Should the Fed Sell Its Services?

By W. Lee Hoskins

No one likes to waste resources, yet in the United States banking system such waste may be occurring daily. The culprit is the current pricing mechanism, or rather the lack of it, for services provided by the bankers' bank—the Fed. Many of the Fed's services are tied to one "price," the price of admission to the Federal Reserve System. By bundling many services under one price, the Fed inadvertently may be encouraging inefficient or wasteful use of resources. In addition, some problems of fairness or equity arise regarding the commercial banks that deal with the Fed.

One method of moving toward more efficient and equitable use of resources in banking would be for the Fed to unbundle its service package and charge an explicit price to all comers for each service it can economically produce. However, shifting to a fee-for-service system would handicap member bankers unless it were accompanied by a reduction in the cost of membership. Paying member banks interest on their reserves held at the Fed would be a suitable companion for a fee-for-service system.[1]

[1]See Ira Kaminow's article in this issue.

THE PRICE: MEMBERSHIP

Currently, Fed services range from check collection to storing securities for member commercial banks (see Box 1). The Fed provides these services to member banks in order to facilitate the smooth functioning of the financial system as mandated by Congress. But it also provides services as a "payment" for membership in the System. For example, a member banker has the privilege of having all checks taken in during a business day "cleared" by the Fed, and he can receive this Fed service "free."[2]

[2]At present a member bank collects all checks that were cashed or handled at all of its branches and returns them to the main office. Here each check is specially encoded with magnetic ink revealing the amount of the check. (This process allows the high-speed sorting machine to "read" the amount of the check). When all the checks are encoded they are brought to a special collection station by the bank. From this point the checks are transported, at the Fed's expense, to the Regional Check Processing Center (RCPC) for that district. Here they are sorted by a high-speed sorter-computer and the amount of each check recorded on the computer and sorted according to "drawn-on" bank. When all of the day's checks have been recorded and sorted, the reserve accounts of all of the banks are adjusted by computer. When all of the checks are sorted, they are returned to the main offices of the banks, along with a slip of paper revealing the banks' new reserve account balance, in time for the next business day.

BOX 1

A SUMMARY OF SERVICES PROVIDED BY THE FED

The Discount Window. The Fed will lend money to member banks as a source of temporary liquidity. Under special circumstances it can also lend to nonmember banks at a higher interest rate than the discount rate. No nonmember bank in the Third District has ever borrowed from the Fed.

Check Collections. The Fed will collect any check that a member bank wants to deposit. There is no limit to the number of checks the Fed will collect but the bank must provide a minimal amount of presorting (such as sorting checks by Federal Reserve Districts). The Federal Reserve banks will accept checks from nonmember banks who are within their respective districts or if the checks are those drawn against the U.S. Government.

Cash Distribution. All banks within a district may order cash from the Reserve banks. Nonmember banks, however, must assume all risks, pay for the transportation of the cash, and pay for any and all insurance. The Fed assumes all risks and costs when sending currency to member banks.

Noncash Deposits. Member banks can use the Fed for any and all noncash deposits (such as bankers acceptances, certificates of deposit, and maturing bonds) they wish to make. Member banks forward these items to the Fed, and the Fed in turn credits their accounts and forwards the items to the issuer.

Wire Transfers of Funds. The Fed will wire money from a member bank account on a phone call from that bank and send it to any bank in the country. There is no charge for this service except for transfers within a Reserve district and an amount of less than $1,000. Nonmembers can use this service only through members.

Custody of Securities. The Fed will provide for the safekeeping of securities. Nonmembers cannot keep securities in the Fed vaults unless they are pledged against Treasury tax and loan accounts. The Fed will also wire securities to other banks in the U.S., but this wiring must go through another Fed bank. Also included in this service is the buying and selling of Government securities for member banks.

Why don't all commercial banks flock to the Fed for these services? The answer is simple. There is a "price" for admission. Member banks are subject to the regulations of the Federal Reserve System, and these regulations can impose costs on members. For example, members must keep reserves equal to a stated portion of deposit liabilities with the Fed. The Fed currently pays no interest on these reserves. Last year these reserves could have generated about $3 billion in interest for banks at current market rates. Thus, one cost or price of membership is the interest payments foregone as a result of joining the System. In recent years, with market interest rates at record levels, the cost has been high. Consequently, many members, finding the Fed's package of services not worth the price, have withdrawn from the System.

Aside from the membership problem,[3] the lack

[3]See June 1974 *Business Review* of the Federal Reserve Bank of Philadelphia for detailed account of this problem.

of explicit prices for services can lead to inefficient use of resources for both banking and society. Moreover, not all banks or bank customers receive benefits in proportion to the costs they bear as a result of the Fed's tying its services to the price of membership in the System. Consequently, some equity issues arise.

