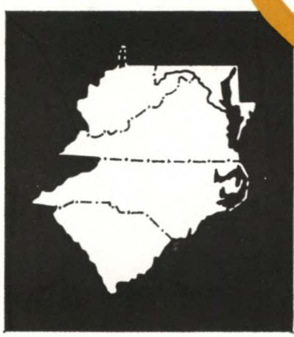
FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Unemployment in Recessions
Corporate Financing
Distribution of Medical Personnel and Facilities
Towards A Better Payments System



JULY 1971

UNEMPLOYMENT RATE BEHAVIOR DURING RECESSIONS

Since June 1969 the unemployment rate has moved upward. It reached a high of 6.2% in December 1970. After declining somewhat, it moved back up to that level in May. The high unemployment rate for all civilian workers is disturbing, but the aggregated figure can conceal information as well as reveal it. Examination of unemployment rates for various labor force groups indicates that certain aspects of the unemployment situation may not be as acute as they seem. However, an unemployment rate of around 6% is the highest that the U. S. economy has had to contend with since 1961.

The unemployment rate for all civilian workers declined slowly from a peak of 7.1% in May 1961, during the 1960-61 recession, to a low of 3.3% in February 1969. This downward movement came about because over the same time period the U. S. economy grew rapidly enough to more than absorb the sizable additions to the civilian labor force.

The civilian labor force is defined as those civilians employed or actively seeking employment. It grew faster in the 1960's than the population as a whole. The average annual growth rate of the civilian labor force was 2.13% from 1965 to 1970, which was almost double its growth rate during the fifties. The total U. S. population, by contrast, grew at only 1.26% per year during the sixties.

If the civilian labor force had grown at 2.13% per year during 1970 and that growth rate were to continue in 1971 and 1972, the economy would add 1.73 million workers in 1970, 1.76 million in 1971, and 1.80 million in 1972. This trend implies an average increase in the labor force of around 144,000 workers per month. However, from July 1969 through December 1970, the labor force actually increased, on average, 175,000 persons per month. Unfortunately, although labor force growth accelerated, the rate of increase of employed persons did not keep pace. Employment increased by only 33,000 per month. As a result, the unemployment rate began to rise.

The U. S. economy experienced a slowing in the pace of economic activity in the second half of 1969 and a noticeable slackening in labor market con-

