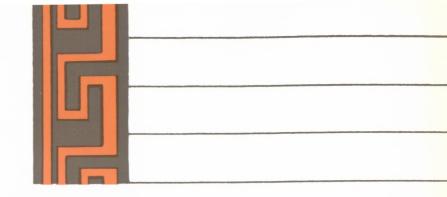
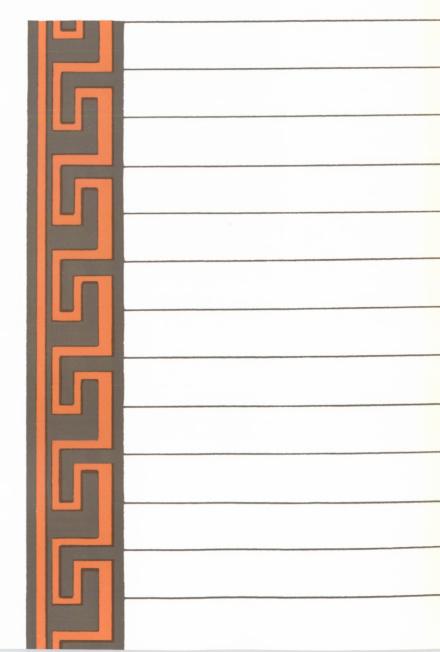


# Annual Report

FEATURING THE CHARLOTTE BRANCH



# Forty-Second



# Annual Report 1956

FEDERAL RESERVE BANK OF RICHMOND

WITH BRANCHES IN BALTIMORE

AND CHARLOTTE

### 

#### TO THE MEMBER BANKS

It is with pleasure that we again submit to you, our stockholders, the annual report of the Federal Reserve Bank of Richmond, an institution which since its establishment in 1914 has played an increasingly important role in the economic activity of the Fifth Federal Reserve District and our nation.

During the year covered by this report "tight money" has been uppermost in the minds of most bankers and businessmen and there has been much public discussion of the role of monetary policy. In these pages, in addition to a brief summary of developments in business, banking, and agriculture, are comments on money and credit in 1956 that we hope will be of more than casual interest.

Presented also is an article featuring the bank's Charlotte Branch, the expanding operations of which over the past three decades have so well reflected the economic progress of the territory it serves.

In submitting this report we again express our deep appreciation for your continued support and cooperation.

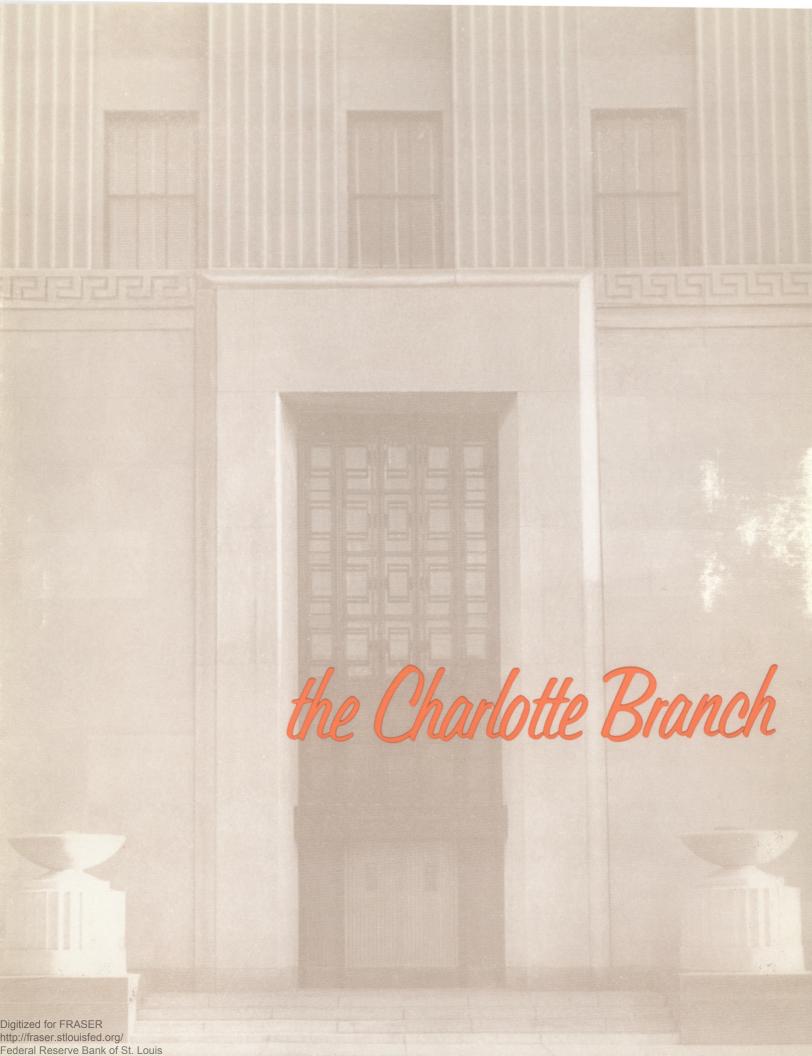
Very truly yours.

Chairman of the Board

Shordnady

Hugh Leach

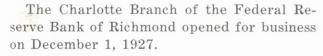
President



## Expansion



Branch first occupied this building at Tryon and Second streets in 1942



The world little noted the event. Other things were more newsworthy.

Outside of the city of Charlotte itself headlines in the papers that day directed readers' attention to such intelligence as: "Ford Car Prices Announced—\$385 to \$570," "Secretary Mellon Favors Corporation Tax Cut to 12%, Sees Several Years of Prosperity Ahead," "League of Nations Begins Work on Plans to Outlaw War," "World Urged by Russia to Destroy Arms," "Bank Pays 5% Interest on Savings," "American Living



Keeping pace with expanded operations Branch completed addition in 1956

### in Charlotte

Standard at New High Mark," "Stock Exchange Seat Sells for \$305,000."

In Charlotte, though, one of the papers heralded the opening of the new branch with this bold-face observation: "New Era Dawns in Industrial Life of Piedmont Section."

It was a prophetic headline. No one now resident in the Piedmont area of North Carolina and South Carolina is likely to argue the point.

No one, either, is likely to attribute the immense expansion of the area's commerce, industry, and agriculture, its gains in over-all wealth and well-being, to the mere fact that the Federal Reserve Bank of Richmond opened a branch there in 1927.

Speaking at Charlotte in 1952 on the occasion of the Charlotte Branch's twenty-fifth anniversary, Hugh Leach, president of the Federal Reserve Bank of Richmond and in 1927-1931 the branch's first executive officer, said, "I sometimes suspect that our branch was not the sole cause of the remarkable growth in industry, agriculture, trade, and banking in this area. It seems possible that the progress may be attributable to natural resources, the vision of your leaders, the industry of your people, temperate climate, distribution of population, and the development of great educational institutions, to name but a few."

