



1960

FEDERAL RESERVE BANK OF RICHMOND
ANNUAL REPORT

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To the Member Banks:

We are pleased to present the Annual Report of the Federal Reserve Bank of Richmond for the year 1960. This year's report features the entire Federal Reserve System—its objectives, its structure, its policy tools, and its monetary policy actions during the past year. We hope that this presentation will help clarify the Federal Reserve's role as the nation's central bank, and that it will contribute to a better understanding of what the exercise of the System's monetary and credit powers may reasonably be expected to accomplish. In addition, the report contains a summary of Fifth District operations, a current list of officers and directors, and comparative financial statements.

On behalf of the directors and staff, we wish to express our appreciation for your cooperation and support throughout the year.

Very truly yours,

Chairman of
the Board

President

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THE FEDERAL RESERVE AT WORK

THE FEDERAL RESERVE AT WORK



*"Federal Reserve Cuts Bank Rate
To Spur Lending"*

*"Fed Cuts Stock Margin Requirement
to 70 PC"*

"Vault Cash Added To Reserves"

*"Fed Security Purchases Boost Bank
Free Funds"*

These captions from 1960 issues of leading New York newspapers clearly show the Federal Reserve often made big news in 1960. The "big news" brought numerous questions from the public.

"What is the 'Fed'?" "What does it do?" "How do its actions affect the economy?" "How does it establish policy?" "What are its aims?" "How effectively can it accomplish its objectives?" Answers to these questions lie at the heart of our nation's financial mechanism.

SYSTEM POLICY OBJECTIVES

The Federal Reserve System is the nation's central bank. Like other central banks throughout the world, its chief responsibility is to regulate the flow of money and credit in order to promote economic stability and growth. It also performs many service functions for commercial banks, the Treasury, and the public.

Its policy is aimed at providing monetary conditions favorable to the realization of three objectives: a high level of employment, stability in the over-all price level, and an environment geared to a growing economy. All System policy actions are conducted with all three goals in mind even though business developments at times alter the relative urgency of the three. Policies of restraint and ease are but two phases of System efforts to achieve these three aims.

The three ultimate goals of System policy are interrelated and interdependent. Without high employment an economy can neither remain prosperous nor grow. With persistent inflation, business practices become wasteful; speculation replaces productive activity; and excesses leading to economic collapse may develop. Finally, high employment and a stable price level promote the kind of savings, incentives, and enterprise needed for economic growth. Hence, System policies designed

to maintain high employment and foster price stability also produce a monetary environment conducive to long-term growth.

STRUCTURE OF THE FEDERAL RESERVE SYSTEM

The System has several important parts: member banks, the Federal Reserve Banks, the Board of Governors, the Federal Open Market Committee, and the Federal Advisory Council.

MEMBER BANKS At the base of the Federal Reserve pyramid are the System's 6,200 member banks. All national banks must be members, and State banks may join if they meet certain requirements. Member banks hold nearly 85 per cent of all commercial bank assets and deposits although less than half the nation's commercial banks belong to the System.

There are three classifications of member banks. The larger New York and Chicago banks are called central reserve city banks, most member banks in 49 other cities are classified as reserve city banks, and all other banks are called country banks.

Membership conveys many privileges but also involves obligations. Obligations include: holding specified reserves against deposits; subscribing to capital stock of the district Federal Reserve Bank; complying with various requirements of Federal banking law; completing necessary System reports; and in the case of State member banks, being examined and supervised by the Federal Reserve Banks.

Among the more important advantages a bank receives from System membership are the prestige of being a member bank and the privileges of borrowing under certain conditions from the Federal Reserve Banks, using System check collection and wire transfer facilities, obtaining currency and coin free of transportation costs, receiving an annual cumulative 6 per cent dividend on its Federal Reserve Bank stock, voting in the election of six of the nine directors of the district Federal Reserve Bank, and requesting information and receiving aid on various problems from the Federal Reserve staff.

FEDERAL RESERVE BANKS The country is divided into twelve Federal Reserve districts—each with a Federal Reserve Bank. There are also 24 Federal Reserve Bank branches serving particular areas within the districts. Cities with Federal Reserve head offices are: Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. These 36 Reserve Bank offices comprise the second level of the pyramid.

The corporate structure of Federal Reserve Banks resembles that of commercial banks. All issue capital stock, have boards of directors who elect their officers, have many similar official titles and departments, and obtain their earnings largely from interest on loans and investments.

There are three main differences, however, stemming from the Reserve Banks' responsibilities to the public. First, the powers of Reserve Bank directors differ considerably from those of commercial bank directors. Second, Reserve Banks are not profit-motivated, although they do earn large profits. Expenses and member bank dividends absorb some earnings, but most are turned over to the U. S. Treasury as "interest" on Federal Reserve notes. In 1960 dividends totaled \$24,000,000, and payments to the Treasury ran \$897,000,000. Third, if the Reserve Banks should ever be liquidated, the Federal Government would receive any assets remaining after the stock was paid off at par.

Each Reserve Bank has three Class A directors, three Class B directors, and three Class C directors. Member banks elect both Class A and Class B directors by ballot. Those in Class A must be representatives of the member bank stockholders and usually are commercial bankers. Class B directors must be actively engaged in agriculture, industry, or commerce and may not be either bank officers, directors, or employees. Class C directors—one of whom is designated as chairman and one as deputy



chairman of the board—are appointed by the Board of Governors. A Class C director may be neither a director, officer, employee, nor stockholder of any bank.

In addition to their regular duties in overseeing the operations of the Reserve Banks, the boards of directors also have certain duties in the field of monetary policy. First, they establish, subject to the approval of the Board of Governors, the discount rates Federal Reserve Banks charge on short-term loans to member banks. Second, they elect four of the presidents of the Federal Reserve Banks to serve as members of the Federal Open Market Committee. Third, they provide the Reserve Bank presidents and the Board of Governors with an invaluable source of "grass roots" information on district business conditions.

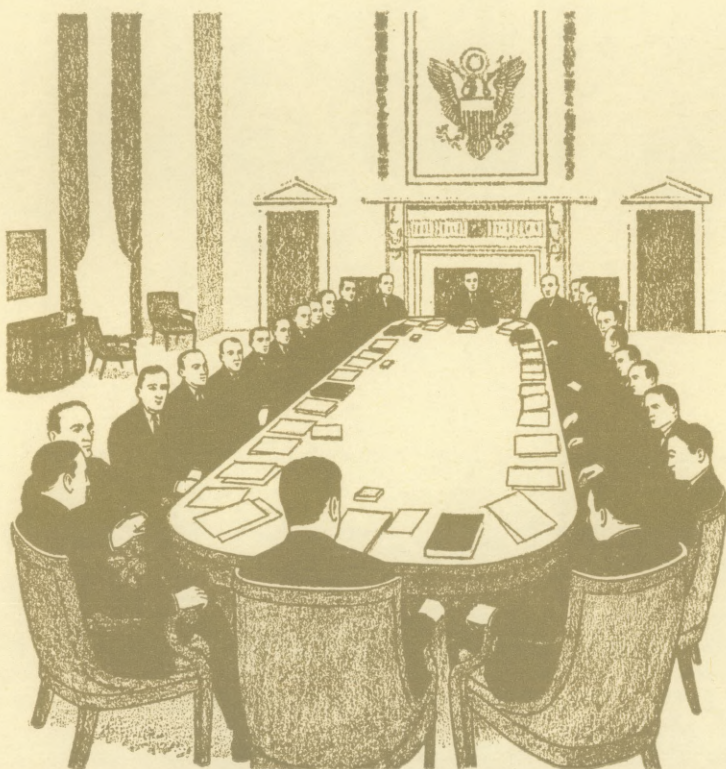
BOARD OF GOVERNORS At the peak of the pyramid is the Board of Governors in Washington. It consists of seven members appointed by the President of the United

States with the advice and consent of the Senate. Board members are appointed for fourteen-year terms and are ineligible for reappointment after having served a full term. No two Board members may come from the same Federal Reserve district. The Chairman and Vice Chairman of the Board are appointed by the President of the United States from among the Board members for a four-year term and can be reappointed.

One of the Board's important duties is supervision. The Board must approve the salaries of all Reserve Bank personnel, the appointment of Reserve Bank presidents and first vice presidents, and the budgets of Reserve Banks. The Board also examines Reserve Banks and branches each year to ensure compliance with regulations and proper control of expenditures. In addition, it coordinates System economic research and data collection and reviews all System publications. It must also approve the establishment of certain member bank branches, some bank mergers, and certain other commercial bank actions.

The Board's prime function, however, is the formulation of monetary policy. In addition to passing upon proposed changes in the discount rate, it has authority to change member bank reserve requirements within specified limits, to set margin requirements for the financing of securities traded on national security exchanges, and to set maximum interest rates payable on member banks' time deposits. Even more important, members of the Board of Governors are also members of the Federal Open Market Committee and participate in the formulation and administration of open market policy.

FEDERAL OPEN MARKET COMMITTEE The Federal Open Market Committee—the System's most important policy-making body—is composed of the seven members of the Board plus the president of the



New York Federal Reserve Bank and four other Reserve Bank presidents. Its main responsibility is to establish System open market policy—the extent to which the System buys and sells Government and other securities. It ordinarily meets every three weeks but sometimes more often.

The Committee's purchases and sales are conducted by the "Trading Desk" of the New York Reserve Bank. Government securities bought outright are then prorated among the twelve Reserve Banks according to a formula based on Bank size.

OTHER COMMITTEES Several other committees also play significant roles in System operations. One is the twelve-man Federal Advisory Council composed of bankers, one from each of the Federal Reserve districts. Members are elected by the boards of directors of the Reserve Banks of their districts. The Council meets in Washington four times a year and advises the Board on important current developments.