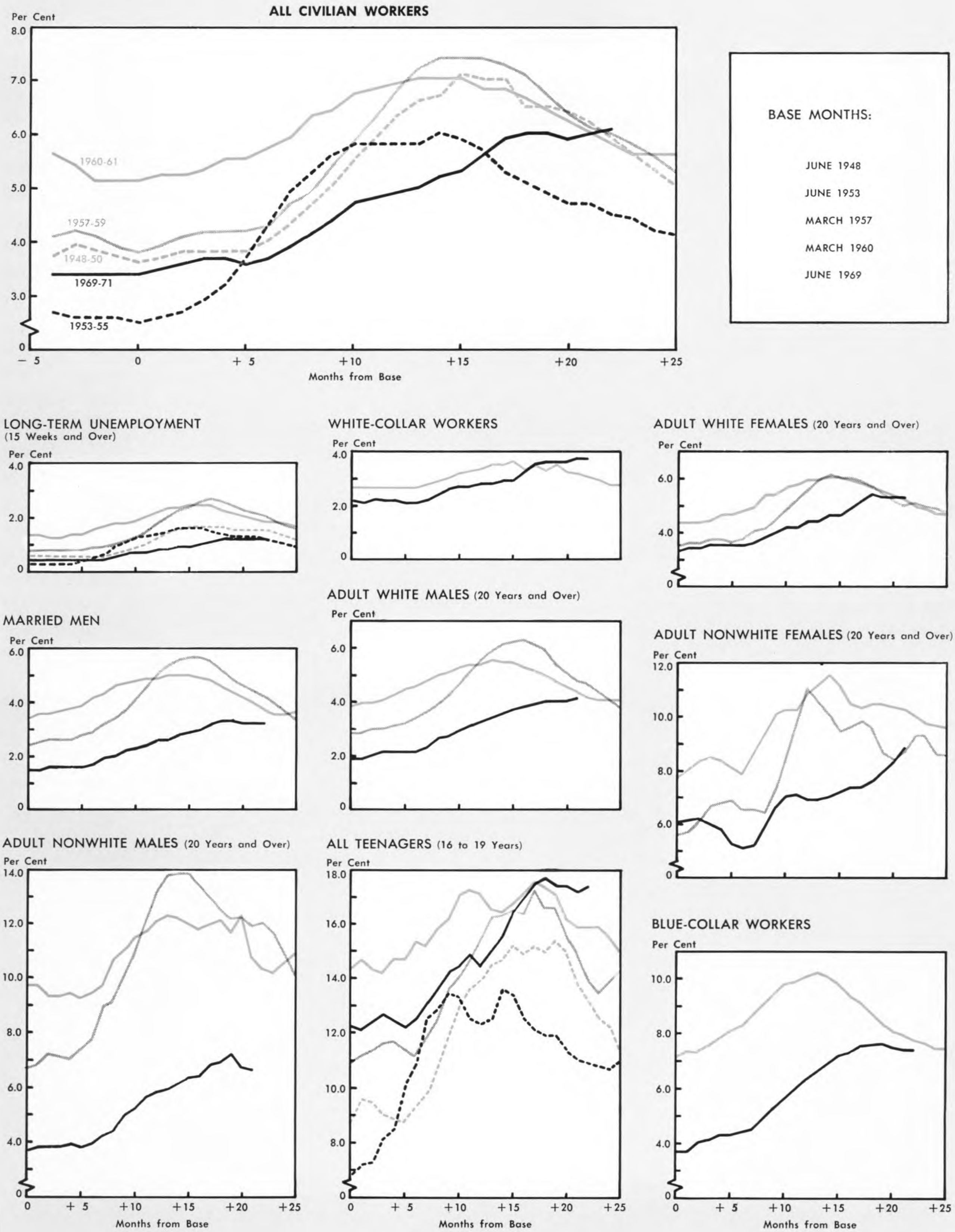
AVERAGE ANNUAL GROWTH RATES FOR SELECTED LABOR FORCE GROUPS

	1948-1958 Percent	1958-1965 Percent	1965-1970 Percent	1948-1970 Percent
All Civilian Workers	1.10	1.38	2.13	1.42
Adult Males (20 years and over)	0.58	0.58	1.02	0.68
Adult Females (20 years and over)	2.73	2.24	3.61	2.77
All Teenagers (16 to 19 years)	−0.40	4.79	4.16	2.26
White				
Adult Males (20 years and over)	NA*	0.52	1.00	NA
Adult Females (20 years and over)	NA	2.20	3.76	NA
Nonwhite				
Adult Males (20 years and over)	NA	1.09	1.79	NA
Adult Females (20 years and over)	NA	2.47	2.62	NA

*Not Available.
Source: Department of Labor.

UNEMPLOYMENT RATES

(THREE-MONTH MOVING AVERAGES)



Source: U. S. Department of Labor.

ditions. Essentially what happened was that the economy did not produce enough goods and services to employ both the existing workers and new additions to the labor force. These additions included youngsters searching for first jobs, labor force dropouts dropping back in, reductions in armed forces, etc. The main sources of labor force growth over the late 1960's were increases in the number of female and teenage workers. In any event, the slackening labor market conditions manifested themselves in a sustained rise in the unemployment rate from 3.4% in June 1969 to 6.2% in December 1970. After December, the rate declined somewhat, but it reached 6.2% again in June 1971.

The accompanying series of charts shows unemployment rate behavior in historical perspective. The charts compare unemployment rates for selected segments of the labor force during all postwar periods designated as recessions by the National Bureau of Economic Research. They were constructed as follows: (1) The base month for each contraction was chosen to be the month before the unemployment rate for all civilian workers began its upward movement. (2) The charts were plotted with time period zero representing the base month. The base months do not necessarily coincide with the NBER reference turning dates. For example, according to the NBER, the present recession began in November 1969. The unemployment rate series began to move upward in June 1969.

The chart showing the unemployment rate for all civilian workers clearly summarizes the differences between the contraction beginning in 1969 and the other postwar recessions. They are: (1) The unemployment rate prior to the recent economic downturn was low relative to the other periods. Except for the 1953-55 recession, which followed the Korean War, the unemployment rate preceding the contraction beginning in 1969 was lower than in other comparable postwar periods. (2) The rate of buildup of unemployment was not as rapid in the recent downturn as in the preceding recessions.

The recent contraction also differs from other postwar recessions in its impact on various sectors of the labor force. The current plight of the aerospace industry and softening of the market for professionals and technicians is reflected in the advance of the unemployment rate for white-collar workers. The base unemployment rate for white-collar workers was considerably lower before its recent climb than it was at the beginning of the 1960-61 recession. Also, the unemployment rate for all civilian workers has remained considerably below the peak rate during the 1960-61 downturn. Even so, the unemployment rate for white-collar workers has moved up more rapidly and to a higher level than it reached in the 1960-61 period.

Nonwhite adults also showed recent unemployment patterns that were different from those in past recessions. The unemployment rate for adult nonwhite males has moved upward during the contraction, but at a slower rate and from a lower base level than in other postwar recessions. Nonwhite male unemployment in the 1960-61 recession began its rise from a considerably higher base level. The unemployment rate for adult nonwhite females has similarly risen less severely.