Yet, of course, since money and credit are the lifeblood of the economy, the Charlotte Branch has played an important part in the area's progress through the years. Through its services to the commercial banks it has helped to sustain the flow of money and credit that foster and support a dynamic economy.

Significantly, Charlotte is one of the smallest cities in which a Federal Reserve Bank or branch is located, and this office was the last of the twenty-four Reserve bank branches of the nation to be established. Yet in volume of principal operations the Charlotte Branch is well above the mid-point among the twenty-four branches, a further indication of the business activity and economic importance of the Carolina Piedmont area.

#### A Service Institution

As a unit of the Federal Reserve System, the Charlotte Branch is a service institution, performing its services mainly through the commercial banks that are Federal Reserve System members in the fifty western North Carolina and twenty-one western South Carolina counties in its territory.

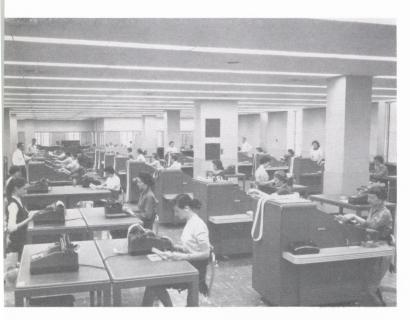
These services are many. The Charlotte Branch supplies the banks with the currency and coin that they need to meet the require-

Reception desk and officers' area in main public lobby on first floor of Charlotte Branch





In Accounting Department are kept reserve accounts of member banks



Members of Transit Department staff processed nearly 50 million checks amounting to \$19,965,635,000 in 1956

ments of their customers. It handles millions of the checks that flow from bank to bank through the Federal Reserve's swift and efficient nationwide "clearinghouse." It makes loans to the banks when they need additional funds to replenish their reserves. It provides a speedy means of transferring bank funds from one part of the country to another through the Federal Reserve's telegraphic network. It holds in safekeeping securities owned by member banks.

The Charlotte Branch, although it and the other Reserve banks and branches are not government-owned (the capital stock of the Federal Reserve Banks is owned by the commercial banks of their areas that are members of the Federal Reserve System), also performs various functions in its role as fiscal agent and banker for the government.

#### Some Startling Figures

The performance of all of these many services produces some startling figures, the more startling, in 1956, when this year's figures are compared with those of 1928, the first full year of the branch's operation.

For example, currency and coin transactions in 1956 amounted to \$645,554,971, more than seven times the \$91,222,508 of 1928. By way of further comparison, in 1928 the Richmond head office and the Baltimore and Charlotte branches had a combined total of \$1,430,215,335 in currency and coin transactions.

The Charlotte Branch in 1956 handled 48,-034,000 checks adding up to a total amount of \$19,965,635,000. The 1928 figure was



Millions of dollars in currency are counted in Money Department each day

6,589,000 checks amounting to \$1,691,921,000. It is interesting to note that the checks handled by the Charlotte Branch in 1956 were almost as many as the 54,570,000 handled by the entire bank and its two branches in 1928 and that the dollar amount represented in those checks well exceeded the \$13,990,057,000 of the whole bank in 1928.

#### Billions by Wire

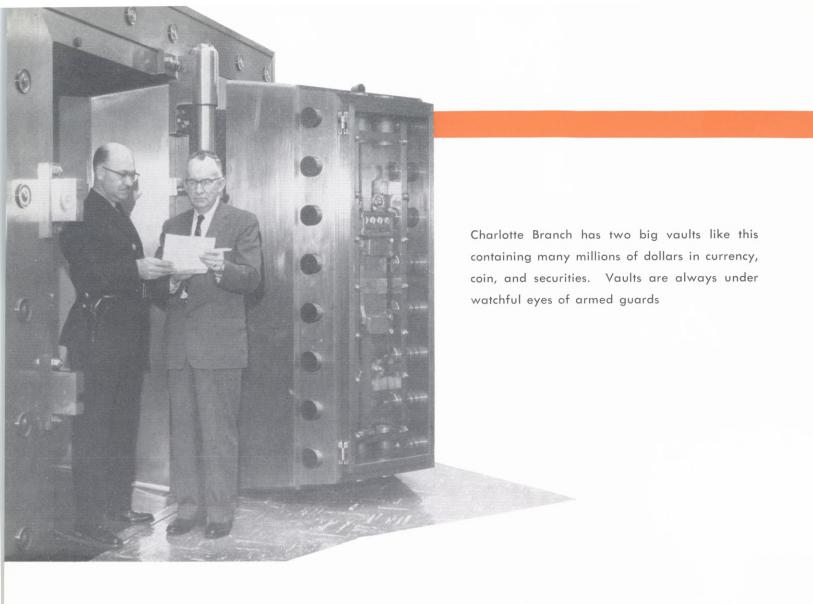
In 1956 the Charlotte Branch made 46,979 transfers of funds for member banks, the total amount reaching \$23,339,027,739. In 1928 it made 25,803 transfers totaling \$1,-187,774,235. The bank and its two branches in 1928 made 141,525 transfers totaling \$5,676,459,000.

An interesting sidelight on the telegraphic transfer of funds is that the nerve-center of the Federal Reserve System's vast wire network is located in the head office of the Federal Reserve Bank of Richmond. Millions of dollars every day, billions upon billions over the course of a year, are transferred from bank to bank over the System's telegraphic

network—and every such transfer message goes through the automatic electronic "switching center" at Richmond. The network links together the twelve Federal Reserve Banks and their twenty-four branches, and in addition serves the Board of Governors of the Federal Reserve System, at Washington, and the Treasury Department's Washington and Chicago offices.

Another function of the branch is to hold member banks' deposit accounts, called "reserve" accounts, funds that the banks are required to maintain as a reserve against their own deposits. Reflecting the tremendous increase in commercial bank deposits, figures show that the Charlotte Branch held a daily average of \$142,633,565 in member bank reserve deposits in 1956, as contrasted with a daily average of only \$7,852,980 in 1928.

In loans to member banks the Charlotte Branch reported a daily average of \$6,474,-180 in 1956. There is no comparable figure for 1928, since at that time lending was done by the head office at Richmond.



In addition to its many operational functions the Charlotte Branch also plays an important role in bank relations and public information. Officers and staff members make frequent calls on the commercial banks of the area, discussing and, it is hoped, solving many of the day-to-day problems that may arise. The branch is always represented at the bankers' conventions, conferences, and other meetings that take place during the year in the two Carolinas, and because the branch is a segment of a nationwide organization many of its people attend also meetings of national groups. Among its many public information activities the branch serves as a sort of clearinghouse for facts and figures about the Federal Reserve System, supplying teachers, students, bankers, and others with helpful publications and educational motion pictures. Officers and staff members frequently are speakers at meetings of many kinds.

Expanding activity of the Charlotte Branch since its beginning has made necessary several expansions of its banking quarters. The newly enlarged office at the corner of Tryon and Second streets in Charlotte is a far cry from its first headquarters.