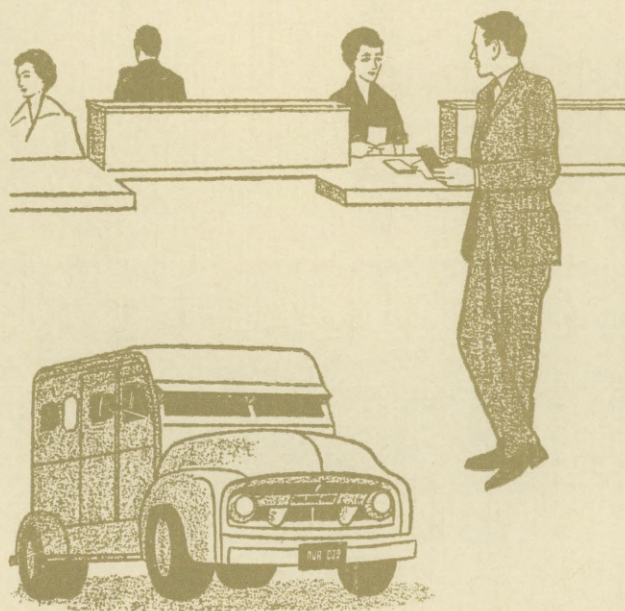
The Conference of Presidents and the Conference of Chairmen also meet periodically to discuss System problems. In addition, several other System committees continuously study System operations and policy problems.

SYSTEM SERVICE FUNCTIONS

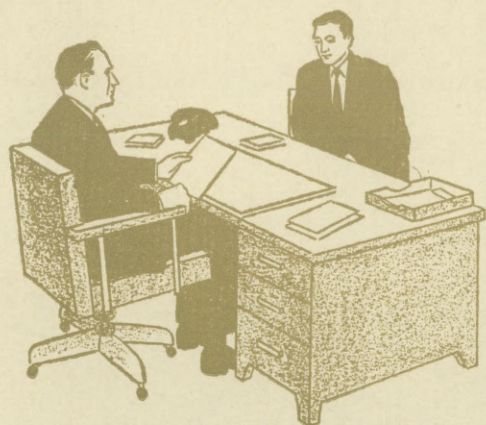
Like most other central banks, the Federal Reserve performs many service functions for the public, the Treasury, and commercial banks.

FISCAL AGENCY FUNCTIONS The twelve Federal Reserve Banks act as the Government's principal fiscal agents. They hold the Treasury's checking accounts, receive applications from the public for the purchase of securities being sold by the Treasury, allot securities among bidders, deliver securities, collect from security buyers, redeem securities, wire-transfer securities to other cities, make denominational exchanges of securities, pay interest coupons, and assist the Treasury and other Government agencies in many other ways. The Reserve Banks receive no compensation for handling the Treasury's checking accounts and redeeming its coupons, but they are reimbursed for most of the other fiscal agency work they perform. During 1960 the System handled for the Treasury about 198 million Government securities valued at \$527 billion.

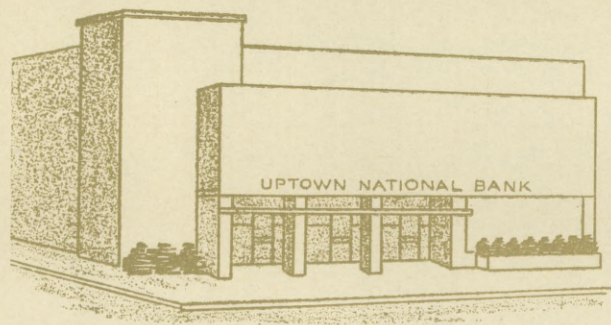
COLLECTION OF CHECKS AND NONCASH ITEMS Federal Reserve Banks also collect for the public vast quantities of bank checks and substantial amounts of noncash items such as drafts, promissory notes, and bond coupons. During 1960 the System processed over 4 billion checks totaling more than \$1.3 trillion and almost 38 million noncash items valued at close to \$11 billion.



WIRE TRANSFER OF FUNDS The System also facilitates payments by making available to member banks a wire service that can be used to transfer funds quickly from one part of the country to another. For example, a Richmond buyer wishing to pay a New York seller the same day can have a member bank request the Richmond Reserve Bank to transfer the funds to the seller's bank. The Richmond Federal Reserve Bank deducts the funds from its member's reserve account, and the New York Federal Reserve Bank credits the reserve account of the New York member bank so that it in turn can credit the seller's deposit. The two Reserve Banks then settle by wire at the end of the day through the System clearing agency—the Interdistrict Settlement Fund in Washington. During 1960 the System made almost 3 million wire transfers totaling about \$2.4 trillion.

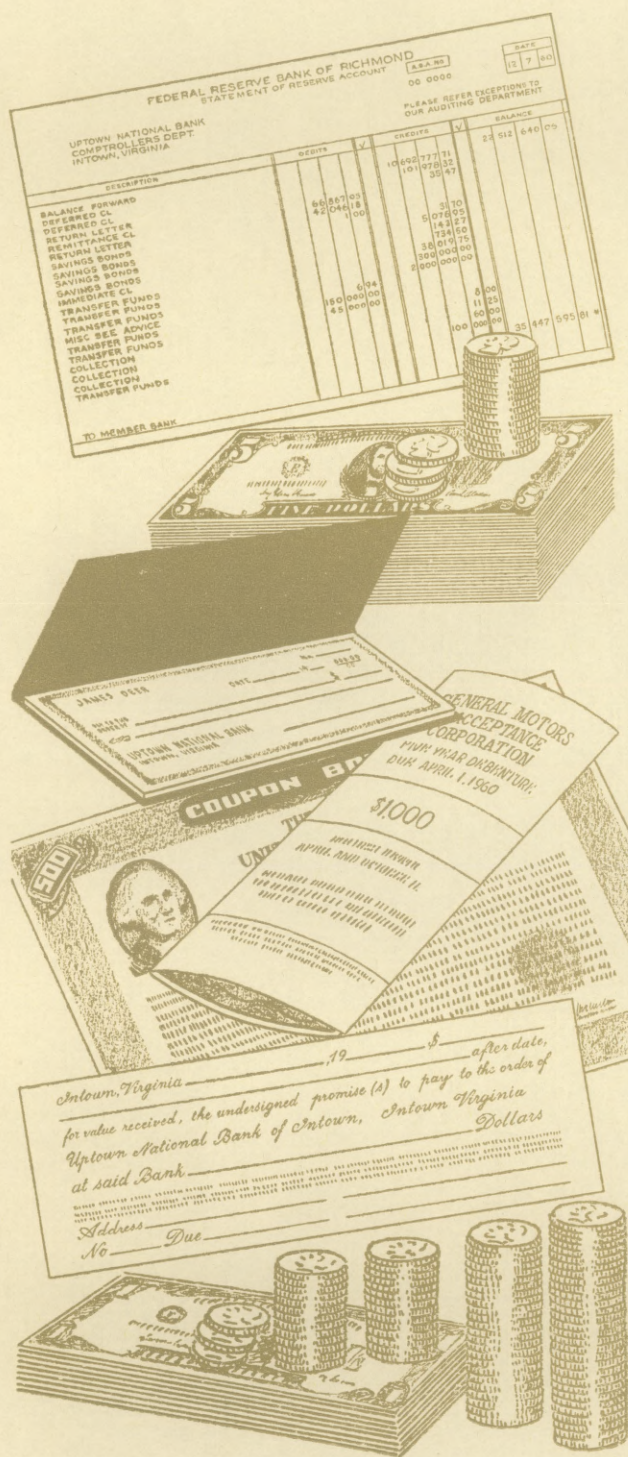


HANDLING OF CURRENCY AND COIN The Federal Reserve Banks are the channels through which practically all cash moves into and out of circulation. When the public withdraws cash from commercial banks, the banks replenish their supply by obtaining shipments from the Reserve Banks. As the public's need for cash tapers off, banks return their surplus money and receive credits to their reserve accounts. During 1960 the System received and counted over 14 million bills and coins valued at nearly \$33 billion.



NOTE ISSUE Approximately 85 per cent of the nation's "pocket money" is issued by the Federal Reserve Banks in the form of Federal Reserve notes. When a Federal Reserve Bank needs more currency to meet the demands of its member banks, it can obtain Federal Reserve notes by pledging gold certificates equal to at least 25 per cent of the value of the notes and the balance in Government securities or "eligible" paper. Conversely, Reserve Banks can retire their notes and recover their pledged gold certificates and securities by returning the notes for cancellation when the demand for currency declines.

OTHER SERVICE FUNCTIONS The Reserve Banks and the Board of Governors also provide many other types of service functions such as answering re-



quests; distributing monthly business reviews and other publications; examining banks; providing speakers for various occasions; and upon request, assisting banks in solving problems.

HOW DOES THE SYSTEM INFLUENCE ECONOMIC ACTIVITY?

System policy operates primarily through affecting the availability of bank credit and the money supply and thereby the volume of spending. While the initial impact is felt by the commercial banking system, effects of monetary policy spread throughout the nation's entire financial mechanism because of the central role played by commercial banks in major loan and securities markets.

WHY COMMERCIAL BANKS ARE DIFFERENT Commercial banks play a key role in monetary policy because they alone among financial institutions can "create" new money. Other financial institutions merely transfer existing money to borrowers when they make loans or investments. The commercial banking system, however, can increase the money supply by paying out cash or setting up new demand deposits when it expands its earning assets. Demand deposits are by far the more important of the two, constituting 85 per cent of the total and accounting for about 90 per cent of all payments.

Of course, not every increase in commercial bank earning assets results in an equal rise in the privately-held money supply—that portion of demand deposits and cash held by the public. Sometimes other types of deposits such as time, Government, or interbank rise instead. Generally, however, an expansion in bank earning assets increases the privately-held money supply.

Here's how the process of money creation works. Assume that the Federal Reserve buys Government securities from a dealer, crediting the reserve account of the dealer's bank in payment. Since commercial banks are profit-motivated, that bank will then probably use its new reserve funds to expand earning assets. Whether it makes loans or invest-

ments, deposits or cash outside banks will increase. If the bank makes loans, it will probably create the new money by crediting its borrowers' demand deposits. If it purchases securities, deposits will rise when the security dealer deposits the funds received from the bank.

If these new deposits are checked out to other banks, reserves of these banks will increase and those of the dealer's bank will decrease. The banks holding these new deposits must then set aside part of their new reserves to meet reserve requirements against their additional deposits but will be able to loan or invest approximately the remaining amount. As they, too, expand earning assets, deposits and possibly public cash holdings will rise still further. Another part of the new reserves will be used to meet reserve requirements against these additional deposits, but some excess reserves will still be available for further loan or investment expansion. Eventually, the process ends when deposits rise to the point that banks must use all the new reserves in meeting reserve requirements. By this time, however, deposits will have increased by several times the original addition to bank reserves.