The measures of overall unemployment that probably are the best measures of the welfare (or illfare) effect of an economic contraction are the long-term (15 weeks and over) unemployment rate and the unemployment rate for married men. The behavior of these two series suggests that the recent slowdown has had relatively less adverse impact on these groups than other postwar recessions.

Only one group, the teenagers, reached previous unemployment rate highs. They apparently are suffering more serious unemployment than before. A rise in the teenage unemployment rate probably does not cause as much human misery as a rise in the unemployment rate for married men, who are usually heads of households. But unemployment for the teenager who wants and needs a job is still painful.

William E. Cullison

TWO TECHNIQUES OF CORPORATE FINANCING

Sales of convertible bonds and direct or private placement of conventional debt issues are two long-standing methods of corporate financing that experienced varying degrees of activity in the 1960's. Convertibles were only mildly popular during the first half of the decade, while in the second half their volume attained record levels. Direct placement, on the other hand, followed the opposite pattern. Their volume reached new highs in the early 1960's and in some quarters they were billed as the corporate financing tool of the future. Changing economic and financial conditions, however, discouraged the use of direct placements, in both relative and absolute terms, in the second half of the decade.

Convertible Bonds Bonds that are convertible into equity shares at the option of the bondholder have long been used by U. S. corporations. The earliest widespread use of convertibles came during the railroad boom of the nineteenth century. The convertible feature proved attractive and later was incorporated in a broad assortment of debt instruments. It was particularly popular in the late 1920's and has been a notable feature of corporate financing since the late 1930's.

Two purposes appear to underlie the use of convertible bonds in the corporate financing plan. First, convertibility enhances the marketability of the issue. Second, under certain conditions, the use of convertibles may produce a favorable effect on the financial structure of the firm. Although the advantage of increased marketability has been emphasized traditionally, some empirical evidence suggests that improvement of the financial structure may be a more important reason for issuing convertible securities.[1] Converting an ordinary fixed income security into a common stock whose value is based on the profit potential of the firm adds a speculative attraction to the security. Thus the convertible feature is often looked upon by the market as a "sweetener." Many firms, particularly those with large fluctuations in earnings, find it useful to issue convertible securities to build up their equity buffer over the long run. This technique is especially attractive to firms whose common stock price currently lacks the strength to withstand a direct offering of equity shares. Issuing convertibles may then serve beneficially as a deferred offering of common shares.

The advantages of marketability and financial structure appear to have influenced the rapid increase in the volume of convertibles in the late 1960's, shown in Chart I. This period was characterized by widespread economic expansion, rapid growth in debt financing, extensive merger and expansion activity, and generally firm—on occasion tight—credit market conditions.

The long investment boom of that period, coupled with the increasing appetite of conglomerates for new acquisitions, generated a great demand for external financing among corporations. In the accompanying competition for funds, interest rates soared and the marketability advantage of the convertible bond proved attractive to corporate borrowers. Convertibles offered the investor the right to a fixed income at a time when the firm's earnings were minimal and the prospect of participating in future earnings if the merger were as successful as anticipated.

With the heavy borrowing of the middle and late 1960's, the financial structure of many corporations became overloaded with debt. Moreover, in the tight money episodes of 1966 and 1969, many corporate borrowers relied heavily on short-term funds, avoiding the more permanent high costs of bond financing. Hence for many firms both the debt-equity ratio and the ratio of short-term to long-term debt took unfavorable turns. For firms in this position, the convertible bond offered an opportunity to fund short-term debt while at the same time arranging a deferred improvement in the debt-equity ratio.

Convertibles were widely used in 1968 and 1969, particularly in the latter year, which was characterized by tight credit conditions, falling stock prices, and a high merger rate. Their use declined significantly in 1970, however, as falling interest rates, rising stock prices, and a considerable emphasis on quality by the market encouraged the use of conventional debt and equity instruments. Much of the new financing in 1970 was done by public utilities and communications companies that traditionally have made little use of convertibles.

(Continued on page 8)

[1] C. James Pilcher, *Raising Capital with Convertible Securities* (Ann Arbor: University of Michigan Press, 1955).

The Distribution of Medical Personnel and Facilities — A Rural-Urban Comparison

The provision of health services is increasingly becoming a topic for serious discussion in the United States. Indeed, the President and others talk in terms of the "health crisis" that America faces. The National Advisory Commission on Health Manpower pointed out several indicators of the crisis:

> . . . long delays to see a physician for routine care; lengthy periods spent in the well-named "waiting room," and then hurried and sometimes impersonal attention in a limited appointment time; difficulty in obtaining care on nights and weekends, except through hospital emergency rooms; unavailability of beds in one hospital while some beds are empty in another; reductions of hospital services because of lack of nurses; needless duplication of certain sophisticated services in the same community; uneven distribution of care, as indicated by the health statistics of the rural poor, urban ghetto dwellers, migrant workers, and other minority groups, which occasionally resemble the health statistics of a developing country; obsolete hospitals in our major cities; costs rising sharply from levels that already prohibit care for some and create major financial burdens for many more.[1]

[1] *Report of The National Advisory Commission on Health Manpower*, Volume I, November 1967, p. 2.

