38
Addition to Surplus Account (Section 7)	2,501,578.46	2,223,249.36
Total	$25,689,472.73	$22,872,460.48

SURPLUS ACCOUNT (Section 7)

Balance at close of previous year	$29,247,937.12	$27,024,687.76
Addition a/c profits for year	2,501,578.46	2,223,249.36
BALANCE AT CLOSE OF CURRENT YEAR	$31,749,515.58	$29,247,937.12

CAPITAL STOCK ACCOUNT

(Representing amount paid in, which is 50% of amount subscribed)

Balance at close of previous year	$11,013,750.00	$10,382,900.00
Issued during the year	668,450.00	638,350.00
	11,682,200.00	11,021,250.00
Cancelled during the year	27,000.00	7,500.00
BALANCE AT CLOSE OF CURRENT YEAR	$11,655,200.00	$11,013,750.00

FEDERAL RESERVE BANK OF RICHMOND

DIRECTORS

DIRECTORS

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W. G. Wysor	Deputy Chairman of the Board

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John A. Sydenstricker	Executive Vice President First National Bank in Marlinton Marlinton, West Virginia

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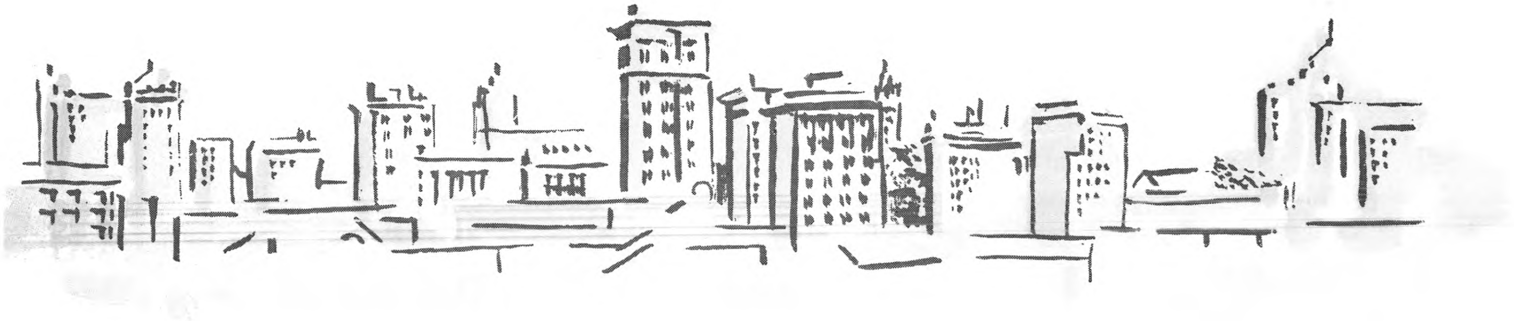
W. G. Wysor	Management Counsel Southern States Cooperative, Inc. Richmond, Virginia

MEMBER FEDERAL ADVISORY COUNCIL

Robert V. Fleming	Chairman of the Board and President Riggs National Bank Washington, D. C.

AND

OFFICERS



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C. B. Strathy	Vice President and Secretary
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Aubrey N. Heflin	Vice President and General Counsel
Upton S. Martin	Vice President
R. S. Brock, Jr.	General Auditor
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J. Dewey Daane	Assistant Vice President
Joseph M. Nowlan	Assistant Vice President
John L. Nosker	Assistant Vice President
James W. Dodd, Jr.	Assistant Vice President
G. Harold Snead	Chief Examiner
Edward Waller, Jr.	Assistant Cashier
Wythe B. Wakeham	Assistant Cashier
H. Ernest Ford	Assistant Cashier
Robert G. Howard	Assistant Cashier

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Overton D. Dennis	Dominion Oil Company Richmond, Virginia
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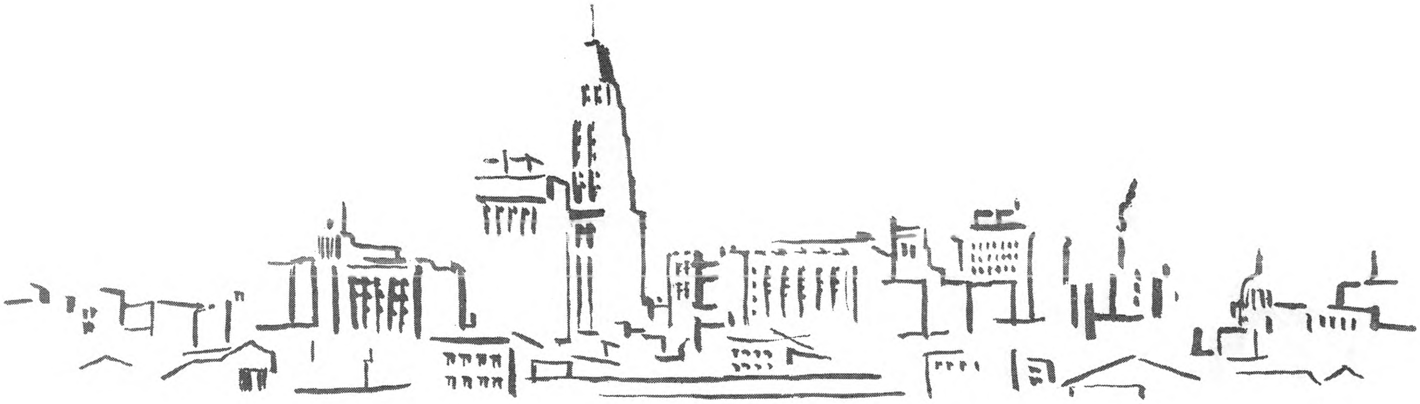
Walker D. Stuart	President Richmond Hardware Company Richmond, Virginia
John L. Whitehurst	President and Treasurer Burt Machine Company, Inc. Baltimore, Maryland



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Lacy I. Rice	President The Old National Bank Martinsburg, West Virginia
Howard M. Taylor, Jr., Chairman	President and Treasurer International Bedding Company Baltimore, Maryland
Stanley B. Trott	President Maryland Trust Company Baltimore, Maryland
Clarence R. Zarfoss	Vice President Western Maryland Railway Company Baltimore, Maryland

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A. A. Stewart, Jr.	Cashier
A. C. Wienert	Assistant Cashier
B. F. Armstrong	Assistant Cashier
E. Riggs Jones, Jr.	Assistant Cashier

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Thomas J. Robertson	President First National Bank of South Carolina Columbia, South Carolina
Paul T. Taylor	President Taylor Warehouse Company Winston-Salem, North Carolina
T. Henry Wilson, Chairman	President and Treasurer Henredon Furniture Industries, Inc. Morganton, North Carolina
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OFFICERS

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