THE KEY ROLE OF MONEY Money is unique in that nothing else is generally acceptable in payment for goods and services. Other assets such as savings deposits, short-term Treasury securities, and savings and loan shares so closely resemble money that they often perform some of the functions of money. Nevertheless, such assets cannot be spent directly. They must first be converted into money if a holder is to buy something in place of them.

Rising economic activity involves increasing expenditures, and rising expenditures require either additional money or a higher monetary velocity—the rate at which money is spent on goods and services. If expenditures financed with either new money or rising velocity increase faster than the flow of goods and services, inflation results. If expenditures do not keep pace with the flow, demand is insufficient to prevent recession. Thus, a sound economy requires the “right” amount of spending. Since money plays such a key role in the spending process, it is essential that the banking system create neither too much nor too little new money.

THE IMPORTANCE OF BANK RESERVES To a large extent, changes in the volume of bank reserves determine the amount of money banks can create. When reserves increase, banks have an incentive to acquire additional earning assets, which expands deposits or cash outside banks. Conversely, a reduction in reserves usually forces banks to cut back loans and/or investments, thereby reducing deposits and cash outside banks.

The extent to which banks can expand the privately-held money supply on the basis of new reserves varies according to a number of factors. Normally, the lower the reserve requirements, the larger the expansion since less reserves are required for each dollar of deposits. The more “pocket money” expands, the smaller the increase since banks must draw down reserves to obtain cash for their customers. Changes in the volume of deposits that are not part of the private money supply—interbank, Government, and time deposits—can also have important effects by either absorbing or releasing reserves. In addition, shifts of reserves among classes of banks affect credit creation since different groups of member banks hold varying percentages of reserves against deposits. Finally, variations in the volume of excess reserves that banks choose to maintain can increase or decrease expansion limits.

Despite all these variations an increase in the volume of reserves generally results in the creation of additional money, and a decline in reserves usually leads to a reduction in the money supply. Consequently, the Federal Reserve can affect interest rates and the availability of bank credit through its control over the volume of bank reserves. Because the banking system plays such a vital role in the credit mechanism, such effects generally spread throughout all credit markets.

THE IMPACT OF MONETARY POLICY

Monetary policy affects expenditures by influencing the behavior of three different groups: lenders, borrowers, and nonborrowing spenders.

Probably the most important effect is its influence on the availability of lenders' funds. During some periods, for instance, the System may observe inflationary pressures developing as the public's demand for goods and services exceeds the available supply. Since part of this demand is always financed by credit, the System at these times adopts a policy of restraint to try to prevent the volume of loanable funds from increasing as fast as the demands for credit rise.

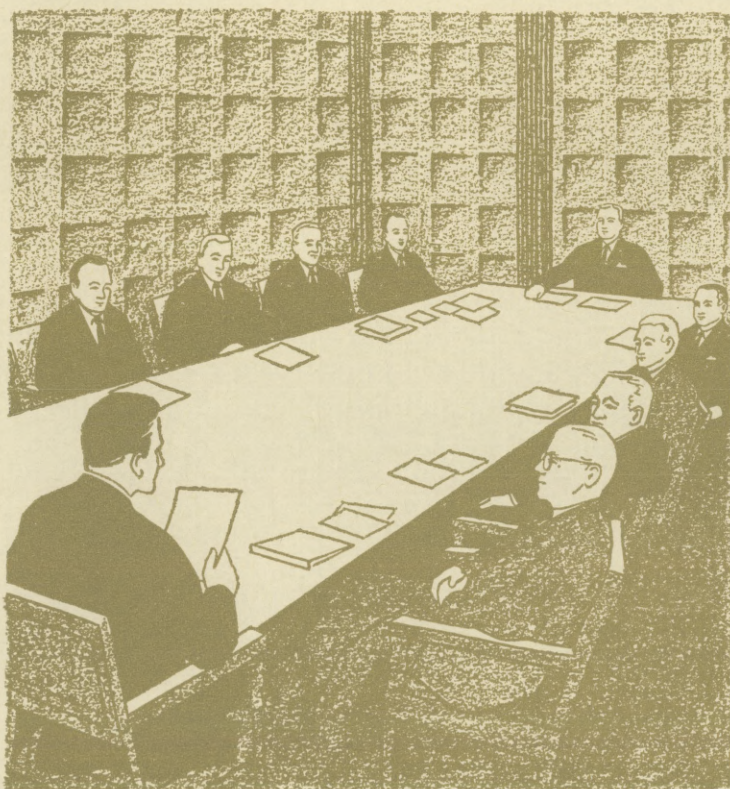
During these periods, lenders may take two types of action to balance credit demands with their available supply of loanable funds. First, they may increase their prices—the interest rates they charge. In many cases, however, interest rates do not rise enough to prevent borrowers' demands from outrunning available funds. Thus, lenders in addition often "ration" credit among borrowers by various means—raising their standards of credit worthiness, requiring larger downpayments, or larger compensating balances in order to limit their available funds to the best credit risks. Marginal borrowers consequently cannot expand their spending since they are unable to obtain as much credit as they want even though they are willing to pay existing interest rates.

On the other hand, the Fed at times may consider it appropriate to increase the availability of credit to give a boost to total expenditures. This "easy money" policy provides lenders with funds to accommodate marginal borrowers previously part of the "unsatisfied fringe of borrowers" and also encourages lenders to reduce interest rates to attract still more borrowers.

Borrowers' credit demands are affected in several ways. When money tightens, some demands—nobody knows exactly how many—are undoubtedly cut back because higher interest rates discourage some marginal projects. The expected difficulty of obtaining the desired credit accommodation also may deter borrowers who have doubts about being able to obtain sufficient funds to complete their projects even though initial financing is available. Legal interest rate ceilings on G-I loans and some State and local bond issues also cut borrowers' demands by removing potential home buyers and governments from the market when prevailing rates exceed the amounts they can legally pay. Portfolio losses, such as declines in bond prices resulting from higher rates, may likewise discourage potential borrowers from undertaking projects. Conversely, easy money can stimulate borrowers' demands by lowering rates, by fostering expectations that funds will be more readily available, and by creating "paper" portfolio profits.

Tight and easy money can also influence the attitudes of spenders who neither borrow nor lend. An effective tight money policy may, for instance, dampen inflation psychology and cause the postponement of some outlays that might otherwise have been made to get ahead of the price rises. In addition, it may cause certain spenders to reduce expenditures by causing portfolio losses in their security holdings. Conversely, easy money can stimulate outlays by fostering a "things-will-get-better" atmosphere and by creating paper profits in spenders' portfolios.

THE TOOLS OF CREDIT POLICY The System has two types of tools with which it can affect the level of economic activity: quantitative or general credit controls and qualitative or selective controls. Quantitative controls influence the volume of bank reserves and, through them, interest rates and the availability of credit. Qualitative controls, however, are directed at a particular kind of credit. The System's quantitative tools are: changes in the discount rate, changes in reserve requirements, and open market operations. At present, the Fed's only qualitative controls are changes in margin requirements on securities listed on national securities exchanges.



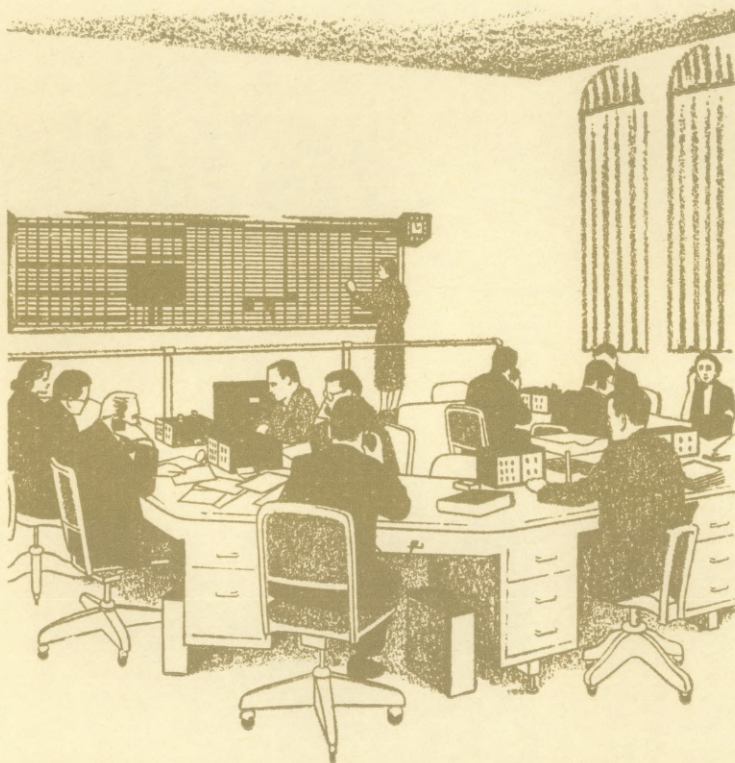
The Discount Rate Perhaps the best known of the quantitative tools is the discount rate—the interest rate charged member banks on loans from Federal Reserve Banks. Member banks can borrow in two ways: by giving their own secured notes or by rediscounting drafts, bills of exchange, or notes from their portfolios. In practice, virtually all banks use their own notes secured by Government obligations.

Changes in the discount rate must be made separately by each Federal Reserve Bank since the Bank's directors initiate the change. Generally, all Reserve Banks act at about the same time, however, since all make their decisions on the basis of the same sort of evidence. Differences in timing result mainly from variations in the meeting dates of the twelve boards of directors. The initial change is the important one, however, since buyers and sellers in the market generally expect that other Reserve Banks will soon take similar actions.

Certain vital effects of changes in the discount rate are psychological. Such effects are particularly important when observers feel the discount rate is being used by the System to signal a shift in the direction of policy. In such cases, the financial markets react immediately—sometimes even in advance of System actions—when the move is anticipated. If the rate is increased, interest rates—particularly those on short-term securities—generally rise and credit markets tighten. Conversely, a cut in the discount rate that clearly signals an easing of policy is ordinarily followed by easier conditions in the money and capital markets. At times, however, the System nudges credit markets first with its open market operations and changes discount rates only to bring them into line with other money rates. Such changes have little immediate effect on the money market since they are discounted well in advance.

Changes in the discount rate also have some direct effects on short-term interest rates by making borrowings from the Central Bank either more or less costly. When the discount rate is increased, banks are more inclined to adjust their reserve positions by selling short-term Government securities rather than through expanding their borrowings at the Fed. The increased sale of securities tends to lower security prices and raise their yields. These higher market yields in turn tend to push up longer-term interest rates.

