Research Department
Federal Reserve
Bank of
San Francisco

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1914-1974

Sixty years ago, the **Wall Street Journal** commented on the advent of the Federal Reserve System with what must have been the most dubious mixed metaphor of 1914— "changing financial horses in midstream while the world is struggling to keep its feet in the rapids." Other newspaper editorials, although using less picturesque language, adopted the same quizzical tone regarding the nation's new central bank, and for a while revived some of the controversy which had preceded the passage of the Federal Reserve Act in 1913. Nonetheless, the actual opening of the twelve regional Reserve Banks on November 16, 1914 passed almost uneventfully.

The Federal Reserve Act was designed to provide the nation with a flexible system of money and credit, and designed also to improve check-clearing and other types of commercial-banking operations. The new system had some unique features, as President Wilson noted when he signed the new law. "We have devised a system which, though novel in particulars, is clearly adjusted to the circumstances of American industrial and commercial life. It has an element of local self-government . . . and it is regional . . . for we have developed by regions and there is reason why we should function by regions if drawn together in a common organization and with a common spirit and guidance."

Regional orientation

The task of constructing the regional central-bank network was given to a "Reserve Bank Organization Committee." After completing nationwide hearings in early 1914, the committee set up the twelve Reserve Banks along with the Federal Reserve Board in Washington, D.C. The organizing group included California, Oregon, Washington, Idaho, Utah, Nevada and all but the southeastern corner of Arizona within the new Twelfth District, and in May 1914 it designated five commercial banks within those states to execute a certificate of incorporation for the new Reserve Bank. Alaska and Hawaii were included after they attained statehood.

The concentration of financial resources in San Francisco made that city the obvious choice for the head office of the District, but the District's immense geographical size also led to the development of substantial branch operations fairly early in the Bank's history. The first branch was opened in Spokane in mid-1917, and four others were subsequently established—Seattle and Portland (both 1917), Salt Lake City (1918), and Los Angeles (1920). The Spokane branch was closed in 1938, and its operations were transferred to the Portland and Seattle offices.

Federal Reserve operations have expanded sharply since 1914, reflecting in part the national (and

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regional) upsurge in population. There are 212 million Americans today (twice as many as 60 years ago), and 32 million of them (five times as many as in 1914) live in the area west of the Continental Divide.

Over the past sixty years, commercial-bank deposits in the area served by the San Francisco Reserve Bank have grown from $1.4 billion to $100 billion. Thus, Western banks have seen their share of the nation's total deposits increase from 6½ percent in 1914 to 14½ percent today.

Expanding the old

In 1914, the San Francisco Reserve Bank opened with a staff of just 21 people—officers, tellers, bookkeepers, stenographers, messengers, one guard and one janitor. Today there are 2,200 employees working in the Bank's five offices. At times the Bank's staff has been considerably larger—2,800 at the height of World War II, for example—but the dropping of wartime credit controls, the development of internal processing by commercial branch-banking systems, and (above all) the exploitation of new technological advances have given a smaller staff the capability of handling the Bank's present heavy workload.

Last year, the San Francisco Fed's staff did the following:

- Counted 1 billion bills and 2 billion coins;
- Destroyed over 350 million worn-out bills amounting to about $2 billion;
- Processed about 325 million food stamps received from the 2 million stamp recipients in this area;
- Issued $9 billion in Treasury securities;
- Processed 1 billion checks valued at nearly $250 billion.

Nowhere has the expansion in the Federal Reserve's workload been more evident than in the West. The San Francisco Reserve Bank's check processing activity has increased more than 40-fold since that World War I era, and check volume continues to increase because of the growth of the regional economy and the growth in the number of check users. This heavy workload has led the System to search for ways to increase the efficiency of check-handling, most recently through the institution of regional check-processing centers (RCPC's) at Reserve Bank offices here and elsewhere throughout the nation. These highly computerized operations achieve overnight processing and settlement for checks payable in specific geographic areas.