One aspect of the health problem with important implications for rural residents and for rural development is the uneven distribution of medical services between urban and rural areas. When the supply of health services is analyzed from a geographic perspective, rural residents appear to be at some disadvantage compared to people in urban areas. Various national health surveys and numerous research projects show that rural residents have access to fewer specialists, dentists, nurses, and hospital beds. Moreover, studies show that the health care needs are generally greater in rural areas. Rural residents have more disability days per person, a greater incidence of acute conditions, more days of restricted activity because of illness, and more days of bed disability.[2]

The number of physicians in relation to population varies widely between localities and regions in this country. Many factors such as differences in per capita income levels and professional and cultural advantages in local areas account for this pattern of distribution. Research suggests that the lower incomes of rural residents tend to discourage the location of physicians in rural areas.[3]

[2] See, for example, Ronald Anderson and Odin W. Anderson, *A Decade of Health Services: Social Survey Trends in Use and Expenditure*, (Chicago: University of Chicago Press, 1967); and Neville Doherty, *Rurality, Poverty, and Health: Medical Problems in Rural Areas*, Agricultural Economic Report, No. 172, United States Department of Agriculture, Economic Research Service, February 1970.

The purpose of this report is to examine the distribution of physician and hospital facilities in the United States and the Fifth Federal Reserve District.

Distribution of Physicians The statistics used in this analysis of the distribution of physicians and hospital facilities relate to conditions at the end of 1967, and deal only with active patient-care physicians. Physicians engaged in administration, teaching, and research are not included. For the United States, there were 126 patient-care physicians per 100,000 population. The physician-population ratio was lower in Fifth District states where there were only 112 patient-care physicians per 100,000 population. Active physicians are unevenly distributed among the Fifth District states. Patient-care physicians per 100,000 population range from a low of 73 in South Carolina to a high of 310 in the District of Columbia. Maryland, with a physician-population ratio of 150, was considerably above the United States average, while Virginia, North Carolina, and West Virginia were below average with ratios of 100, 91, and 88, respectively.

[3] Doherty, *op. cit.*, p. 5.

Although there is considerable variation in the physician-population ratio within the Fifth District, the rural ratios are consistently lower than the urban ratios. Whereas urban areas account for approximately 52 percent of the total population in the Fifth District, they contain 70 percent of the active physicians.

The rural-urban disparity is especially pronounced with respect to medical specialties. Two primary factors account for this. Newly trained physicians are attracted to heavy population centers, and there is a trend away from general practice toward specialization. General practitioners made up 29 percent of all patient-care physicians in the Fifth District in 1963 compared to 23 percent in 1967.

Distribution of Hospital Facilities The number of hospitals per 100,000 population in the Fifth District is higher in the rural areas than in the urban areas, but the number of hospital beds per 100,000 is higher in urban areas. (See table.) In general, rural hospitals tend to be smaller and less adequately staffed. The rural-urban disparity in the number of specialists and hospital-based physicians is especially apparent in North and South Carolina.

Thomas E. Snider and Marcia M. Wyatt

URBAN-RURAL DISTRIBUTION OF PIANS, HOSPITALS AND POPULATION
UNITED STATES AND FIISTRICT BY STATES, 1967

	Maryland		Virginia		West Virginia	North Carolina		South Carolina		District of Columbia	Fifth District		United States	
	Urban[1]	Rural	Urban	Rural	Urban	Urban	Rural	Urban	Rural	Urban	Urban	Rural	Urban	Rural
Physicians per 100,000 population														
Physicians in patient care	173	66	113	82	122	146	60	98	58	310	153	68	150	76
General practice	26	24	22	31	31	17	28	24	29	33	24	28	30	35
Specialists and hospital-based physicians	147	42	91	51	91	129	32	74	29	277	129	40	120	41
Hospitals per 100,000 population	1.1	2.0	1.7	2.9	3.5	1.9	3.1	1.9	3.2	1.6	1.6	3.2	2.0	5.2
Hospital beds per 100,000 population	320	280	314	313	582	431	296	343	331	575	374	327	405	376
Average number of beds per hospital	296	143	187	108	164	223	93	179	105	358	228	101	210	72
Specialists plus hospital-based physicians per 100 beds	46	15	29	16	16	30	11	22	9	48	35	12	29	11
Percentage of population	79	21	57	43	25	36	64	38	62	....	52	48	68	32
Percentage of active physicians	92	8	64	36	33	61	39	53	47	....	70	30	81	19

[1] Urban areas are defined as Standard Metropolitan Statistical Areas. All other areas are rural.