On the other hand, if the discount rate is lowered during an easy money period, banks are likely to maintain borrowings at the Fed's discount window at a higher level than would otherwise be the case. This tends to push rates lower by encouraging banks to hold larger quantities of Government securities.



Open Market Operations Open market operations are the System's most important credit tool. Operations are conducted primarily in Government securities, but the System also buys and sells bankers' acceptances. Both kinds of securities may be purchased either outright or under repurchase agreements requiring the dealers to buy back the securities within a few days.

Security purchases and sales directly affect the volume of member bank reserves and, consequently, the over-all cost and availability of credit. System purchases increase reserves and enable the banking system to expand credit by a multiple amount. Conversely, System sales reduce reserves and force banks to contract credit.

Open market operations are either defensive or dynamic. Defensive operations are those taken to offset other factors that change the volume of member bank reserves. If, for example, gold out-

flows or increases in Treasury deposits at the Fed are tending to reduce member bank reserves, the System may make offsetting Government security purchases even though it is not trying to ease credit policy. Conversely, during tight money periods, it may buy securities if other factors are tending to reduce reserves too fast. Thus, it is impossible to tell from a sale or a purchase whether the System is tightening or easing unless one knows how other factors are affecting reserves.

Dynamic operations consist of either causing or permitting changes in banks' reserve positions in order to stimulate economic activity or prevent inflation. Even when the System conducts dynamic operations, it often must take defensive measures as well so that the dynamic policy can proceed smoothly.

Reserve Requirements The System's tool with the most immediate and widespread impact is the Board's power to vary member bank reserve requirements within specified limits. On time deposits, the limits are 3 per cent to 6 per cent for all member banks. On demand deposits, they are 10 per cent to 22 per cent for central reserve and reserve city banks and 7 per cent to 14 per cent for country banks.

Changes in reserve requirements affect member bank actions in two ways. First, they either destroy or create excess reserves by changing the amount of reserves required against existing deposits. Reductions in reserve requirements release reserves and generally bring about an expansion in the privately-held money supply. Increases in requirements have the opposite effect. Second, changes in requirements alter the amount of deposits a given volume of reserves can support. If reserve re-

quirements are 10 per cent, \$1,000,000 in additional reserves can support up to \$10,000,000 of new deposits. If requirements are 20 per cent, however, the additional reserves cannot support more than \$5,000,000 of new deposits.

Margin Requirements The Federal Reserve Board also has the right to set margin requirements—the percentage downpayment required when borrowing to finance purchases or holdings of securities listed on national exchanges. There are two separate regulations—Regulation T and Regulation U. Regulation T covers brokers' or dealers' loans to customers. Regulation U regulates commercial bank loans to brokers, dealers, or other customers.

Margin requirements are directed at only one type of credit—that used to finance security purchases and holdings. If expansion of security loans appears to be a factor in undue increases in security prices, requirements can be raised. At other times, when there seems to be little danger of speculation, the System cuts requirements since it prefers not to interfere with the allocation of credit among different sectors of the economy.

Coordination Among Credit Controls Except in the case of defensive open market operations, the Federal Reserve's credit control tools are seldom employed independently of each other. To the contrary, all are coordinated toward the same end—the System's current policy objectives. Thus, it is usually not meaningful to speak of "open market policy," or "discount rate policy," or "reserve requirement policy." Instead, it is more correct to view monetary policy as a broad program embracing the three quantitative controls and margin requirements as well. Action with respect to any single control is always taken in the light of prior or planned action concerning the others.

In selecting various combinations of policy actions, the Federal Reserve considers both psychological and direct effects of its decisions. If it is felt that a psychological effect is needed to reinforce the direct effects, policy measures may well include changes in reserve requirements or the discount rate since these actions are specifically announced whereas open market operations are not. Such changes, of course, cannot be made too frequently without prejudicing their usefulness. This is especially true of changes in reserve requirements because of their large direct effects on bank reserve positions. These limitations on the use of discount rate and reserve requirement changes place a greater burden on open market operations as a tool for attaining policy goals.

The right combination of policy moves necessary to achieve a given end depends on many factors. Policymakers must consider not only domestic economic developments but also the direction and strength of the last policy actions, the length of time since the last moves, the differential impact of alternative policy measures on the structure of interest rates, and the relationships between domestic and foreign interest rates. These factors are constantly changing and, consequently, the optimum policy combination for achieving a given end varies from one period to the next. Thus, monetary authorities must have considerable latitude in the extent to which they use the various tools. While the choice between alternative paths to a given policy goal is secondary to the problem of setting goals, it is an important aspect of monetary policy because of the interdependence of the various policy tools.

THE POLICY-MAKING PROCESS

THE POLICY FORUM The meetings of the Federal Open Market Committee are the System's main policy forum. There both Board and Bank representatives meet regularly to discuss economic developments and reach a policy decision for the weeks immediately ahead. In addition to members of the Board and the five presidents currently serving on the Committee, the remaining Reserve Bank presidents, the manager of the open market account and one of his principal assistants, several senior Board staff members, and the senior economist from each of the Reserve Banks ordinarily attend. In this manner, not only Committee members, but also those presidents who will soon serve on the Committee, the chief advisers to the Board and the presidents, and those who implement the Committee's day-to-day open market policies are always well informed on current policy actions. Cumbersome as this may seem, it nevertheless constitutes probably the smoothest and most efficient way of utilizing the unique contributions of diverse parts of the System to reach the best-informed policy judgments.

PREPARATION FOR THE MEETING Prior to the meeting, each participant arms himself with the best available data on both business conditions and the effects of current Federal Reserve policy. Board members and the presidents receive a steady flow of information and analyses from the research departments of the Banks and Board and their personal contacts with business, academic, Government, and other sources.

Typical of the information sifted and analyzed are statistics on new orders, business incorporations, construction contract awards, retail sales, unemployment, employment, industrial production, personal income, business failures, the international balance of payments, interest rates, the money supply, prices, Government receipts and expenditures, member bank reserves, inventories, State and local government borrowings, bank loans and investments, business and consumer spending intentions, the turnover of demand deposits, and numerous other indicators. In short, by the time the Committee meets every participant is well prepared to contribute to intelligent policy decisions.

THE INTERCHANGE OF OPINION Committee meetings generally fall into two parts—a discussion of recent developments and the formulation of policy for the period ahead. The manager of the open market account typically leads off, reviewing the Trading Desk's experience in implementing open market policy since the last meeting. Senior members of the Board's staff then summarize important business and financial developments, stressing particularly any new developments that might not yet have come to the attention of Committee members.

Next, each Board member and president gives his interpretation of business conditions and makes policy recommendations for the period ahead. Presidents also contribute substantial amounts of "grass roots" information concerning regional developments.

During the course of the discussion, participants frequently express their views as to how all policy instruments—not just open market operations—should be used. No final actions on other instruments can be taken at the Committee meeting, of course, since Committee authority covers only open market

operations. The free discussion of all tools is quite helpful, however, in setting open market policy and provides valuable assistance for those who take part in other kinds of policy actions.

After other participants have summarized their positions, the Chairman of the Board states his views and formulates what he believes to be the consensus of the group. Frequently, additional discussion occurs in working out a Committee position. Finally, a policy directive is adopted stating the policy objectives in broad terms. From the preceding discussion, the manager of the open market account receives his instructions as to what open market actions he should take on behalf of the System.

BETWEEN MEETINGS Between meetings Board members and presidents keep in daily touch with the Trading Desk at the New York Bank. One important means is a detailed phone call around 11 A.M. on business days between senior members of the Board's staff; sometimes the Governors themselves; the management of the open market account; and on a rotating basis, one of the president-members of the Committee. Among the factors discussed are developments in markets for Government and other securities, the tone of the money market, the reserve positions of member banks, inventories of Government security dealers, and the probable course of action to be taken by the Trading Desk. Shortly after the conversation, a senior member of the Board's staff summarizes the content of the conversation in a memorandum for Board members and a telegram for presidents. Thus, any member of the Open Market Committee has ample opportunity to raise with the manager of the account and other Committee members any questions he may have concerning the contemplated action.

In addition, the Desk prepares daily wires summarizing conditions at the opening and closing of the securities markets and numerous written memoranda describing the Desk's operations. Some of these written reports are daily, some weekly, and some less frequent.

FEDERAL RESERVE POLICY IN 1960

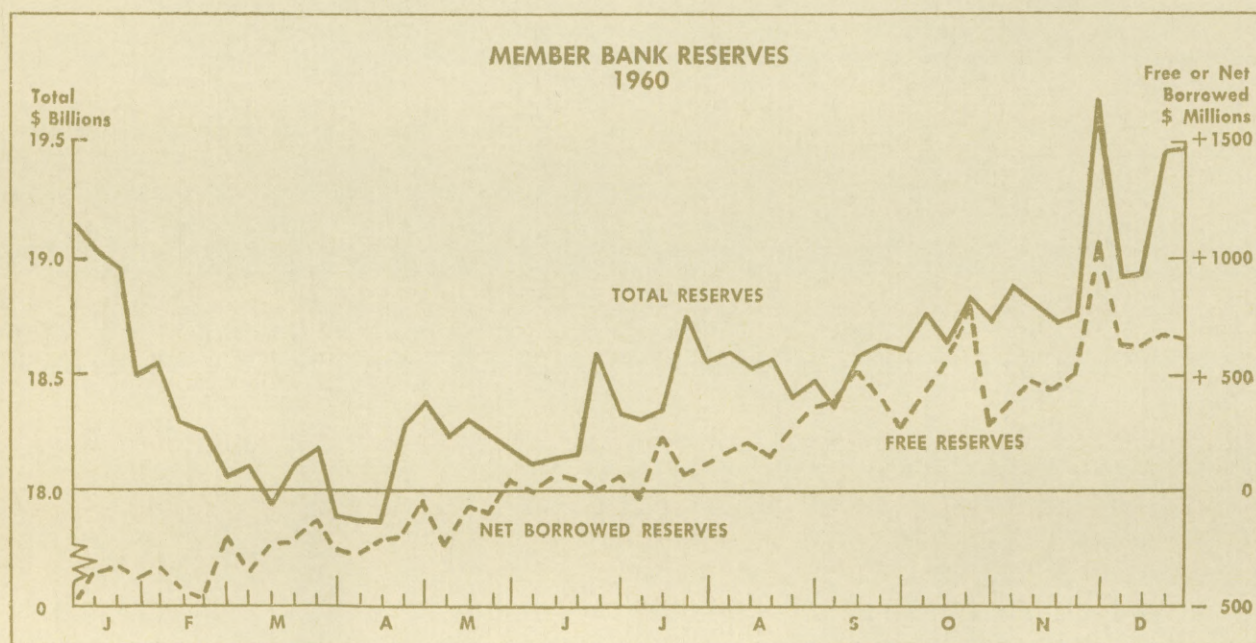
How does Federal Reserve policy work in practice? The year 1960 provides some particularly good examples since System policy shifted considerably during the course of the year.