SPONSORING "OVERCONSUMPTION"

The Fed's intention in supplying particular services to member banks is not only to make membership attractive but also to promote an efficient banking system. While the provision of services to member banks may facilitate the functioning of the banking system, it may be an inefficient means of doing so from society's point of view. The problem occurs because the services are "free" once a bank becomes a member. Thus, without an explicit price attached to each service member banks have little incentive to limit the amounts used. The outcome can be "overconsumption" or an inefficient use of resources.

The check collection service offered by the Fed illustrates this point. The Fed will "clear" all the checks a member bank cares to take in. There is no charge per check. A bank can bring a thousand or ten thousand checks to be cleared and pay no fee. However, banks do bear some additional costs because they must presort and encode the checks.

As a consequence of this "free" check collection policy, bankers have little incentive to cut down on the number of checks for clearance. In fact, they may profit from the arrangement by soliciting correspondent business from nonmember banks in return for seeing that their checks get processed. Moreover, bankers may find it advantageous to compete with each other for deposits by offering "free" checking accounts to customers, since the Fed picks up a portion of the tab for additional check processing. Then, the customer has no incentive to economize on the use of checks as a means of payment since he is not charged for writing a check.

The outcome of this process is that bankers avoid the full cost of using checks for payments. They in turn pass this "benefit" along to customers. Thus, "overconsumption" in terms of the number of checks written may occur. It is "overconsumption" because the additional resources that are flowing into check production, handling, and distribution are more highly valued by society in other uses. That is, if bankers and their customers had to pay the full costs of check processing, resources would probably be released for other uses.

One moral of the check story is that the Fed, by attempting to facilitate the smooth functioning of the payments mechanism, has inadvertently added to its problems. By spending over $135 million annually to process checks,[4] the Fed is providing an incentive for a continual heavy flow of autographed paper through the banking system.

PROBLEMS FOR THE PRODUCER—THE FED

In addition to the "overconsumption" problem, the "free" services policy of the Fed can lead to inefficiency on the production side as well. First, the Fed has the problem of determining which services should be produced. Second, it lacks information about the best methods of producing them.

Which Services? Lately, Fed membership has been dropping off, indicating that a growing number of bankers either find the value of the service package offered less than the cost of membership or find the desired services cheaper elsewhere. Unfortunately, this evidence provides little information about the value to bankers and ultimately to the rest of us of each service provided by the Fed. Without this information it's difficult to judge whether the Fed is efficiently using its resources. For example, the Fed currently will wire money from a member bank's account on a phone call from that bank and send it to any bank in the country. The Fed can total up the costs of making such transac-

[4]George W. Mitchell, "Banking and the Payments Mechanism," speech at the Annual Meeting of the Association of Reserve City Bankers, Boca Raton Florida, April 1972, p. 3.

tions, but it has no idea how bankers (and society) value this service. If these costs exceed the value bankers place on the service, then resources are being used inefficiently. That is, these resources—phone lines, operators, and cabling machinery—are valued more highly by society in other productive uses. Thus, without information about the value of each service the Fed has no way of knowing which services are worthwhile in an economic sense. Consequently, the Fed may be tying up resources that could be more productively used elsewhere.

An additional problem appears on the cost side. Although the Fed does generate "profits," it is not a profit-motivated institution. The Fed, therefore, does not face the usual cost considerations enforced by the marketplace. Consequently, it may or may not use the most efficient methods in producing services. For example, high-powered computers may result in greater speed in processing or "clearing" checks, yet the time saved may not be worth the cost of the more sophisticated machinery (the Fed receives some information in this regard since it competes, in a fashion, with banks offering correspondent-type business). Again, information about how bankers and the public value speedy debiting and crediting of their account is needed if resources used in the provision of services to member banks are to be efficiently employed.

Innovation: Too Much or Too Little? Over the long haul this loss of information could have an important impact on innovation and the development of specialized technology for banking. The reason is that economic consideration plays an important role in each. For example, the technology for trips to the moon for Americans seeking exotic vacations is clearly with us, but the economics of transporting numerous human bodies through space keeps them out of the travel brochures. And, so it goes in banking.

The basic technology for electronically transmitting debits and credits to individuals' bank accounts has been around for some time, yet only recently have preliminary efforts been made to apply it. One reason for the delay may be the subsidizing of check collection and processing. Put simply, the Fed, by paying for a hefty portion of the check clearing system, has lessened the incentive for banks and their customers to seek alternative means of transferring debits and credits. If banks and ultimately their customers had to pay the full costs of using checks it may have been economical to seek electronic transfers at an earlier date. Much of the current interest in electronic transfer comes from the rising cost of processing checks generated, in part, from the rapid growth in their popularity (the number of checks processed increased by some 35 percent from 1970 to 1973).