The Federal Reserve Bank of Richmond annual report for 1927 described the first office with modest pride: "The Charlotte Branch is located in the First National Bank building, occupying the entire twentieth floor, with a commodious and up-to-date vault in the basement of the building." The entire twentieth floor, notwithstanding the proprietorship of the commodious vault, to which branch people had access by way of a private elevator, soon came to be too small. In 1931 the branch took over the entire first floor and part of the second floor of the building, which today is known as the Liberty Life building, and there it remained, finding itself more and more compressed as operations grew apace, until in January of 1942 it occupied its own new building at Tryon and Second.

When the branch first opened it had a total staff of 54 persons. When it moved into its new quarters in 1942 it had 96. In 1956 it had 194, and until the new 44,000 square foot addition was completed in December some of those 194 persons hardly had room to do their work. In view of the great and growing volume of work to be done, it might be said that the expansion came none too soon.

Now, however, at least for the present and the foreseeable future, there is room to get the work done. And as for the money and securities that must be locked up safely, the newly expanded office has two commodious and up-to-date vaults.

One of the vaults is new, but it is only a part of the over-all aspect of the newly expanded bank building. What was for almost fifteen years a three-story building backed by a driveway and a vacant lot is now a fivestory structure built over the driveway and on through the 46-foot lot at the rear. On the ground level is the bank's new enclosed security court, where armored trucks laden with millions of dollars load and unload under the close scrutiny of armed guards. Upstairs much needed additional space has been apportioned among the money, check collection, accounting, government bond, and other departments, with new facilities for staff restaurant and recreational areas.

Total cost of the addition to the building,

Coins in bags ready for shipment. Branch handled nearly \$20,000,000 in coins during 1956



With armed guards watching, armored truck unloads shipment of money in new Security Court



including work done under the general construction contract, architectural and engineering fees, installation of two new elevators and complete renovation of a third, amounted to approximately \$1,390,000. The new construction added 43,642 square feet of usable space, bringing the total gross space in the building to 77,954 square feet. Goode Construction Corporation handled the general construction work, and the firm of J. N. Pease and Company provided architectural and engineering services. The elevators were installed by the Westinghouse Electric Corporation.

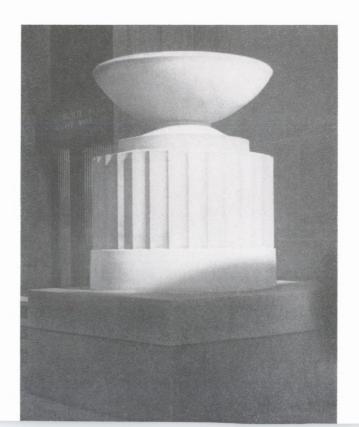
The building committee which planned the project was composed of George S. Crouch, of Charlotte, chairman; Thomas J. Robertson, of Columbia, South Carolina; T. Henry Wilson, of Morganton, North Carolina; William H. Grier, of Rock Hill, South Carolina; and Robert L. Cherry, vice president in charge of the Charlotte Branch. Mr. Grier and Mr. Wilson are directors of the branch, and Mr. Crouch and Mr. Robertson were board members at the time the project was planned.

In architectural design the expanded build-

ing remains the same, a structure modeled after that of an ancient period, severe rather than ornate, with a facade depending upon mass and proportion for its effect rather than upon columns, pilasters, or architectural detail. The exterior is of Indiana limestone above a base of North Carolina granite, and is unrelieved except for the accents given by the entrances and the simply fluted frieze and parapet. The building is set back from the street to give space for foundation planting and for low steps flanked by great stone urns at the main doorway.

#### Visitors Welcomed

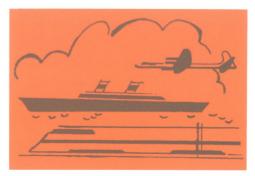
The photographs on these pages show some of the offices in the building. They cannot show everything, nor can they do more than indicate some of the many kinds of work that go on within the building. Because the Charlotte Branch of the Federal Reserve Bank of Richmond is a public service institution, however, its directors, officers, and staff members take pride in welcoming visitors to inspect the premises and to see what goes on behind the scenes.





# Business and Banking

1956





On its page in economic history 1956 will probably be characterized as a year of "tight money" and resurgence of strong inflationary pressures. The slack in the economy from the 1954 recession had long since been taken up, and the year opened with strong and increasing demands upon economic resources already fully tapped. Shortages became pronounced in such important areas as steel and other building and construction materials, and the level of the reservoir of unemployed labor was further lowered to the point where in October only 2.8% of the civilian labor force was unemployed. The demand for men and materials was more than matched in intensity by the demand for credit. The latter

was "across the board," with demands for real estate mortgage and consumer credit, however, rising at a slower rate than in 1955 as a consequence in part of fewer housing starts and smaller sales of automobiles. The demand for credit by business enterprises, on the other hand, rose to fever pitch, and by year-end had resulted in over \$10 billion of corporate security issues for new capital and in an increase of about \$5.5 billion in business loans by commercial banks.

Higher interest rates and a declining availability of loanable funds were the inevitable products of an economic mix of capacity operations, high-level employment, tightening cost-profits squeeze, declining bank and



#### BUSINESS AND BANKING

business corporation liquidity positions, and plans for making capital investments in excess of the volume of current savings. It was inevitable, that is, unless the Federal Reserve System had fed inflationary forces by providing commercial banks with inordinate amounts of reserves.

#### Record Pour from 1956's Horn of Plenty

The value of the nation's output of goods and services in 1956 reached an all-time high of about \$411-412 billion, more than 5% higher than 1955's record total and almost double the national product of the first postwar year of 1946. Unlike 1955, when almost the entire gain in the dollar volume of goods and services produced represented growth in physical volume, a substantial part of the 1956 increase was attributable to higher prices. Preliminary data adjusted for price changes indicate that the rise in physical volume in 1956 was around 3%.

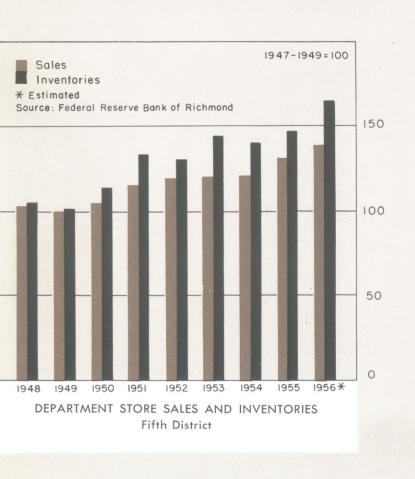
Since output in several important areas was already limited by capacity operations, the strong demand situation at the opening of 1956 resulted in an immediate uptrend in wholesale prices. Increases were particularly marked for construction and machinery items and for such things—metals and metal products, for example—as were needed to provide for the tremendous programs of expansion and modernization of plant and equipment being carried out by business in general.