The System used all its policy tools in 1960 to move credit in one direction—toward more ease. The tools even included a special one authorized by Congress in 1959 and first used in December of that year—the power to allow member banks to count some or all of their vault cash as legal reserves. In 1960 the System also acted under a special Congressional mandate to equalize reserve requirements of central reserve city banks and reserve city banks by July 1962, by twice reducing requirements of central reserve city banks.

Business conditions at the beginning of the year looked strong. Economic activity and employment were at new high levels, and interest rates had risen to the highest levels in 30 years. Recent settlement of the steel strike had raised expectations for a resumption of the 1959 boom. Nearly all forecasts for the first half of the new year were glowingly optimistic. Both consumer and investment demands were strong. Wholesale prices were stable, but consumer prices were inching up, and fears of inflation were widespread. For more than a year the System had been following a policy of restraint. Member bank borrowings at the Fed were over \$900 million, and net borrowed reserves (member bank borrowings minus excess reserves) were nearly \$400 million. Money was "tight."

THE JANUARY-MAY PERIOD

Conditions began to change very shortly after the turn of the year. Steel inventories were rebuilt much sooner than had been expected. Imported automobiles were taking an increasing share of the



market. Several periods of very bad weather slowed activity and further clouded the economic picture. Sales and new orders of manufacturers failed to rise, inventories mounted, and unfilled orders declined. Capacity became more than ample. Soon production in many heavy industries started to decline. Employment remained high, even rose a little with the coming of spring, but weekly hours of work eased and average weekly earnings of workers declined. Stock prices fell 15 per cent between January and the end of April. The Federal Government, instead of borrowing as in previous years, built up a substantial cash surplus which it used to retire debt. Demand for investment funds from several other sources eased also, and interest rates began to decline slowly. Money was definitely "easier."

OPEN MARKET OPERATIONS The System followed these developments closely from day to day. It soon decided that the danger of inflation had passed, at least for the time being, and that it could safely moderate its policy of restraint. This it did by gradually supplying additional reserves through open market operations. System holdings of United States securities rose from \$25.3 billion in March to \$25.8 billion in May; member bank borrowings declined from \$905 million in January to \$502 million in May; net borrowed reserves fell from \$361 million to \$33 million in the same five-month period.

As reserves supplied through the open market increased, member bank borrowings declined. In terms of total reserves, these actions tended to cancel each other. Nevertheless, there was a net easing effect because member banks felt under less pressure as their borrowings at the Fed declined.

THE ECONOMY MOVES SIDEWAYS In this period the Fed acted early to moderate its policy of restraint—perhaps earlier than in any other comparable period. Despite this, the economy continued to move only sideways. The industrial production index seesawed back and forth between 109 and 111. Total employment continued to increase, but manufacturing employment, work weeks, and unfilled orders fell. Personal income and retail sales continued to rise. The rate of inventory accumulation slowed down.

THE JUNE-SEPTEMBER PERIOD

By June the expected spring pickup had not materialized and the economy was moving slightly downward. Economic activity and employment were high, but there were no signs of normal growth, and several areas—such as steel and residential housing—were definitely weak. Workers were joining the labor force at a rate of nearly one million per year, and there were not jobs for all of them. Unemployment exceeded 5 per cent of the labor force. Prices remained stable except for a very slow rise in the consumer price index. Fears of inflation were being replaced by fears of recession. Most economic indicators were either pointing downward or were indeterminate. The System decided that the time had come for broader and more vigorous corrective action. It was now ready to remove the last vestiges of restraint and adopt a policy of ease. To this end it mobilized somewhat heavier artillery.

DISCOUNT RATE The discount rate of the 12 Banks had been 4 per cent since September 1959. Early in June all of the Banks reduced it to $3\frac{1}{2}$ per cent. After another two months they reduced it again, this time to 3 per cent. In each case other short-term interest rates had fallen to or below the new rate, and changes were made to bring the rate into line with other rates and to indicate that the System was adopting a policy of greater ease. In both instances all Reserve Banks acted within a short period of time.

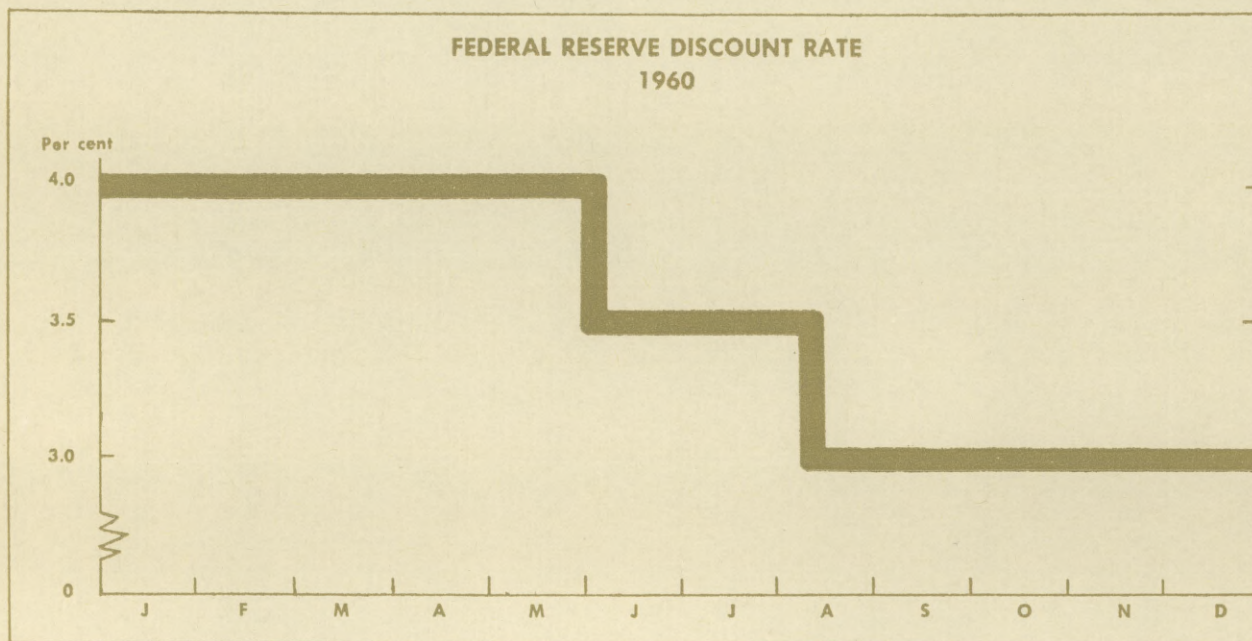
MARGIN REQUIREMENTS In July the Board of Governors reduced the margin requirement on security purchases from 90 per cent to 70 per cent. In view of the substantial decline in stock prices which had been going on irregularly for seven months, it was felt that margin requirements could be safely cut without stimulating undesirable speculation.

RESERVE REQUIREMENTS Acting under the Congressional mandate to equalize reserve requirements of central reserve and reserve city banks, the Board during August cut reserve requirements of central reserve city banks from 18 per cent to 17½ per cent of demand deposits, effective September 1, 1960. The requirement for reserve city banks was then 16½ per cent. It was estimated that the cut in central reserve city bank requirements would free about \$125 million of reserves for the banks affected.

VAULT CASH The legislation enacted in 1959 also authorized the Board to allow member banks to count vault cash as legal reserves—something they had not been allowed to do since 1917. To the extent that banks can count such cash toward meeting reserve requirements, they can hold correspondingly smaller deposits at the Fed, thus reducing the amount of nonearning assets tied up as reserves. Consequently, permission to count vault cash as legal reserves has the same effect as a reduction of reserve requirements.

Since December 1959 banks had been allowed to count a small part of their cash as legal reserves. In August 1960 the Board issued a new regulation increasing the amount of allowable cash still more. This action and the reduction of reserve requirements were expected to release a total of more than \$600 million of reserves.

OPEN MARKET OPERATIONS During the summer months the System continued to supply reserves through open market operations. System holdings of United States securities rose from \$25.8 billion in May to \$26.7 billion during September. As before, this caused member banks to reduce their bor-



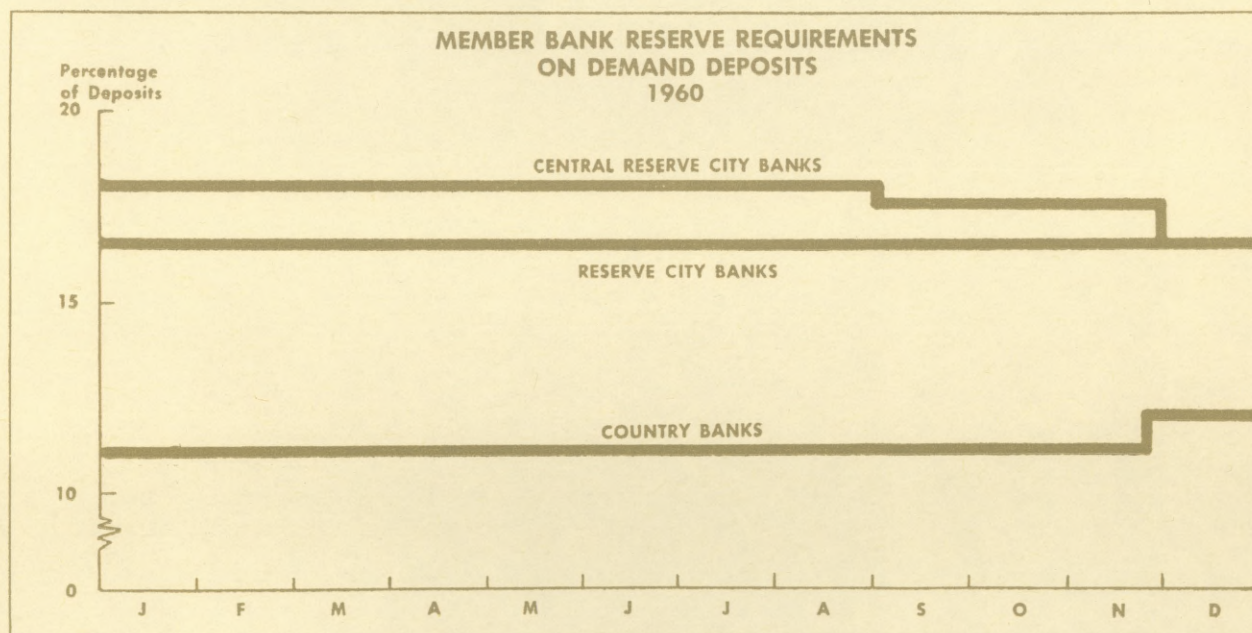
rowings at the Fed—this time from \$502 million to \$225 million. Net borrowed reserves disappeared and free reserves rose to \$414 million.