Source: **The Distribution of Physicians, Hospitals, and Hospital Beds in the United States, 1967,** American Medical Association, Chilinois, 1968.

TWO TECHNIQUES OF CORPORATE FINANCING

(Continued from page 5)

Direct Placements One of the most important innovations in corporate financing after the early 1930's was the direct placement of securities with large institutional investors. Direct or private placements enable the borrower to deal directly with institutional purchasers such as insurance companies and pension funds. As an increasingly popular method of marketing long-term debt, private placements expanded until 1964 when they accounted for 64 percent of all corporate bonds issued.

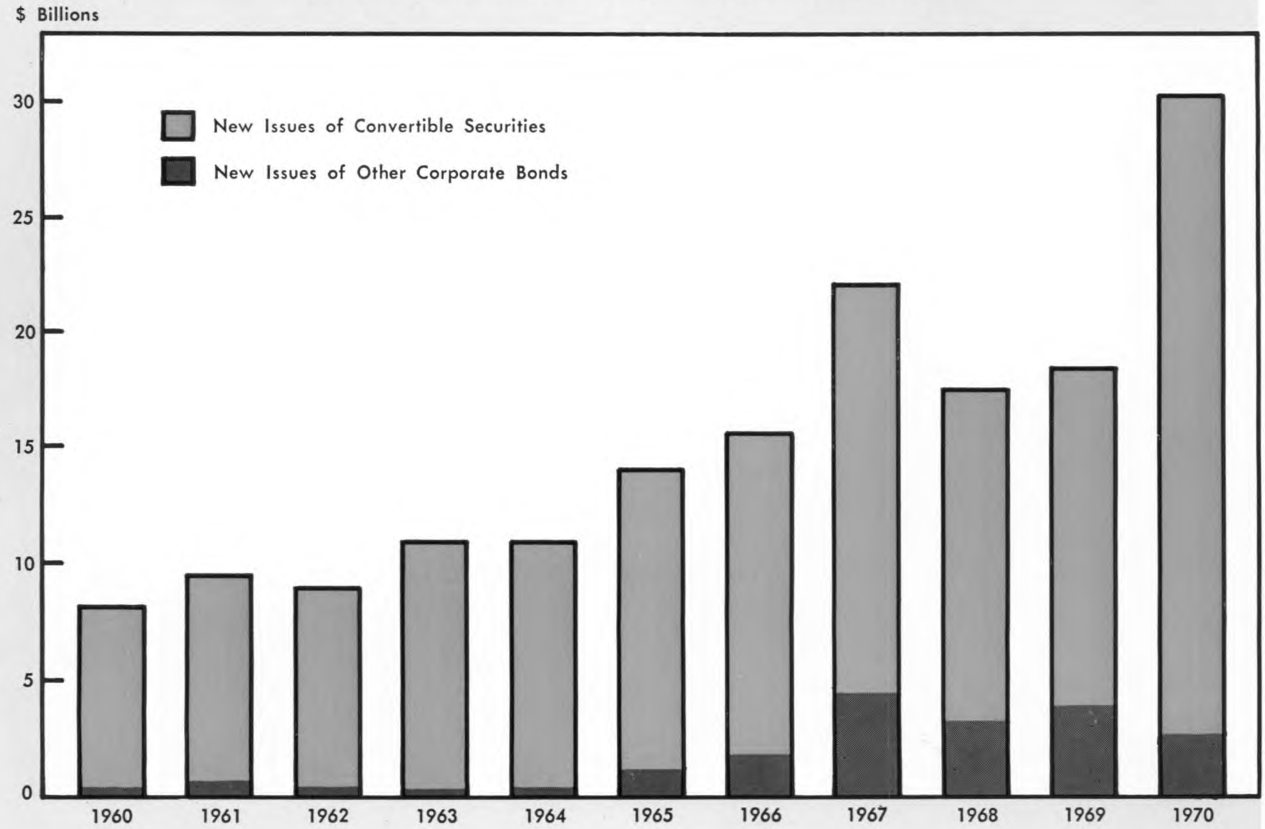
Several factors contributed to the rise of private placements after the early 1930's. Changes in legal codes after 1928 allowed insurance companies for the first time to invest in unsecured loans, including corporate debentures. Equally important was the tremendous increase in the resources of insurance companies, much of which took place in the 1930's, when the total volume of corporate borrowing was at a low ebb.

The reduction in time and expense involved in direct placements was a third factor. Long delays in the registration of a public issue are unavoidable. The possibility of basic changes in market conditions during such delays introduces an element of uncertainty in the financial planning of corporate treasurers. By comparison, private placements can be negotiated in relatively little time.