Developing the new

This type of activity, complex as it may be, still would not appear totally unfamiliar to the Federal Reserve employee of 1914. However, some of the newer Fed activities would have been undreamed-of in that earlier day—principally the electronic-payments system which is slowly being adopted because of the present overloaded system of check payments. A forerunner to a 21st-century system already exists in the California Automated Clearing House Association, which provides a computerized clearing system for payrolls, dividend payments and pre-authorized charges. Another significant advance is the automation of government transfer payments, now being developed as a pilot project for Air Force payrolls.

During the next few decades, the financial system could encompass a single, integrated, nationwide mechanism for the transfer of funds, covering all types of transactions from automatic payroll deposits to pre-authorized debiting of current transactions as well as regularly recurring payments. There could be a comprehensive series of computer-directed communications networks, involving all types of financial institutions, which would be linked to point-of-sale terminals in retail establishments, to computers in business firms, and possibly to terminal devices in homes. Through the use of a card to activate transactions, transfers of funds may be effected so that the creditor's account will be credited at the same time the payor's account is debited.

Changing policy tools

Finally, the Federal Reserve in its first 60 years has witnessed many changes in the structure of the economy and in the functions of credit institutions. Not surprisingly, the nation's central bank has expanded and modified its instruments of monetary control to fit changing conditions. To cite one major example, the discount rate was originally envisaged as the principal instrument of monetary policy, but it has long since assumed a secondary role to open-market operations as the principal weapon for implementing policy.

Even more striking than the shift in Federal Reserve policy tools has been the revised orientation of policy. In the beginning the emphasis was simply upon the accommodation of the credit needs of commerce, industry and agriculture. This idea of accommodation was based upon the theory that the economy's needs for credit were essentially self-regulating, with the Federal Reserve providing only a nudge or a check through the administration of the discount window. But the emphasis has gradually shifted over time. In particular, with the adoption of the Employment Act of 1946, the Fed has assumed a commitment to help promote full employment, price stability, and a sustainable rate of economic growth. The area of discretionary action has been widened, and the System has taken a more positive stand in the furtherance of these goals—taking the initiative rather than simply accommodating itself to the credit needs of the economy.

William Burke

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 10/23/74	Change from 10/16/74	Change from year ago Dollar	Change from year ago Percent
Loans (gross) adjusted and investments*	83,087	− 802	+7,387	+ 9.76
Loans gross adjusted—	66,620	− 788	+8,873	+ 15.37
Securities loans	1,119	− 768	+ 173	+ 18.29
Commercial and industrial	24,059	+ 11	+3,931	+ 19.53
Real estate	19,986	+ 32	+2,160	+ 12.12
Consumer instalment	9,588	+ 8	+ 692	+ 7.78
U.S. Treasury securities	4,146	+ 46	−1,528	− 26.93
Other Securities	12,321	− 60	+ 42	+ 0.34
Deposits (less cash items)—total*	80,381	−1,120	+6,408	+ 8.66
Demand deposits adjusted	22,645	− 852	+ 846	+ 3.88
U.S. Government deposits	307	− 51	− 424	− 58.00
Time deposits—total*	56,162	+ 38	+5,877	+ 11.69
Savings	17,970	+ 24	+ 277	+ 1.57
Other time I.P.C.	28,658	+ 17	+5,479	+ 23.64
State and political subdivisions	6,110	− 60	+ 21	+ 0.34
(Large negotiable CD's)	15,154	+ 43	+3,565	+ 30.76

Weekly Averages of Daily Figures	Week ended 10/23/74	Week ended 10/16/74	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves	− 2	102	46
Borrowings	51	257	189
Net free (+) / Net borrowed (−)	+ 53	+ 155	+143
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+) / Net sales (−)	+918	+1,175	−303
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (−)	+770	+1,585	+ 83

*Includes items not shown separately.

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