The point is that, without information about how people value alternative methods of payments, choosing when to innovate is difficult. And this information will not be forthcoming as long as prices and costs remain implicit. Moreover, without this cost-price information there is less incentive to develop new technology that could ultimately lead to new directions in banking services.

Finally, entrepreneurs will be reluctant about developing new banking products when they may end up competing with an institution such as the Fed that is not subject to the normal profit-and-loss discipline of the marketplace.

UNEVEN DISTRIBUTION

In addition to efficiency questions, the policy of tying services to membership can raise some equity or fairness issues for banks. Many member banks may not be able to take advantage of the whole range of services offered by the Fed because of the nature of their business. Member banks differ considerably in size and in the kinds of customers they service. Some banks have a wholesale orientation; others are strictly retail. These differences mean that some banks will make greater use of Fed services than others. Moreover, even if two banks of equal size use the same amount of services, it may cost the Fed more to service one than the other. Yet, both these banks pay the same price—the implicit costs of membership. The likely outcome is that some banks may "pay" more per unit of any service than others.

For example, suppose a member bank operates in an area where a private firm provides a regional check-clearing service that is quite efficient. Thus, rather than use the Fed's clearing service, this bank chooses to use that of the private company. Yet, another member bank in a different locale clears all its checks through the Fed. The outcome is that both banks are required to "pay" for the Fed service, but one receives nothing for the payment while the other does. If the Fed charged on the basis of the number of checks cleared, then both banks would pay in proportion to the amount of check-clearing services used.

Another example of an equity problem occurs when two banks of equal size receive the same amount of a service yet the cost to the Fed for servicing each differs. Take the case where one member is located next door to the Fed while another is a hundred miles away and both receive the same amount of cash distribution from the Fed each week. The cost to the Fed of providing this service to the bank next door is quite low relative to the more distant bank since the Fed bears all transportation and insurance costs. However, both banks "pay" the same for the service—membership in the System. Thus, the more distant bank, in a sense, is being implicitly subsidized by the bank next door to the Fed.[5]

In both of these examples, member banks do not receive Fed services in proportion to what they "pay" for them. Consequently, the Fed's policy of tying all services to the implicit price of membership leads to inequities among member banks.

MARKET PRICES: LESS WASTE, MORE EQUITY

Any move by the Fed toward selling each of its services for an explicit market price would be a move against both waste and inequities in the U.S. banking system. And such a practice would in the end benefit us all. However, in fairness to member banks, a fee-for-service system would require a reduction in the cost of membership (such as paying interest on reserves).

The pricing of each service would provide information about how bankers and their customers value them. Suppose the Fed charges a fee for check clearing aimed at covering the entire cost of providing this service. (The Fed could get a handle on the prices to charge by looking at the prices charged in the marketplace for these services). Bankers are likely to pass a portion of this charge along to customers. At a higher charge per check, customers are likely to write fewer checks. The Fed could then scale down its check-clearing operation (and perhaps its charge) so that the full costs are covered by the revenue generated from the charges. The result of such pricing is that resources are released from check processing to flow into other higher-valued uses. Moreover, the payment system will not always seem to be choked with a rapidly growing volume of checks.[6]

The attempt to match prices and costs for other Fed services would also result in a more efficient use of resources. The point is that by charging prices that more accurately reflect the cost of producing a service, the Fed gains information about the value of these services to its customers. The Fed then would know which services to cut back and which to expand. And through making these adjustments it would provide for a more efficient use of society's resources (see Box 2).

Moreover, if the Fed had an announced policy of pricing its services based on costs rather than subsidizing them, then private producers of these services would likely evolve. Currently, private production is probably stunted because of the Fed's bundle-pricing policy and implicit

[5]An additional problem occurs when two member banks of different size use the same amount of service. The larger bank, because of the lack of interest payments on reserves, "pays" more for the service than the smaller bank.

[6]Of course, the payment of interest on reserves may cause banks to seek more deposits. Banks may try to do so by offering customers "free" checking accounts. However, the banks would have to absorb the *full* cost of such action and resources would still be used efficiently. In addition, if the prohibition against payment of interest on demand deposits were removed, banks could compete for deposits directly rather than offering "free" checking accounts. The outcome of such a move could also result in important efficiency gains for society.

BOX 2

GETTING THE MOST FOR SOCIETY

Market prices are an important element in generating information about how best to use resources. The process works in this way. Competitive prices are signals which direct the flow of resources to uses most highly valued by society as a whole. And consumers play the dominant role in determining which uses are most highly valued by bidding up the prices of goods they prefer more of relative to those they prefer less of. As a result, relative market prices reflect the tastes or values consumers attach to having additional units of each good. This information about society's tastes and desires is essential, for it tells producers where to direct resources.