One of the most important reasons for the popularity of direct financing, however, has been the close relationship of the issuer to the lender. Because there is only one or a limited number of bondholders, the terms of indenture are easily negotiated, and if these terms become burdensome to either party, the indenture could be renegotiated more easily if only two parties are involved.

Chart 1

CONVERTIBLE SECURITIES IN CORPORATE DEBT ISSUES



Source: **Statistical Bulletin**, Securities and Exchange Commission, March 1971.

At the same time, however, there are disadvantages associated with direct placements. The creditor assumes greater risk because of the length of his commitment and the reduced ability to diversify his portfolio. Costs of investigating the financial position of the borrower are relatively high. The issuer may have to borrow at somewhat higher rates of interest, be of higher credit standing than otherwise necessary, and submit to substantial financial restrictions and often management control.

Unlike convertible bonds, directly placed bonds became less attractive during the second half of the 1960's. (See Chart II.) During this period life insurance companies, by far the largest suppliers of direct placement of funds, were not sufficiently liquid to continue to purchase securities as rapidly as they had in earlier years. The reduced supply of lendable funds among life insurance companies was traceable to the generally tight credit conditions and to the sharp upsurge in requests for loans by policyholders. On the demand side, tight credit conditions discouraged many corporations from using long-term debt in favor of temporary short-term funds, thus curtailing the demand for direct placement of funds.

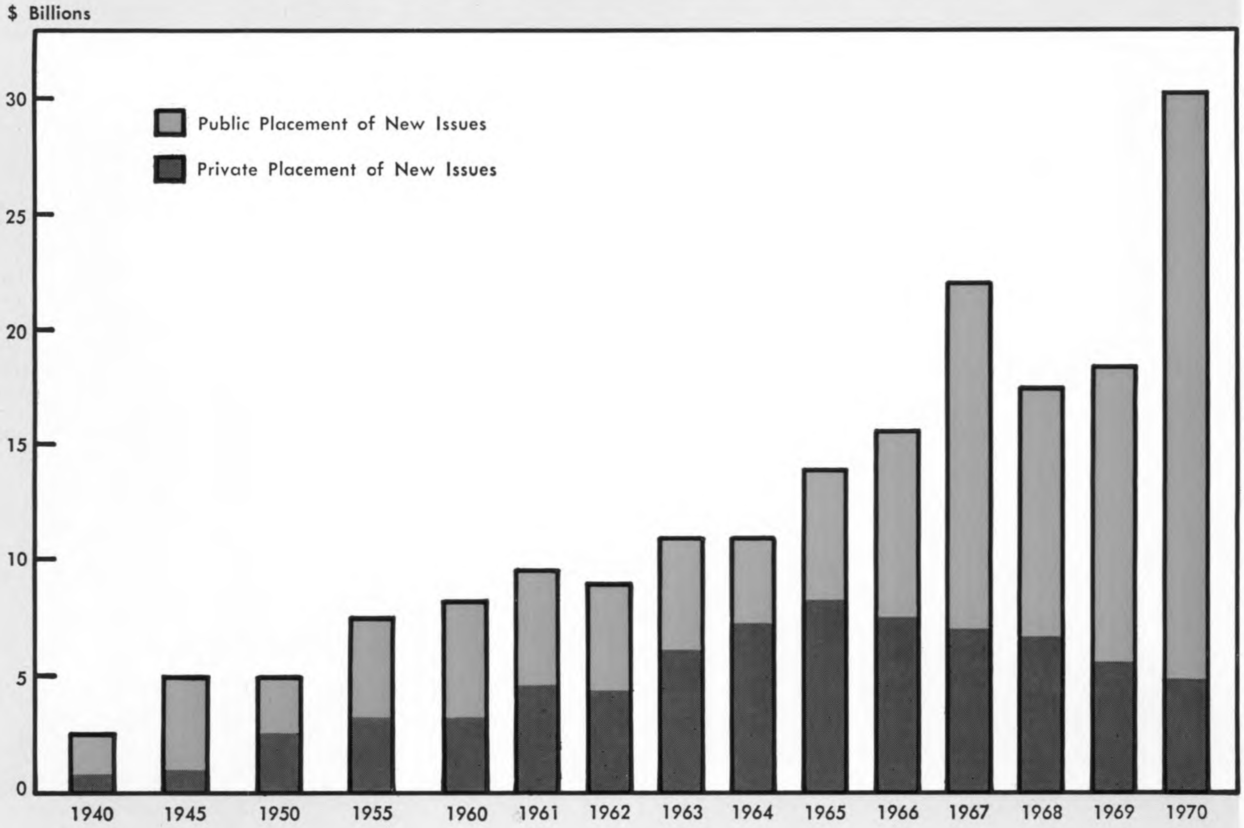
Although the chief characteristic of the bull market in bonds after mid-1970 was the rising prices at which huge quantities of new securities were marketed, there was also considerable emphasis on the quality of issues. The Penn Central debacle caused many insurance firms, as well as other institutional investors, to be unusually quality-conscious in their investment planning. Most insurance companies shied away from direct placements unless the borrower had a high credit rating.