A SLOW DECLINE The System used a wide assortment of tools and the credit situation eased over the summer months. Bond yields dropped significantly, Treasury bill rates fell below 2½ per cent, and the prime rate charged by large commercial banks was cut from 5 per cent to 4½ per cent. Credit was definitely easier. But business activity slid further. There was no sharp decline, but the seasonal increase after Labor Day was less than normal. Employment remained about the same, weekly hours of work continued to decline slowly, and the industrial production index fell from 110 to 107. In addition, the gold outflow increased sharply—in part because of the easing action.

THE OCTOBER-DECEMBER PERIOD

During the last three months of the year the System was trying to shape policy to accomplish two separate objectives which were in large part contradictory. It wanted to provide continuing ease in this country and at the same time avoid aggravating the gold outflow. In short, the System had to follow both a dynamic and a defensive credit policy.

In Western Europe economic activity was strong, and interest rates were high. The decline of short-term interest rates here led some holders of short-term funds to transfer them to Europe to take advantage of the higher interest rates. This aggravated the gold outflow which, in turn, tended to reduce bank reserves. In addition, the Fed was faced with the need to supply large quantities of reserves to meet peak holiday credit demands. Even though changes in the reserves of commercial banks have a more important effect upon market rates than System transactions themselves, the Federal Reserve sought to minimize any direct effects its operations might have to depress bill rates. The System therefore modified its usual policies in three main respects.



OPEN MARKET OPERATIONS During October and early November the System continued to supply reserves through open market operations both to offset the heavy outflow of gold and to meet seasonal needs. Holdings of United States securities rose from \$26.5 billion at the end of September to \$28.1 billion the week of November 16, after which they declined as the measures described below began to provide reserves. To avoid depressing short-term interest rates unduly by heavy bill purchases, the System made some of its purchases in the form of certificates and bonds with maturities of less than 15 months.

VAULT CASH Next, the Board provided that, effective November 24, all member banks could count all vault cash as part of their legal reserves.

RESERVE REQUIREMENTS Finally, the Board made two changes in reserve requirements. Central reserve city banks' requirements on December 1 were cut to 16½ per cent of demand deposits—the same as those of reserve city banks. Second, requirements of country banks were raised from 11 per cent to 12 per cent of demand deposits as of November 24 to offset part of the effects of the release of country bank vault cash. It was estimated that the actions on vault cash and reserve requirements would release about \$1.3 billion of net additional reserves, which would go far toward meeting the banks' seasonal needs.

THE DECLINE CONTINUES The System succeeded in supplying reserves to offset the gold outflow and to maintain easy conditions in the money market without unduly depressing short-term rates to stimulate further gold outflow. Despite a gold loss of nearly \$800 million in October and November, free reserves were maintained above \$400 million most of the time and exceeded \$1 billion in late November. Member bank borrowings remained below \$100 million throughout December. The money supply rose from \$139.7 billion in August to \$140.5 billion in late December, and other short-term liquid assets showed an encouraging rise. At no time, however, did the bill rate fall below 2 per cent. Interest rates on long-term Government securities, which dropped considerably from January to August, did not decline further. In fact, they rose slightly in October and November, and at the end of the year were a little higher than they had been in August.

Business activity continued to decline. Employment was down and unemployment was up in October and November. Most business indicators continued to point downward, and as the year drew to its close there were no definite signs of a business recovery. The rate of decline, however, was relatively slow. No one knows for sure what would have happened in the absence of those System policies, but it seems quite likely they helped prevent the decline from becoming more serious in 1960.

LIMITATIONS AND ADVANTAGES OF MONETARY POLICY

Establishing sound monetary policy is a task of herculean proportions. Central bankers cannot feed data into a computer and expect to get a monetary policy tailor-made to fit a particular economic situation. No matter how rich the experience and judgment of the policymakers, human error is still possible. And mistakes, once made, must be taken into account in future policy actions. An overly easy credit policy can cause inflation when expansion resumes. Anti-inflationary measures which are too strong can bring a period of expansion to a premature halt. Thus, central bankers—like men walking tightropes in high and shifting winds—must maintain their footing by leaning first one way and then another into the wind but never too far in either direction.

LIMITATIONS OF MONETARY POLICY

What then are the limitations of monetary policy? Partly, they are the effects of powerful forces working in opposite directions. To some extent they result from the limited influence which monetary policy has over financial markets. In part, they are due to imperfect knowledge and to errors of human judgment.

PRICE-COST INFLATION The more competitive the economy, the more effective monetary policy can be. This is particularly true when business activity is running at near-capacity levels, and the System is trying to combat inflationary pressures. At such times, monopolistic pricing practices on the part of labor or business can push prices up from the supply rather than from the demand side. Sufficiently strong monetary policy can undoubtedly prevent some increases of this kind by dampening inflation psychology, but it is doubtful if it can completely cure the problem in a prosperous economy with strong monopolistic pressures. Conversely, continued monopolistic increases in wages and prices during recession tend to hinder the adjustments that lead to business recovery. To combat such pricing problems effectively, there must be additional measures designed to encourage competition.

DIFFERING FISCAL POLICY AIMS If the aims of fiscal policy—the manner in which the Federal Government spends, taxes, and manages its debt—run counter to those of monetary policy, the two can to some extent offset each other. This is almost inevitable at times since the aims of monetary policy are purely economic, whereas those of fiscal policy are often political or social rather than economic. In a democracy it could not be otherwise, but nevertheless the net result may be an expansionary budget deficit when monetary policy—rightly or wrongly—is moving in the opposite direction. Or it may mean a lengthening of Treasury debt when the Federal Reserve is combating recession. In such cases, monetary and fiscal policy will partly offset each other.

SLIPPAGES IN THE FINANCIAL MECHANISM Even under the best conditions, monetary policy must contend with two types of "slippages" in the financial mechanism. First, commercial banks may not immediately expand or contract earning assets in response to changes in the availability of reserves. Second, even though banks act promptly, shifts in monetary velocity may partly offset changes in the money supply. Both kinds of "slippages" complicate the task of monetary policy, but their importance is overrated.

Incomplete use of additional bank reserves clearly calls for larger changes in reserves than would otherwise be necessary. This kind of special action is taken quite frequently. During 1960, for example, the System had to supply more reserves than would have been needed had country banks responded more quickly to the release of vault cash. Only if banks did not respond at all would effective System policy be impossible.

A more common difficulty is the increase in monetary velocity ordinarily accompanying a restrictive monetary policy. Perhaps the most important cause is the liquidation by banks of short-term Government securities to meet rising loan demands. This leaves the money supply virtually unchanged since the banks merely substitute one form of earning assets for another, but it does tend to increase velocity by transferring bank balances from those who probably would not spend them as quickly—the purchasers of the securities—to those who spend them almost immediately—the new borrowers. Financial intermediaries, such as savings and loan associations or mutual savings banks, also can contribute to increases in velocity by raising interest or dividend rates to attract new funds for lending that might otherwise not have been spent as quickly and by lending the proceeds of Government security sales to borrowers who spend them immediately. Finally, velocity can be increased through security sales by nonfinancial institutions and through the adoption of various ways of economizing on business and personal cash needs.

Such increases in velocity mean that monetary policy must permit the money supply to expand more slowly, and at times to contract, in order to prevent spending from rising at an inflationary clip. It is sometimes argued that the money supply cannot undergo such restraint without unduly interfering with Treasury financing operations or upsetting securities markets through sharp increases in interest rates.

In practice, however, these fears have not yet been realized. System actions have been delayed at times by Treasury financing operations, but the System has not had to alter appreciably the direction and intensity of policy. Nor have securities markets been disrupted by System tightening actions. Increases in interest rates have actually been rather moderate—to no small degree because policy affects the availability as well as the cost of credit.

In fact, increases in velocity induced by a tightening policy perform several useful functions. First, by providing a means for financing outlays they act as a safety valve to prevent an inadvertent overtightening of the money supply from becoming serious. Second, security sales resulting in increased velocity help transmit changes in the cost and availability of credit quickly throughout the entire credit mechanism. Finally, shifts in velocity make credit policy more equitable by enabling spenders to maintain those expenditures with the highest priorities by transmitting the effects of the policy to the more marginal outlays.

THE FORECASTING PROBLEM Monetary policy—like any discretionary stabilizing policy—necessarily involves judgments based upon incomplete evidence. Errors can occur for two reasons. First, delays in the availability of important business indicators make it impossible to know exactly how the economy is behaving at the moment. Second, policy making involves judgments as to both the course of business activity in the absence of central bank intervention and the probable effects of various policy combinations. Errors of judgment can be minimized through experience and careful analysis, but they can never be eliminated completely.

ADVANTAGES OF MONETARY POLICY

Despite its imperfections, monetary policy has several advantages over the alternative methods of stabilizing the economy—fiscal policy and direct controls such as rationing and price control.

MONETARY POLICY IS IMPERSONAL In our market economy, most production decisions are made indirectly by spenders through their demand for goods and services. Only those things that spenders want will continue to be produced, only the cheapest methods of production will last, and only efficient producers can remain in business. Consequently, except for certain interferences, our limited supplies of land, labor, and capital goods are used to produce most efficiently those things spenders want most.