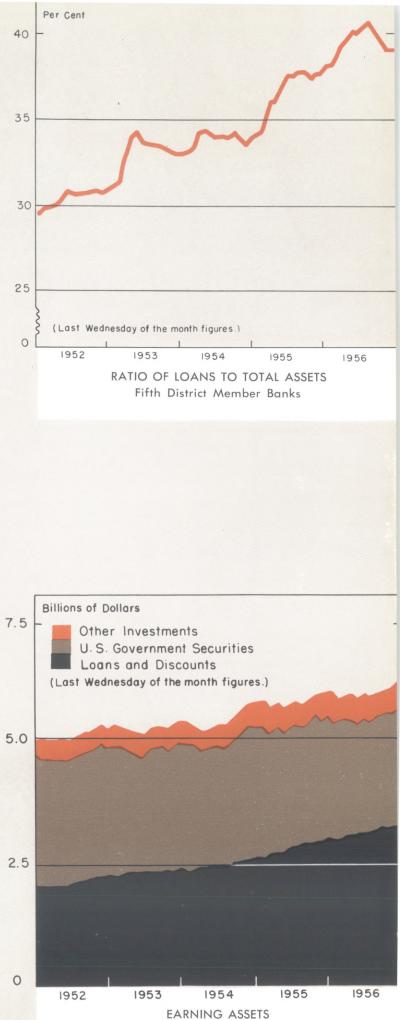
Largely because food prices remained stable during the early months of 1956, the general cost of living did not move up with wholesale prices. In May, however, food prices rose sharply, and the index of consumer prices set out on its first protracted sharp rise in five years. This resulted in subsequent cost increases in those industries in which wage rate adjustments are based on changes in this price index. Increases in prices of steel and related items following the July steel strike created other cost increases that put prices under pressure in many sectors of the economy.

This, then, was the picture as 1956 drew to a close: an economy operating at capacity in a milieu of inflationary pressures and straining to expand at, possibly, unsustainable rates. If this picture had unfavorable aspects, it also had its favorable facets, for there was a record high level of capital investment by business and government and a record high level of consumer disposable income.

#### Tight Money Exerted Strong Pressures

Mounting credit needs accompanying the rapid business expansion of 1956 exerted strong pressures upon credit facilities of District member banks. Demands for bank loans were insistent throughout the year and during the first half member banks sold investments in order to satisfy their customers' wants, thus adding to the increasing pressures in the





Fifth District Member Banks



#### BUSINESS AND BANKING

securities markets. By the end of the year total resources, loans, and deposits all stood at record levels.

Important as this growth in loans was, however, the increases in both loans and total earning assets were less than during the preceding year. Throughout 1956 Federal Reserve open market operations met seasonal and other temporary needs for reserves but did not offset the tightening effects of an excess of demands for funds over the available supply. In addition, discount rates were twice raised—from  $2\frac{1}{2}\%$  to  $2\frac{3}{4}\%$  for most districts and to 3% for others in April and from 23/4 % to 3 % in August for those districts still below 3%. For the year as a whole, reserve increases permitted provided insufficient funds to meet the ever-growing demands, and credit conditions tightened considerably.

These sharp pressures made it necessary for District member banks to turn more often to the Federal Reserve Bank's discount window and, during the first seven months of the year, to reduce government security holdings in order to meet borrowers' demands. As a result, the District loan-to-total asset ratio jumped from 37.7% on December 28, 1955, to 40.5% on August 29, and government security holdings fell from 31.6% to 29.8% of total assets. Loan ratios remained high throughout the remaining months but dropped slightly below their August peaks during the Fall as the banks acquired new govern-

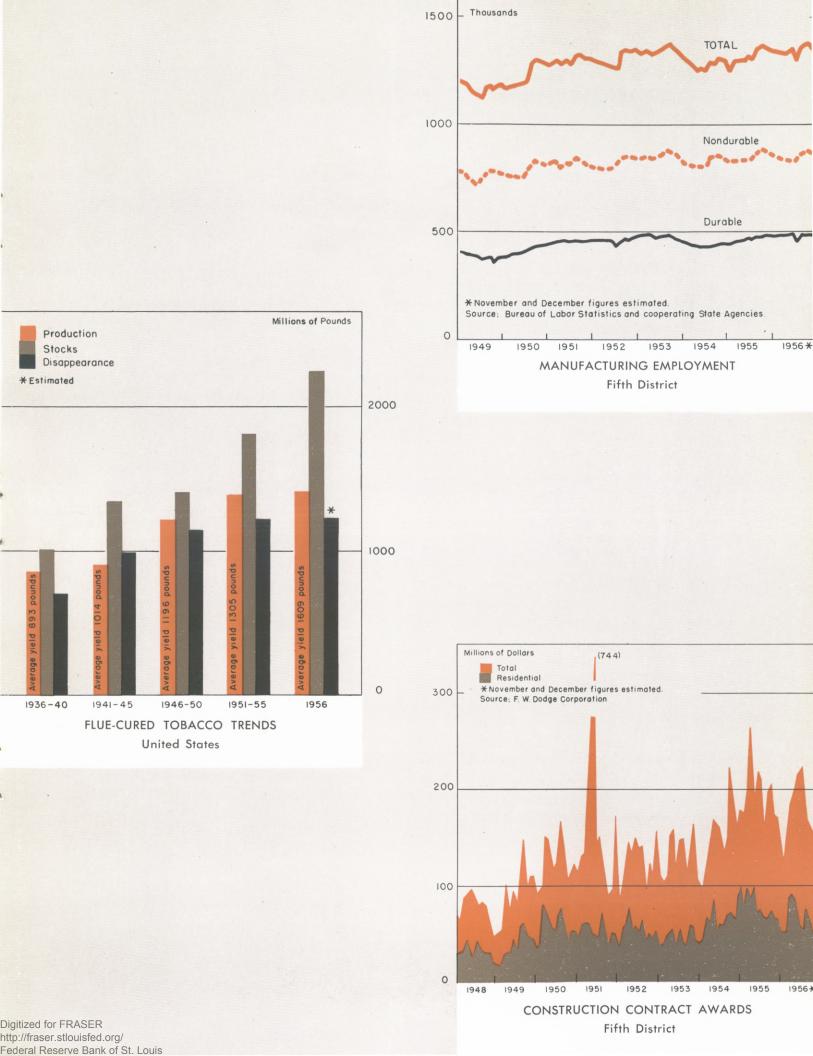
ment securities in support of Treasury financing operations.

#### Loans Grew More Slowly

The greatest expansion in District loans occurred in commercial and industrial categories, although both their dollar and percentage growth was considerably less than that of 1955. Most of the increase resulted from expansion in loans to manufacturing and mining firms, particularly those in the textile, food, liquor, tobacco, and metal industries. In addition, wholesale, retail, public utility, and construction firms stepped up their borrowing considerably. On the other hand, there were cutbacks in loans to sales finance companies.