As the credit markets became characterized by less frantic conditions, direct placements may regain their earlier popularity. They offer considerable advantages for both large firms and large institutional investors.

Philip H. Davidson and Jane N. Haws

Chart 2

PRIVATE AND PUBLIC PLACEMENT OF CORPORATE BONDS



Source: Federal Reserve Bulletin.

TOWARDS A BETTER PAYMENTS SYSTEM

The Federal Reserve Bank of Richmond shares with commercial banks and others in the Fifth Federal Reserve District a special interest in the progress of the nation's payments system. In cooperation with area banks, the Federal Reserve Bank of Richmond pioneered the System's first regional check clearing center in the Washington-Baltimore metropolitan area in an effort to improve the present check-clearing system. This Bank also operates the Federal Reserve System's new communications switching center at its facility in Culpeper, Virginia. This communications network could be an important part of an electronic payments system of the future. These steps, and the problems and progress of the payments mechanism in general, were discussed in the May 1970 issue of this MONTHLY REVIEW.

The Board of Governors of the Federal Reserve System on June 18, 1971, issued an official policy statement on the payments mechanism. The statement emphasized, among other things, a need for more regional clearing centers and greater use of the System's expanded communications network. In view of its special interest to the Fifth District, this policy statement and the accompanying press release are reproduced below.

PRESS RELEASE

Board of Governors of the Federal Reserve System

June 18, 1971

The Board of Governors of the Federal Reserve System today issued a policy statement calling for basic changes in the nation's system for handling money payments. These are, essentially, transitional steps toward replacing the use of checks with electronic transfer of funds.

The Board's Statement was directed to the Presidents of the 12 Federal Reserve Banks. It said that modernization of the nation's means of making financial transactions through the banking system "is becoming a matter of urgency."

The Board's sense of urgency was based upon estimates that check volume will at least double in the present decade. Some 62 million checks a day —about 22 billion a year—are written in the United States, setting in motion the transfer of more than $16 trillion a year at the present time. In 1970, the Federal Reserve System cleared approximately 8 billion checks, transferring just over $3 trillion from one account to another.

An average check passing through the clearing process is handled 10 times under present procedures. Despite the progress to date in mechanization and automation, increases in productivity are limited by the fact that the processing of checks continues to require a substantial amount of hand labor. This, together with mounting check volumes, presents banks with a problem of constantly rising costs for their check handling operations. The Board's Policy Statement addresses itself to this mounting problem.

The Board's Policy Statement placed "high priority" upon providing the public with faster, more convenient and more dependable check clearing services, by increasing the speed and efficiency of check handling. In part, the Board's plans called for this to be accomplished through establishment of new regional clearing centers throughout the country.

The Board asked for action "to achieve as soon as possible an accelerated flow of funds along more optimal routing patterns" across the nation, in two initial ways:

1. *Structural changes in handling and settlement of checks*: This would involve two alterations in the existing money payments system. First, zones of same-day settlement — in immediately available money — now operating in cities with Reserve Bank offices, would be expanded geographically. Second, new regional centers would be established, wherever warranted, for rapid check clearance in immediately available funds.

In both cases, the Board has in mind clearing areas as large as permitted by reliable arrangements for overnight presentation and settlement of items.

2. *Operational changes*: These would be aimed at reducing dependence upon checks by encouraging banks and their customers to make greater use of the expanded capabilities of the Federal Reserve System's communications network.

Inducements to begin replacement of money transfers by check with transfers via wire would be offered by (1) removing charges and other restrictions upon the use of the Federal Reserve's wire network by member banks for transfers of $1,000 or more for their customers, (2) increasing the number of hours the network is open for business daily, and (3) expanding facilities at Reserve offices, where justified by traffic potentials, to equip them for high speed tape transmission and computer-to-computer communications.

This would permit linkups, chiefly of commercial bank computers through the use of Federal Reserve facilities, allowing virtually instantaneous payment, without charge for the wire service, from a commercial bank in one part of the nation to a commercial bank in any other part, where both banks are Federal Reserve members and have computerized accounting of their customers' deposit balances.

With respect to timing, the Policy Statement said:

> The first objective should be expansion of the geographic area of existing immediate payment zones. This should be accomplished as soon as necessary arrangements can be made. Meantime, studies looking to the establishment of new clearing centers, wherever warranted, should be undertaken promptly by each Federal Reserve Bank, and submitted to the Board for review. Expansion of facilities at Federal Reserve offices for increased access to the Reserve System's wire network should be concluded at the earliest practicable time. . . .