Direct controls obviously change all this. They, in effect, dictate what consumers can and cannot do. Therefore, production decisions are made by the authorities, not by the market.

Fiscal policy is quite impersonal compared with direct controls, but variations in the direction and volume of taxation and spending alter the composition as well as the over-all level of production. Those things the Government buys will be produced in larger quantities than otherwise would have been the case, and those goods and services taxpayers would have bought will be produced in smaller quantities.

In contrast, general monetary controls are never used to influence particular types of expenditures. A policy of restraint, for example, is designed merely to prevent **total** spending from increasing too fast. It leaves it to the market to decide which **particular** activities will be curtailed. These are generally those things which consumers and other spenders want least. They continue to buy the things they want most. Similarly, when easy money encourages spending, the additional outlays take whatever forms spenders prefer.

MONETARY POLICY IS FLEXIBLE Monetary policy is more flexible than most stabilizers. There are, of course, lags between policy decisions and the time the actions become effective, just as in the case of any stabilizing policy. There are other lags resulting from the lack of current information—lags affecting all types of discretionary stabilizers. But when it comes to reaching a quick decision, System policy-making machinery is admirable. Every three weeks—and sometimes more often—the Open Market Committee reaches some definite policy decision at its meeting. It may decide to stand pat; it may decide to act; but in any event it decides and initiates immediately the necessary implementing steps.

Discretionary fiscal policy actions involving changes in spending and taxation depend to a large degree upon Congressional action. Such decisions in a democracy such as ours deserve and receive wide study and debate. Proper consideration thus requires time, and flexibility inevitably suffers. The so-called fiscal “automatic stabilizers”—primarily Federal income taxes and unemployment compensation payments—that tend to create budget surpluses during boom and budget deficits during recession do, however, act more quickly. These clearly constitute a valuable, practical adjunct to monetary policy.

MONETARY POLICY IS FREE FROM DAY-TO-DAY POLITICAL PRESSURES In establishing the Federal Reserve System, Congress wisely gave it such independence as to enable it to act freely in the best interests of the economy. It spread the policy-making role throughout the System to avoid undue concentration of power; it provided for 14-year terms of office for appointed Board members, made them

ineligible for reappointment after a full term, and staggered their terms of office; and it provided for the election of Reserve Bank presidents by their own boards of directors subject to the approval of the Federal Reserve Board. The net result is a unique institution able to base its day-to-day policy on economic nonpolitical grounds.

The System, of course, must answer to Congress and has only such powers as Federal laws give it. Within the limits of its broad powers, however, the System is free to use and does use only economic considerations as guides to policy. Such can never be entirely the case with fiscal policy or direct controls, which are always partly influenced by politics in our type of democracy.

THE NET RESULT

When all its advantages are weighed against its limitations, where does monetary policy stand? What can it do, and what is it unable to do? Perhaps the best summary is the following testimony given by Chairman Martin of the Board of Governors before the Joint Economic Committee on February 2, 1960:

" . . . It (monetary policy) cannot prevent monopoly. It cannot assure that the financial needs of all socially desirable activities are met without intervention by Government. It cannot be relied upon to cover Federal deficits. Alone, it certainly cannot assure either stability or growth.

"What a correct monetary policy can do is to foster confidence in the dollar, so that our people can and will save and invest in the future with reasonable assurance that their plans will not be frustrated by irresponsible changes in the value of money."

SUMMARY OF OPERATIONS

Nearly all departments at the Richmond Reserve Bank and its Baltimore and Charlotte Branches experienced increases in volume from the business and economic activity of the Fifth District during 1960.

In its forty-sixth year of operation the Bank reached the \$100 billion mark in checks cleared—almost \$3 billion more than in the previous year. Nearly \$134 million of coins were received and paid out—an increase of more than \$4.5 million from 1959. Currency handled topped \$5 billion in bills, and transfers of funds reached almost \$98 billion, an increase, during 1960, of approximately \$6 billion.

Net earnings before payments to the United States Treasury increased by over \$7 million, totaling \$59,794,817.41. Member banks received statutory dividends of \$1,083,429.25 during the year. After transferring \$2,992,400 to surplus (surplus account is twice paid in capital), the remaining net earnings of \$55,718,988.16 were paid to the Treasury as interest on Federal Reserve notes.

Over \$7 billion of credit was extended to member banks during the year. This figure, representing transactions with 158 banks, shows a decline from the 1959 total.

In 1960 capital stock, which reflects increases in the capital and surplus of member banks, increased by \$1,496,200. This figure represents 233 stock transactions.

In the past twelve months our Bank distributed over 182,000 publications made available by the System. The majority of this material was sent to colleges, universities, and secondary schools in the District. Films available from this Bank were scheduled for 639 showings, and the audiences viewing these are estimated at nearly 22,000. Bankers, businessmen, teachers, and economists on our regular mailing list, and other interested individuals received over 109,000 copies of our **Monthly Review**.

EMERGENCY PLANNING Actions were taken to further the emergency preparedness program in the District. Check agent circulars were issued to all banks outlining the procedure for check collection during an emergency, and a revision was made in our security files program concerning the maintenance of duplicate vital records at the Bank's alternate location center.

MAGNETIC INK CHARACTER RECOGNITION During its first full year the Magnetic Ink Character Recognition program made generally favorable progress in the Fifth Federal Reserve District. Member and nonmember banks cooperated with the American Bankers Association and the Federal Reserve System in making high-speed electronic processing of checks a reality. Of the approximately 1,600 banking offices in the District, 27 per cent participated by having their checks redesigned and preprinted with the routing symbol-transit number in magnetic ink.

NEW FUNCTION As an extension of our policy of utilizing new and improved methods, machines, and equipment in accomplishing our work, coupled with an awareness of the growing use in business and banking of electronic equipment, a new department, Data Processing, was established. This department, which encompasses the work formerly performed by the Tabulating Department, is responsible for coordinating Data Processing activities throughout the Bank.

NEW MEMBER BANKS Two Fifth District banks were welcomed into the System during the year. On April 2, the Bank of Annandale, Annandale, Virginia, formerly a nonmember bank, converted to a national charter under the name of the Old Dominion National Bank. The newly-formed Security National Bank, Falls Church, Virginia, became a member of the System on July 1.

BRANCH AUDITORS During the year permanent auditors were assigned to the Branches. Samuel I. Irby became branch auditor in Baltimore on January 1, 1960, and O. Louis Martin, Jr., was named to the same position at the Charlotte Branch on May 1, 1960.

CHANGES IN OFFICIAL STAFF During 1960 there were many changes in the official staff of the Bank. Early in the year Robert R. Fentress, assistant cashier, assumed new duties at the Charlotte Branch. B. U. Ratchford, former professor of economics at Duke University, became vice president in charge of the Research Department. Edmund F. Mac Donald was elected vice president and became the officer in charge of the Charlotte Branch following the resignation of T. I. Storrs.

J. Gordon Dickerson, Jr., and John L. Nosker, formerly assistant vice presidents, were elected vice presidents in December.

Robert P. Black, Stuart P. Fishburne, William B. Harrison, III, and Joseph F. Viverette were named assistant vice presidents. William H. Gentry, Jr., and Robert L. Miller became assistant cashiers, and G. N. Campbell assumed the official position of assistant general auditor.

E. B. Coleman, assistant cashier, and Charles W. Williams, economic adviser, retired from the Federal Reserve effective September 30 and December 31, respectively.

CHANGES IN THE BOARDS OF DIRECTORS Alonzo G. Decker, Jr., president of the Black & Decker Manufacturing Company of Towson, Maryland, was redesignated by the Board of Governors as Chairman of the Board and Federal Reserve Agent for 1961. In July 1960, William H. Grier, president of the Rock Hill Printing & Finishing Co., Rock Hill, South Carolina, was appointed by the Board of Governors as Class C director, replacing D. W. Colvard, former dean of agriculture of North Carolina State College, Raleigh, North Carolina, who resigned to become president of Mississippi State University. Edwin Hyde, president, Miller & Rhoads, Inc., Richmond, Virginia, was designated to replace Mr. Colvard as Deputy Chairman of the Board, a position to which he was redesignated for 1961. Mr. Grier was reappointed for a three-year term beginning January 1, 1961.

In November Addison H. Reese, president, North Carolina National Bank, Charlotte, North Carolina, was elected Class A director to succeed Denver L. Morgan, executive vice president, The Charleston National Bank, Charleston, West Virginia; and Robert E. L. Johnson, chairman of the board and chief executive officer, Woodward & Lothrop, Inc., Washington, D. C., was elected Class B director to succeed Robert O. Huffman, president, Drexel Furniture Company, Drexel, North Carolina. Their terms began January 1, 1961.

At the Baltimore Branch the Board of Governors appointed Harry B. Cummings, vice president and general manager, Metal Products Division, Koppers Company, Inc., Baltimore, Maryland, to a three-year term beginning January 1, 1961, replacing Clarence R. Zarfoss, vice president, Western Maryland Railway Company, Baltimore, Maryland. The Board of Directors of this Bank reappointed Joseph N. Shumate, president, The Farmers National Bank of Annapolis, Annapolis, Maryland, director for a three-year term beginning January 1, 1961.

George H. Aull, agricultural economist, Clemson College, Clemson, South Carolina, and director at the Charlotte Branch, was reappointed by the Board of Governors for a three-year term effective January 1, 1961. W. W. McEachern, president, The South Carolina National Bank, Greenville, South Carolina, was appointed a Charlotte Branch director by the Richmond Board for a three-year term, replacing Ernest Patton, chairman of the board, The Peoples National Bank of Greenville, Greenville, South Carolina, whose term expired December 31, 1960.

FEDERAL ADVISORY COUNCIL MEMBER Robert B. Hobbs, chairman of the board, First National Bank of Baltimore, Baltimore, Maryland, was appointed by the Board of Directors to a one-year term as Fifth Federal Reserve District representative to the Federal Advisory Council, succeeding John S. Alfriend, chairman of the board, National Bank of Commerce of Norfolk, Norfolk, Virginia.