Among the other loan categories, consumer loans showed the greatest activity, although they rose by less than 70% as much as during 1955. Real estate loans—one of 1955's leaders—failed to equal the strong upward surges of the previous two years and ended the year with a net increase less than two-thirds as great as that of 1955. Another fairly important category—security loans—showed sharp declines.

In contrast to the slower expansion in earning assets, deposits of District member banks increased by more than during 1955. Time deposits rose only slightly more rapidly, demand deposits accounting for most of the growth. A sudden burst in deposits toward the end of December resulted in a sharp in-





#### BUSINESS AND BANKING

crease in the banks' cash position just at the close of the year.

Higher interest rates and decreased availability of credit led individuals and business firms to cut bank balances to the minimum consistent with their needs. The result was a sharp increase in the turnover of deposits and other forms of money, which made it possible for a money supply only a little larger than that of the preceding year to finance the tremendous growth of expenditures during 1956.

#### Tobacco Problems In Spotlight

Apart from the continuation of the costprice squeeze with a consequent adverse effect on farm income, developments in the District's flue-cured tobacco industry claimed the agricultural spotlight during 1956. The features of the situation which caused this neither had their beginning nor spent their energy during the year. These forces were of sufficient magnitude in 1956, however, to merit prominent billing.

On the supply side, the upward trend in yields has been sufficiently sharp to offset partially attempts to employ reduced acreage allotments as a means of bringing production in line with disappearance. Included in this trend toward higher yields are such factors as closer spacing, higher rates of fertilization, irrigation, and use of some new varieties which, though high yielding, are viewed as undesirable under present demand conditions.

Significant developments have occurred also in the area of demand, thus further complicating the flue-cured tobacco situation. At home the growing popularity of filter tip cigarettes appears to be associated with shifts in the buying practices of cigarette companies as regards their interest in the various grades of tobacco. A by-product effect of this has been a growing demand and higher price for some of the traditionally important export grades. This has led both to an intensification of interest on the part of foreign customers in foreign growth of flue-cured tobacco and to an accumulation in the government price support program of those grades which are abundant relative to demand. A further development on the demand side is the apparent use of reconstituted or homogenized leaf. As a result of these developments, it now seems unlikely that the quantity of tobacco used in cigarettes will increase even though the number produced is expected to be larger in 1957 than in 1956.

In late 1956 two steps were announced which were designed to help meet the needs of the situation—a 20% further cut in acreage allotments and a reduction in the support level for certain varieties of tobacco with undesirable characteristics. Even so, there are few, if any, observers who believe that real solutions for the problems of tobacco as a commodity, or for the problems of tobacco farmers and tobacco producing areas, have yet been found.



# Credit Policy

OBJECTIVES IN 1956

During 1956 Federal Reserve credit policy was one of restraint. Reflecting abnormally high demands for credit, interest rates rose and many requests for credit were not met as readily as in the immediate past. When credit is not made as available as borrowers would like, the dollar amount of spending for goods and services does not reach the level it could have attained had all borrowers' demands been fully satisfied. The question is, "Why was credit not made as freely available in 1956 as was desired by the nation's businessmen and consumers?"

#### Restraint in 1956

The economy was straining at the seams throughout 1956. Our human resources were almost fully and continuously engaged, and weekly earnings were at peak levels. Industrial production, in spite of the month-long

steel strike, established new records in the Fall. Commercial and industrial construction, public works, and other investment plans made exceedingly heavy demands for capital funds. The level of business and consumer spending during the year provided the basis for the highest level of personal income yet reached. The strength of all these forces was reflected in capacity operations in many basic lines, and they led to claims for higher rates of pay and exerted upward pressures on prices.

In 1956 the roots of inflation were developing strength and spreading widely. The objective of Federal Reserve credit policy throughout the year was to restrain overoptimism and the speculative excesses which may develop when demands for credit and goods are high relative to the supply and continuing price rises are anticipated. The

purpose of this policy was to limit creditbased demands for goods and services and thus to ease some of the potential upward pressures on prices.

To accomplish this objective, the System conducted its open market purchases and sales in a manner to permit the monetary tightness inherent in an excess of demands for funds over the available supply, and the Reserve banks raised their discount rates twice during the year, in April and again in August. A definitive evaluation of the success of this policy must necessarily lie in the future, but the price rises which have taken place during the year remind us of some of the limitations of monetary actions alone, especially in the short run.

No one likes to have his spending plans disturbed. Yet the purpose of monetary restraint is to curb some spending that would take place if this restraint were not present. Most of us agree that inflation is highly undesirable, and we agree that something should be done to prevent its development. Nevertheless, restraint becomes more and more unpopular as it reaches into the specific plans of individuals and business firms.

During the course of the year, there were many complaints from particular segments of the economy that a restrictive credit policy was denying to them an "equitable" share of available funds. Some state officials and school boards indicated that they could not obtain funds for school construction, either because they would not pay the higher interest rates demanded in the market or because the funds were just not forthcoming at the rates specified. Some, whose direct interest is in residential construction, deplored the scarcity of funds available for home mortgage loans because market conditions offered

more attractive outlets for investment elsewhere. Some maintained that "small business" was being crucified by the tight money policy.

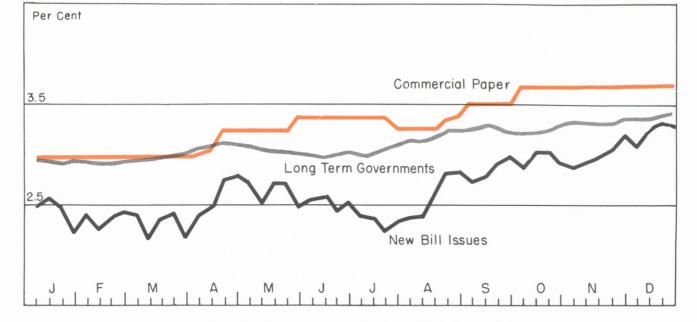
#### The Things We Want

What do we want the economy to do for us? Probably the first thing to come to mind is "to provide enough jobs." And immediately after this we might add "to provide a continuing flow of goods and services to meet the wants of the people—not just the needs but the wants." Implicit in both of these answers is the desire for stability—stability of employment and stability of income—and ever-rising standards of living. It is in the maintenance of stability and economic growth that credit policy plays so crucial a role.

When we say we want our economy to satisfy the wants of the people, we point to the fundamental difference between a truly free society and one subject to government edict. What we really mean by this is that we want the resources of the country allocated under relatively free market arrangements in which each person, according to his resources, is able to offer goods and services for sale and is able to bid for the purchase of goods and services offered by others.

The very essence of a free market is flexibility in the prices of individual commodities. The people who provide things for sale in the market want to get as good a price as they can; the people who come to the market to buy want their incomes to go as far as possible. As consumer and business preferences change, it is primarily through price adjustments of the commodities involved that production is either encouraged or discouraged.