The Board's Policy Statement was prepared in collaboration with the Federal Reserve System Steering Committee on Improving the Payments Mechanism, headed by Reserve Board Governor George W. Mitchell. Other members are Governors Sherman J. Maisel and William W. Sherrill, Reserve Bank Presidents George H. Clay of Kansas City, Aubrey N. Heflin of Richmond, and Eliot J. Swan of San Francisco, and the First Vice Presidents of the Chicago and the New York Reserve Banks, Ernest T. Baughman and William F. Treiber. The Steering Committee was assisted by the Committee and Subcommittee on Collections of the Conference of First Vice Presidents of the Reserve Banks. Preparation of the statement involved extensive consultation among Reserve Banks and with commercial banks.

The Policy Statement confirmed the Federal Reserve System's commitment to a nationwide direct, fast, and economical system for the transfer of funds and settlement of balances. The immediate aim is a reduction, across the nation, of the volume of items now being handled, speeding settlement by minimizing handling of checks, and reduction of commercial bank and Federal Reserve float resulting from delays in settlements.

Expansion of areas of fast clearing and settlement in immediately available funds is appropriate, in the Board's opinion, due to increasing urbanization and improvement of highway systems surrounding major cities, and the growing utilization, even in small banks, of centralized electronic accounting for demand deposits.

During the past year zones of immediate payment surrounding the Kansas City, the Minneapolis and the Denver Federal Reserve offices have been expanded. The first — experimental — new regional clearing center was established for the Washington-Baltimore area, and is now in its second year of successful operation. The second such regional clearing center will become operational in Miami, Florida, this year.

Looking to the future, the Reserve System has three projects in being for further improvement of the payments mechanism:

1. Construction of a payments mechanism simulation model for the System, to be used both to understand better the present payments system and to indicate in what ways it can and should be improved.

2. An in-depth study of exactly how payments are effected in Florida and Georgia, being done by the Georgia Institute of Technology for the Federal Reserve Bank of Atlanta.

3. The cooperative participation, in California, of the Federal Reserve Bank of San Francisco and its Branch at Los Angeles with a Special Committee on Paperless Entry (SCOPE) through which commercial bank groups are attempting to reduce check

volume by substituting electronic means of transferring money.

Meantime, the Reserve System's wire network is being both expanded and converted to higher speed operation. It includes a communications center at Culpeper, Virginia, linking the Board and all Reserve offices, and is capable of extension to commercial banks.

A copy of the Board's Policy Statement is attached.

STATEMENT OF POLICY ON THE PAYMENTS MECHANISM

Board of Governors of the Federal Reserve System

June 18, 1971

Increasing the speed and efficiency with which the rapidly mounting volume of checks is handled is becoming a matter of urgency. Until electronic facilities begin to replace check transfer in substantial volume, the present system is vulnerable to serious transportation delays and manpower shortages. Structural changes in the present check clearing system can effect significant savings in manpower and unnecessary handling of checks. These changes will result in faster, more convenient, and more economical banking services for the public. They will reduce the cost of operations. The Federal Reserve Board therefore states as a matter of policy that it places high priority upon efforts by the Federal Reserve System to improve the nation's means of making payments, initially along the following lines:

1. *Extending present clearing arrangements, in cities with Federal Reserve offices, into larger zones of immediate payment,* consistent with transportation possibilities, check volumes, and the location of check processing centers.

2. *Establishing other regional clearing facilities, in which settlements are made in immediately available funds,* located wherever warranted by the need for more expeditious and economical check handling, or other operating and financial conditions.

3. (a) *Encouraging banks and their customers to make greater use of the expanded capabilities of the Federal Reserve wire transfer system.*

(b) *Removing restrictions on third party transfers of demand deposits, and extending the time period in which the wire transfer system can be used.*

(c) *Expanding facilities at Reserve Bank offices,* where justified by traffic potentials, to include high speed tape transmission, and computer-to-computer communications.

Plans for making these basic changes in the present money transfer system should be pursued actively, to achieve as soon as possible an accelerated flow of funds along more optimal routing patterns. These initiatives are generally intended to supplement those efficient direct check exchange programs that are now in existence.

The first objective should be expansion of the geographic area of existing immediate payment zones. This should be accomplished as soon as necessary arrangements can be made. Meantime, studies looking to the establishment of new clearing centers, wherever warranted, should be undertaken promptly by each Federal Reserve Bank, and submitted to the Board for review. Expansion of facilities at Federal Reserve offices for increased access to the Reserve System's wire network should be concluded at the earliest practicable time, generally during the next 12 to 18 months.