COMPARATIVE STATEMENT OF CONDITION

ASSETS:

	DECEMBER 31, 1960	DECEMBER 31, 1959
Gold certificate account	\$1,035,163,268.08	\$1,067,069,499.70
Redemption fund for Federal Reserve notes	81,220,045.00	79,239,995.00
TOTAL GOLD CERTIFICATE RESERVES	1,116,383,313.08	1,146,309,494.70
Federal Reserve notes of other banks	42,922,520.00	69,408,050.00
Other cash	21,478,712.60	25,493,580.05
Discounts and advances	510,000.00	5,300,000.00
U. S. Government securities:		
Bills	183,566,000.00	166,997,000.00
Certificates	573,437,000.00	673,373,000.00
Notes	790,004,000.00	705,628,000.00
Bonds	160,963,000.00	159,180,000.00
TOTAL U. S. GOVERNMENT SECURITIES	1,707,970,000.00	1,705,178,000.00
TOTAL LOANS AND SECURITIES	1,708,480,000.00	1,710,478,000.00
Due from foreign banks	640.11	719.69
Cash items in process of collection	482,195,599.14	502,789,096.60
Bank premises	6,113,204.43	6,650,914.13
Other assets	13,171,171.10	16,638,938.98
TOTAL ASSETS	<u>\$3,390,745,160.46</u>	<u>\$3,477,768,794.15</u>

LIABILITIES:

Federal Reserve notes	\$2,185,035,255.00	\$2,131,599,915.00
Deposits:		
Member bank—reserve accounts	726,682,213.22	789,451,309.56
U. S. Treasurer—general account	24,626,957.46	56,936,761.42
Foreign	9,630,000.00	17,400,000.00
Other	6,137,511.26	28,317,225.98
TOTAL DEPOSITS	767,076,681.94	892,105,296.96
Deferred availability cash items	380,482,167.80	399,443,648.83
Other liabilities	1,813,305.72	1,592,432.04
TOTAL LIABILITIES	3,334,407,410.46	3,424,741,292.83

CAPITAL ACCOUNTS:

Capital paid in	18,779,250.00	17,283,050.00
Surplus	37,558,500.00	34,566,100.00
Other capital accounts	-----	1,178,351.32
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u>\$3,390,745,160.46</u>	<u>\$3,477,768,794.15</u>

Contingent liability on acceptances purchased for foreign correspondents .	\$ 10,449,000.00	\$ 4,115,000.00
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COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

EARNINGS:	1960	1959
Discounts and advances	\$ 819,821.16	\$ 1,559,501.81
Interest on U. S. Government securities	68,654,176.43	54,981,403.12
Other earnings	31,695.62	18,329.15
TOTAL CURRENT EARNINGS	69,505,693.21	56,559,234.08
EXPENSES:		
Operating expenses (including depreciation on bank premises) after deducting reimbursements received for certain Fiscal Agency and other expenses	10,175,679.84	9,821,945.58
Assessments for expenses of Board of Governors	292,800.00	321,400.00
Cost of Federal Reserve currency	570,909.90	500,821.04
NET EXPENSES	11,039,389.74	10,644,166.62
CURRENT NET EARNINGS	58,466,303.47	45,915,067.46
ADDITIONS TO CURRENT NET EARNINGS:		
Profit on sales of U. S. Government securities (net)	153,386.87	11,746.06
Transferred from Reserves for contingencies (net)	1,178,351.32	6,500,111.52
All other	277.66	265.56
TOTAL ADDITIONS	1,332,015.85	6,512,123.14
DEDUCTIONS FROM CURRENT NET EARNINGS	3,501.91	1,385.24
Net Additions	1,328,513.94	6,510,737.90
NET EARNINGS BEFORE PAYMENTS TO U. S. TREASURY	\$59,794,817.41	\$ 52,425,805.36
Dividends paid	\$ 1,083,429.25	\$ 1,016,949.98
Paid U. S. Treasury (interest on Federal Reserve notes)	55,718,988.16	61,688,734.93
Transferred to surplus	2,992,400.00	—10,279,879.55
TOTAL	\$59,794,817.41	\$ 52,425,805.36

SURPLUS ACCOUNT

Balance at close of previous year	\$34,566,100.00	\$ 44,845,979.55
Paid U. S. Treasury (interest on Federal Reserve notes)	34,566,100.00	—10,279,879.55
Addition account of profits for year	2,992,400.00	34,566,100.00
BALANCE AT CLOSE OF CURRENT YEAR	\$37,558,500.00	\$ 34,566,100.00

CAPITAL STOCK ACCOUNT

(Representing amount paid in, which is 50% of amount subscribed)		
Balance at close of previous year	\$17,283,050.00	\$ 16,438,600.00
Issued during the year	1,654,750.00	979,450.00
	18,937,800.00	17,418,050.00
Cancelled during the year	158,550.00	135,000.00
BALANCE AT CLOSE OF CURRENT YEAR	\$18,779,250.00	\$ 17,283,050.00

FEDERAL RESERVE BANK OF RICHMOND

DIRECTORS

Alonzo G. Decker, Jr.

Chairman of the Board and Federal Reserve Agent

Edwin Hyde

Deputy Chairman of the Board

CLASS A

H. H. Cooley

President, The Round Hill National Bank
Round Hill, Virginia (Term expires December 31, 1962)

Denver L. Morgan

Executive Vice President, The Charleston National Bank
Charleston, West Virginia (Term expires December 31, 1960)

Succeeded by: Addison H. Reese

President, North Carolina National Bank
Charlotte, North Carolina (Term expires December 31, 1963)

A. Scott Offutt

Chairman of the Board and President, The First National Bank of Washington
Washington, D. C. (Term expires December 31, 1961)

CLASS B

L. Vinton Hershey

President, Hagerstown Shoe Company
Hagerstown, Maryland (Term expires December 31, 1961)

Robert O. Huffman

President, Drexel Furniture Company
Drexel, North Carolina (Term expires December 31, 1960)

Succeeded by: Robert E. L. Johnson

Chairman of the Board, Woodward & Lothrop, Inc.
Washington, D. C. (Term expires December 31, 1963)

Raymond E. Salvati

President, Island Creek Coal Company
Huntington, West Virginia (Term expires December 31, 1962)

CLASS C

Alonzo G. Decker, Jr.

President, The Black & Decker Manufacturing Company
Towson, Maryland (Term expires December 31, 1962)

William H. Grier

President, Rock Hill Printing & Finishing Co.
Rock Hill, South Carolina (Term expires December 31, 1963)

Edwin Hyde

President, Miller & Rhoads, Inc.
Richmond, Virginia (Term expires December 31, 1961)

MEMBER FEDERAL ADVISORY COUNCIL

John S. Alfriend

Chairman of the Board, National Bank of Commerce of Norfolk
Norfolk, Virginia (Term expires December 31, 1960)

Succeeded by: Robert B. Hobbs

Chairman of the Board, First National Bank of Baltimore
Baltimore, Maryland (Term expires December 31, 1961)

FEDERAL RESERVE BANK OF RICHMOND

OFFICERS

Hugh Leach	President	Edward A. Wayne	First Vice President
N. L. Armistead	Vice President	Stuart P. Fishburne	Assistant Vice President
J. Gordon Dickerson, Jr.	Vice President	H. Ernest Ford	Assistant Vice President
Donald F. Hagner	Vice President	William B. Harrison, III	Assistant Vice President
Aubrey N. Heflin	Vice President and General Counsel	Victor E. Pregeant, III	Assistant General Counsel
Edmund F. Mac Donald	Vice President	Raymond E. Sanders, Jr.	Assistant Vice President
Upton S. Martin	Vice President	Joseph F. Viverette	Assistant Vice President
John L. Nosker	Vice President	Clifford B. Beavers	Assistant Cashier
Joseph M. Nowlan	Vice President and Cashier	John E. Friend	Assistant Cashier
B. U. Ratchford	Vice President	William H. Gentry, Jr.	Assistant Cashier
James M. Slay	Vice President	John C. Horigan	Chief Examiner
Robert P. Black	Assistant Vice President	Robert L. Miller	Assistant Cashier
John G. Deitrick	Assistant Vice President	Wythe B. Wakeham	Assistant Cashier
Welford S. Farmer	Secretary, and Assistant Counsel		

G. Harold Snead

General Auditor

G. N. Campbell

Assistant General Auditor

BALTIMORE BRANCH

DIRECTORS

Gordon M. Cairns	Dean of Agriculture, University of Maryland College Park, Maryland (Term expires December 31, 1962)
Harvey E. Emmart	Senior Vice President and Cashier, Baltimore National Bank Baltimore, Maryland (Term expires December 31, 1961)
James W. McElroy	President, First National Bank of Baltimore Baltimore, Maryland (Term expires December 31, 1962)
John T. Menzies, Jr.	President, The Crosse & Blackwell Company Baltimore, Maryland (Term expires December 31, 1961)
J. N. Shumate	President, The Farmers National Bank of Annapolis Annapolis, Maryland (Term expires December 31, 1963)
John W. Stout	President, The Parkersburg National Bank Parkersburg, West Virginia (Term expires December 31, 1961)
Clarence R. Zarfoss	Vice President, Western Maryland Railway Company Baltimore, Maryland (Term expires December 31, 1960)

Succeeded by: Harry B. Cummings

Vice President and General Manager, Metal Products Division
Koppers Company, Inc.
Baltimore, Maryland (Term expires December 31, 1963)

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

George H. Aull	Agricultural Economist, Clemson College Clemson, South Carolina (Term expires December 31, 1963)
J. C. Cowan, Jr.	Vice Chairman of the Board, Burlington Industries, Inc. Greensboro, North Carolina (Term expires December 31, 1962)
Charles D. Parker	Asheville, North Carolina (Term expires December 31, 1962)
Ernest Patton	Chairman of the Board, The Peoples National Bank of Greenville Greenville, South Carolina (Term expires December 31, 1960)
	Succeeded by: W. W. McEachern President, The South Carolina National Bank Greenville, South Carolina (Term expires December 31, 1963)
I. W. Stewart	Honorary Chairman of the Board, North Carolina National Bank Charlotte, North Carolina (Term expires December 31, 1961)
Clarence P. Street	Secretary and General Manager, McDevitt & Street Co. Charlotte, North Carolina (Term expires December 31, 1961)
G. G. Watts	President, The Merchants and Planters National Bank of Gaffney Gaffney, South Carolina (Term expires December 31, 1961)

OFFICERS

Edmund F. Mac Donald	Vice President
Stanhope A. Ligon	Cashier
Robert R. Fentress	Assistant Cashier
Fred C. Krueger, Jr.	Assistant Cashier
E. Clinton Mondy	Assistant Cashier