A flexible pricing mechanism both reflects changes in the relationship of demand for



INTEREST RATE PATTERNS IN 1956

particular goods to the available supply and influences the decisions of buyers and sellers in the disposition of their resources. In so doing, the pricing mechanism becomes the vehicle through which the nation's resources are best allocated according to the individual wishes of our millions of people.

#### The Role of Price Stability

Although it is highly desirable to have prices of individual items free to move either upward or downward, according to the existing demand-and-supply relationships, it is highly undesirable to have the prices of a large number of goods and services moving simultaneously in one direction or the other. Such broad movements create serious inequities among the various sectors of our economy. In an inflationary period, many incomes do not move upward as rapidly as prices, and these incomes will, therefore, buy less for their recipients than heretofore. These people have their standards of living reduced as a result of the price rise. Debtor-creditor

relationships are disturbed by price changes. The debtor, for example, in a deflationary period, must pay back the same amount of dollars he borrowed earlier, but the dollars he must use now to make the repayment are more valuable dollars than those he received when he borrowed the money—the dollars now will buy more goods and services because prices have declined.

In addition, therefore, to providing us all with a continuing opportunity to strive for ever higher standards of living, each according to his own personal preferences, we would like our economy to provide us with stability in the purchasing power of our money, which is simply another way of saying over-all stability in the general level of prices.

#### Objectives of Federal Reserve Credit Policy

The Federal Reserve System is the nation's central banking system. It is the source of the nation's money supply and its operations are all within the financial arena. Federal

Reserve's contribution, therefore, toward promoting conditions favorable to high levels of employment, sustainable economic growth, and stability in the purchasing power of the dollar must be initially in the realm of money and credit.

The Federal Reserve System is able to influence strongly general credit conditions by affecting the availability and cost of reserve funds to commercial banks. Changing degrees of ease or tightness in the commercial banking system, in addition to affecting bank lending and investing policies, fan out quickly to other financial markets and eventually affect lending conditions throughout the country. Federal Reserve operations to affect the reserve positions of commercial banks also have some direct effects in the money markets, and these effects supplement and quicken the spread of the changed credit conditions through financial institutions and other markets to blanket the nation.

#### Federal Reserve Influence

However great may be the System's influence in the credit markets of the country, credit policy is by no means the only factor affecting the progress of the economy. The Chairman of the Board of Governors of the Federal Reserve System recently while emphasizing the importance of monetary policy also pointed to the limited scope and power of the System's operations in a statement of the long-run purpose, "to minimize economic fluctuations caused by irregularities in the flow of credit and money, foster more stable values, and thus make possible the smooth functioning of the monetary machinery so necessary to promote growth of the country and to improve standards of living." He stated, "Credit and monetary policy alone, of course, cannot attain the indicated goal of steady economic progress. But credit and monetary policy is an indispensable element in the achievement of stable progress."

In what ways do changing credit conditions affect economic activity—employment, production, consumption? Credit plays a very important role in our market economy. It enables savings to be re-employed, thus maintaining the level of total spending in the economy and diverting a large share of it to the acquisition of capital goods which enlarge our productive capacity. Credit outlets also make saving profitable and thus encourage the building up of funds to meet future needs or to provide security in old age.

Just as in the case of other scarce resources, credit is made available through market processes in which price is an important allocating device, although not the only one. There is a demand for credit by many different kinds of borrowers, such as farmers. consumers, business firms, home builders; and the supply of credit is provided by many different lenders: banks, insurance companies, savings and loan associations, sales finance companies, and others. Changes in the price of credit, in interest rates, reflect the varying degrees of demand relative to supply. And such changes in price have a great influence on the suppliers of funds as they strive to achieve the most advantageous distribution of their resources in keeping with the liquidity and safety needs of their institutions.

The Federal Reserve System operates within this highly competitive market arrangement. It operates at the fountainhead of our credit structure—the reserve positions of the commercial banks and the shortest term money markets. The ease or tightness that Federal Reserve is able to bring about

in these areas is transmitted throughout the credit structure of the country by the competitive forces at work in the various markets for credit. Thus, the over-all availability of credit may be strongly influenced by actions taken by the nation's central bank. It should be remembered, however, that availability of funds to a particular group of borrowers is determined not by selective action by Federal Reserve but by the competitive forces at work in these markets.

#### Credit Plays Dynamic Role

Businessmen and consumers borrow money, whether in large sums or small, for the purpose of making purchases. So long as total borrowing is just equal to funds made available for lending by savings, the credit process will not induce demand pressures in the economy which tend to alter prices. Should the demand for credit be less than funds available from savings, so that large idle balances are held by financial institutions, this would reflect a decline in the demand for goods and services. Prices and profits would tend to fall and, unless reduced interest rates and easy availability of credit induce an increased use of borrowed funds, unemployment and declining production would follow.

In this sort of situation some limitations of credit policy appear. Credit can be made available on attractive terms to borrowers; but if the business outlook is clouded or job tenures insecure, this may not be sufficient to induce an increased use of credit. Something more than credit policy may be needed to alter the prevailing economic psychology toward the optimism needed to bring about increased spending.

On the other hand, borrowings can exceed the funds made available from savings only through the creation of additional money by the banking system. This has been the case through most of the World War II and postwar periods. It is through credit—bank credit—that new money is created. New money in the markets means added purchasing power over goods and services in excess of that under which the existing price structure was established. If available resources are already fully employed and new production cannot be forthcoming immediately, there will be a strong tendency for the general level of prices to rise.

Such price instability tends to induce overproduction in the areas affected, the extension of productive capacity beyond normal needs, speculative overinvestment in inventories, and other excesses, including speculation in the exchanges. The difficult task of monetary policy under such conditions is to prevent inflationary excesses without endangering expansion itself.

#### The Choice To Be Made

As indicated above, the allocation of scarce commodities (in this case, credit) always leaves some wants unsatisfied. But when inflation threatens, we must decide which of the alternatives is least disruptive to the economy as a whole and over the long run. Having decided that we do not want inflation and its accompanying evils, we wish to have as equitable a distribution of our scarce resources as possible; and in this country, we have chosen the market system for this purpose. It bears repeating that Federal Reserve credit policy operates within our market framework, affecting the general tone of credit conditions, but not having anything at all to do with the actual distribution of scarce funds that finally is determined by the composite judgment of the market place.

## A Year's Activity

There are certain years in an organization's operations that receive little attention in terms of anniversary celebrations. At the Federal Reserve Bank of Richmond and its Baltimore and Charlotte branches 1956 was such a year. For the head office, it marked the forty-second full year of doing business, for Baltimore the thirty-eighth, and for Charlotte the twenty-ninth. Uncelebrated though it was, the year was nonetheless a big and busy one for the bank and branches.

#### Volume of Operations

On the operations side, where volume figures summarize a story of increased activity, the three offices handled 245,144,000 checks amounting to \$85,340,610,000, with Richmond's totals coming to 130,425,000 and \$46,-751,258,000, Baltimore's to 66,685,000 and \$18,623,717,000, and Charlotte's to 48,034,-000 and \$19,965,635,000. In currency received and paid out a breakdown of the threeoffice total of 845,959,929 pieces, amounting to \$5,116,435,605, showed Richmond handling 439,735,440 pieces totaling \$2,706,790,-261, Baltimore 230,366,270 pieces totaling \$1,424,240,501, and Charlotte 175,858,219 pieces totaling \$985,404,843. Of the total of 1,360,504,170 coins received and paid out, amounting to \$110,593,255, Richmond's portion came to 448,589,159 pieces and \$37,889,-849, Baltimore's to 679,400,082 pieces and \$52,945,632, and Charlotte's to 232,514,929 pieces and \$19,757,774. Currency and coin figures include new money received from the Treasury as well as money sent to and received from banks.

Richmond handled 210,649 non-cash collection items during the year amounting to \$85,725,224, Baltimore 617,559 totaling \$225,224,732, and Charlotte 41,854 totaling \$54,253,390, bringing the three-office total to 870,062 and \$365,203,546. Of 143,336 transfers of funds for member banks totaling \$58,736,553,361, Richmond took care of 67,826 amounting to \$25,845,650,918, Baltimore 28,531 totaling \$9,551,874,704, and Charlotte 46,979 totaling \$23,339,027,739.

#### **Directorate Changes**

Elected by the member banks during the year were Robert Gage as a Class A director to succeed J. K. Palmer and Wm. A. L. Sibley to a second three-year term as a Class B director.

The Board of Governors re-designated John B. Woodward, Jr. chairman of the board for 1957, re-appointed Alonzo G. Decker, Jr. to a new three-year term as Class C director, with re-designation as deputy chairman, and named William H. Grier to a second three-year term as a director of the Charlotte Branch.

The head office board named two new branch directors, James W. McElroy at Baltimore, to succeed Charles W. Hoff, and Charles D. Parker at Charlotte, to succeed Archie K. Davis.

#### Appointments to Advisory Groups

The head office board of directors also reappointed Robert V. Fleming as the Fifth District representative on the Federal Advisory Council for 1957 and earlier in the year

appointed Edwin Hyde, a former Class B director, to the Industrial Advisory Committee. Ross Puette and John L. Whitehurst retired as members of this committee after many years of service.

#### Official Changes

Moving up in the official staff in 1956 were Joseph M. Nowlan to vice president and cashier; J. Dewey Daane and Thomas I. Storrs to vice president; and Charles W. Williams to economic adviser. Three new officers were named in December: Edmund F. Mac Donald and George W. McKinney, Jr., were elected assistant vice presidents and R. Pierce Lumpkin was promoted to financial economist, a new official position.

The bank lost a valued member of its official staff in December when James W. Dodd, Jr., assistant vice president, died as the result of injuries received in an automobile accident. He had been a member of the staff since 1933.

#### Other Activities

Long-standing needs for additional and improved working areas in the three offices continued to receive attention in 1956. Of particular significance at the head office were the alterations to the main banking room to provide for better lighting and air conditioning. Renovation and modification of five elevators also were completed during the year. At the Baltimore Branch, a shortage of some materials and scarcity of skilled labor in certain trades deferred completion of the four-floor addition that began in 1955. Cer-

tain areas of the building were completed and occupied, however, and two of four new automatic elevators were installed. Improvements at the Charlotte Branch are covered on other pages of this report.

Another mark of progress during the year showed up in the Telegraph and Switching Center at the head office. As conversion was completed by all Federal Reserve Banks to a method of sending and receiving transfers of funds and securities over the leased wire system in clear language instead of code, the Center upped its number of circuits from 12 to 19, the number of originating stations from 40 to 98, and the number of receiving stations from 45 to 120. During 1956 the Center, which is the central control and interchange of all telegraphic communications between all Federal Reserve Banks and branches, the Board of Governors, and the Treasury Department, transmitted a total of 1,578,000 messages.

#### New Member Banks

Four banks in the Fifth District became members of the Federal Reserve System in 1956, one, the newly-chartered Warwick National Bank, Warwick, Virginia, and the other three converted nonmembers. These were: Ohio Valley National Bank of Vienna, Vienna, West Virginia (formerly the Ohio Valley Bank); Carolina National Bank of Easley, South Carolina (formerly the Easley Bank); and the First National Bank of Raleigh, Raleigh, North Carolina (formerly the Bank of Raleigh).

#### COMPARATIVE STATEMENT OF CONDITION

ASSETS:	DECEMBER 31, 1956	DECEMBER 31, 1955
Gold certificates	\$1,315,476,176.09	\$1,275,459,867.17
Redemption Fund for Federal Reserve notes	71,140,170.78	72,427,230.78
Total Gold Certificate Reserves	1,386,616,346.87	1,347,887,097.95
Federal Reserve notes of other banks		38,249,760.00
Other cash	18,748,368.68	23,787,968.28
Discounts and advances	4,525,000.00	4,175,000.00
U. S. GOVERNMENT SECURITIES:		
Bills		88,530,000.00
Certificates		348,812,000.00
Notes		834,571,000.00
Bonds	172,501,000.00	165,062,000.00
TOTAL U. S. GOVERNMENT SECURITIES	1,515,191,000.00	1,436,975,000.00
TOTAL LOANS AND SECURITIES	1,519,716,000.00	1,441,150,000.00
Due from foreign banks	1,135.39	1,113.13
Uncollected cash items	417,564,495.66	437,744,631.04
Bank premises	7,219,617.41	5,218,406.37
Other assets	15,336,514.24	9,160,589.14
TOTAL ASSETS	\$3,396,551,278.25	\$3,303,199,565.91
LIABILITIES:		
Federal Reserve notes	\$2,181,224,185.00	\$2,024,916,515.00
DEPOSITS:		
Member bank—reserve accounts	814,960,898.02	833,907,250.82
U. S. Treasurer—general account		17,776,533.41
Foreign		19,300,000.00
Other	8,820,000.76	21,225,299.95
Total Deposits	867,361,009.41	892,209,084.18
Deferred availability cash items	283,633,909.54	325,780,232.00
Other liabilities	969,841.45	611,860.02
TOTAL LIABILITIES	3,333,188,945.40	3,243,517,691.20
CAPITAL ACCOUNTS:		
Conital naid in	14,817,100.00	13,771,500.00
Capital paid in Surplus (Section 7)		35,011,852.68
Surplus (Section 13b)	3,349,144.81	3,349,144.81
Other capital accounts		7,549,377.22
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$3,396,551,278.25	\$3,303,199,565.91
Contingent liability on Acceptances Purchased for Foreign Corresponden		\$ 1,675,000.00
Commitments to make industrial loans		11,250.00

#### COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

Earnings:	1956	1955
Discounts and advances		\$ 567,773.21
Fees received on commitments to make industrial loans	25.89	210.11
Interest on U. S. Government securities Other earnings	34,751,768.77 15,578.56	23,436,368.44 8,490.13
Other earnings	10,010.00	0,490.15
Total Current Earnings	35,660,600.68	24,012,841.89
Expenses:		
Operating expenses (including depreciation on bank premises) after deductin	g	
reimbursements received for certain Fiscal Agency and other expenses	8,072,007.04	7,183,650.33
Assessments for expenses of Board of Governors  Cost of Federal Reserve currency	272,100.00 599,519.72	213,100.00 445,423.66
Net Expenses	8,943,626.76	7,842,173.99
Current Net Earnings	_ 26,716,973.92	16,170,667.90
Additions to Current Net Earnings:		
Profit on sales of U. S. Government securities (net)	16,960.10	
All other		482.68
Total Additions		482.68
DEDUCTIONS FROM CURRENT NET EARNINGS:		
Loss on sales of U. S. Government securities (net)		55.37
Reserves for Contingencies		51,954.86
All other		995.23
Total Deductions	_ 54,354.07	53,005.46
Net Additions (+) or Deductions (-)		-52,522.78
NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY	\$26,683,619.04	\$16,118,145.12
Paid U. S. Treasury (Interest on Federal Reserve notes)	\$23 237 534 75	\$13,786,647.54
Dividends paid	864.153.90	799,650.62
Transferred to surplus (Section 7)	2,581,930.39	1,531,846.96
Total	\$26,683,619.04	\$16,118,145.12
SURPLUS ACCOUNT (Section 7)		
	¢25 011 050 c0	\$22 480 00E FO
Balance at close of previous year Addition a/c profits for year		\$33,480,005.72 1,531,846.96
BALANCE AT CLOSE OF CURRENT YEAR.		\$35,011,852.68
CAPITAL STOCK ACCOUNT		
(Representing amount paid in, which is 50% of amount sul	oscribed)	
Balance at close of previous year	\$13,771,500.00	\$12,618,200.00
Issued during the year	_ 1,051,700.00	1,160,800.00
	14,823,200.00	13,779,000.00
Cancelled during the year		7,500.00
BALANCE AT CLOSE OF CURRENT YEAR	\$14,817,100.00	\$13,771,500.00



### Federal Reserve

#### DIRECTORS

John B. Woodward, Jr.

Chairman of the Board and Federal Reserve Agent

Alonzo G. Decker, Jr.

Deputy Chairman of the Board

CLASS A

Daniel W. Bell

President and Chairman of the Board, American Security and Trust Company

Washington, D. C.

Robert Gage

President, The Commercial Bank

Chester, South Carolina

Joseph E. Healy

President, The Citizens National Bank of Hampton

Hampton, Virginia

CLASS B

L. Vinton Hershey

President, Hagerstown Shoe Company

Hagerstown, Maryland

Robert O. Huffman

President, Drexel Furniture Company

Drexel, North Carolina

Wm. A. L. Sibley

Vice President and Treasurer, Monarch Mills

Union, South Carolina

CLASS C

D. W. Colvard

Dean of Agriculture, North Carolina State College of Agriculture and Engineering

Raleigh, North Carolina

Alonzo G. Decker, Jr.

Executive Vice President, The Black and Decker Manufacturing Company

Towson, Maryland

John B. Woodward, Jr.

Chairman of the Board, Newport News Shipbuilding & Dry Dock Company

Newport News, Virginia

#### MEMBER FEDERAL ADVISORY COUNCIL

Robert V. Fleming

Chairman of the Board, Riggs National Bank

Washington, D. C.

# Bank of Richmond 55



#### **OFFICERS**

Hugh Leach	President	Edward A. Wayne	First Vice President
N. L. Armistead	Vice President	R. Pierce Lumpkin	Financial Economist
Robert L. Cherry	Vice President	Edmund F. Mac Donald	Assistant Vice President
J. Dewey Daane	Vice President	George W. McKinney, Jr.	Assistant Vice President
Donald F. Hagner	Vice President	John L. Nosker	Assistant Vice President
Aubrey N. Heflin	Vice President and General	G. Harold Snead	Chief Examiner
	Counsel Vice President	Clifford B. Beavers	Assistant Cashier
Upton S. Martin		E. B. Coleman	Assistant Cashier
Joseph M. Nowlan	Vice President and Cashier	John G. Deitrick	Assistant Cashier
James M. Slay	Vice President	J. Gordon Dickerson, Jr.	Assistant Cashier
Thomas I. Storrs	Vice President	Robert R. Fentress	Assistant Cashier
C. B. Strathy	Vice President and Secretary	H. Ernest Ford	Assistant Cashier
Charles W. Williams	Economic Adviser	Victor E. Pregeant, III	Assistant General Counsel
Robert G. Howard	Assistant Vice President	Wythe B. Wakeham	Assistant Cashier

R. S. Brock, Jr.

General Auditor

#### INDUSTRIAL ADVISORY COMMITTEE

Overton D. Dennis

Dominion Oil Company Richmond, Virginia Edwin Hyde

President, Miller & Rhoads, Inc. Richmond, Virginia Walker D. Stuart

President, Richmond Hardware Company Richmond, Virginia

### Baltimore Branch



#### DIRECTORS

Gordon M. Cairns Dean of Agriculture, University of Maryland

College Park, Maryland

Wm. Purnell Hall Executive Vice President,

Maryland Shipbuilding & Drydock Company, Inc.

Baltimore, Maryland

James W. McElroy Executive Vice President, First National Bank of Baltimore

Baltimore, Maryland

Charles A. Piper President, The Liberty Trust Company

Cumberland, Maryland

John W. Stout President, The Parkersburg National Bank

Parkersburg, West Virginia

Stanley B. Trott President, Maryland Trust Company

Baltimore, Maryland

Clarence R. Zarfoss Vice President, Western Maryland Railway Company

Baltimore, Maryland

#### **OFFICERS**

Donald F. Hagner Vice President

A. A. Stewart, Jr. Cashier

B. F. Armstrong Assistant Cashier

E. Riggs Jones, Jr. Assistant Cashier

A. C. Wienert Assistant Cashier

### Charlotte Branch

#### DIRECTORS

William H. Grier Executive Vice President, Rock Hill Printing and Finishing Company

Rock Hill, South Carolina

Charles D. Parker President, First National Bank and Trust Company

Asheville, North Carolina

Ernest Patton Chairman of the Board, Peoples National Bank

Greenville, South Carolina

Ivey W. Stewart President, The Commercial National Bank

Charlotte, North Carolina

Paul T. Taylor President, Taylor Warehouse Company

Winston-Salem, North Carolina

G. G. Watts President, Merchants and Planters National Bank

Gaffney, South Carolina

T. Henry Wilson President and Treasurer, Henredon Furniture Industries, Inc.

Morganton, North Carolina

#### **OFFICERS**

Robert L. Cherry Vice President

S. A. Ligon Cashier

R. L. Honeycutt Assistant Cashier

E. C. Mondy Assistant Cashier