Profit-seeking producers are important cogs in the workings of the system. Noticing a change in relative market prices (or anticipating one), a sharp-eyed producer bids resources away from the lower-valued uses and directs them to the production of goods and services for which consumers have expressed a desire (or can be expected to desire). His incentive to do this is an increase in his profits. But, as production expands, a point will be reached where the additional resources are going to cost the producer more than they can add to his return. He will stop producing goods which use these resources before that point is reached, if he is interested in achieving the largest return possible. This return will be kept to a minimum by competition (or the threat of it) from other producers. Hence, market prices provide producers with both the necessary information and incentive to ensure that resources flow to uses most highly valued by society. And, as a consequence, any rearrangement of society's output would leave it worse off, providing that the current distribution of wealth is acceptable, competitive markets prevail, and that individuals bear the consequences of their actions.

subsidy. Private producers must cover costs (including a return on investment) if they are to stay in business. If the Fed priced accordingly, then the most efficient producers, either the Fed or private entrepreneurs, would end up providing the lion's share of each service. Competition between the Fed and private firms would ensure that banks and their customers receive services at the lowest possible price.[7]

An additional benefit of an explicit pricing policy by the Fed is its impact upon innovation. Innovation would be affected in two ways. First, private firms would have an incentive to devote resources to developing technology and new banking services if they were able to capture the returns from their efforts. If the Fed no longer subsidized services but charged a price that reflected costs, then entrepreneurs would have an incentive to develop technology and services that would lower costs. This occurs because private firms would realize the gains from improved techniques.

Second, innovations would be implemented when it was economical to do so. This does not mean all available technology would be introduced as soon as it is discovered. For example, computers have been around for some time, yet many tasks they could perform are still done "by hand." Why? Because in some cases it is cheaper to do a job with human calculation rather than running it through the computer. Thus, explicit pricing of the Fed's check-clearing service may lead to a hastening of electronic fund transfers. Or such pricing may retard it. The point, in either

[7] It is possible some of the services currently provided by the Fed are of such a nature that one producer can satisfy demand at a lower price than if two existed. In this case, either the Fed or a private firm should undertake the operation. In addition, it may not be worthwhile to attempt to price some services. This would be the case if the cost of establishing a price for the services is greater than the potential efficiency gain.

case, is that economic considerations, the price of one method relative to the other, would determine the appropriate time for implementing new techniques. In the marketplace, where it counts, the newest and most advanced technology is not necessarily the best.

Explicit pricing by the Fed also can make its dealings with banks more equitable, in addition to less wasteful. Banks, faced with an explicit price for each service rather than a package deal in return for membership, could pick the services they desire and purchase the quantity they want. Unlike the current system, banks would be paying for services in proportion to the amount they actually used. If banks do not want a particular service, such as wire transfer, they do not pay for it as they implicitly do under the current arrangement. Thus, banks that make extensive use of Fed services would pay more than banks that use less. Under the current system, two banks of the same size but using different amounts of Fed services "pay" the same in terms of the cost of membership in the System.[8]

[8]The Fed, by moving toward market pricing, could cause bank owners to realize some gains or losses in the value of their bank stock since current inequities associated with the free service policy are already capitalized into stock prices.

EVERYBODY GAINS

Explicit pricing of Fed services can help us all by making more efficient use of society's resources. Bankers benefit because they could choose and pay for only those services they most desired rather than the whole bundle. The Fed gains because its "production" headaches are reduced and it can devote more attention to such matters as monetary policy. And the public gains because resources will flow efficiently into the products they desire.[9]

Implementing a fee-for-service system will require some adjustments. In particular instances, Congressional action may be required to institute fees. In addition, the "price" of membership in the Federal Reserve must be reduced in order to avoid discriminating against member banks. Paying interest on member bank reserves would be an important step in this direction. In short, charging member banks for the services they use, coupled with interest payments on reserves, would alleviate some equity and efficiency problems and would be in keeping with the tradition of a free enterprise economy.

[9]While bank customers may have to pay higher prices for banking services, the higher prices could be offset by eliminating interest rate ceilings on time and demand deposits.

ANNOUNCING A NEW PUBLICATION SERIES FROM THE DEPARTMENT OF RESEARCH . . .

Starting this year the Philadelphia Fed's Research Department will occasionally publish RESEARCH PAPERS dealing with a wide range of banking and economic issues. Most of these papers are of a highly technical nature and for the professional researcher.

The following are the first in the series.

- "Intradistrict Distribution of School Resources to the Disadvantaged: Evidence for the Courts," Philadelphia School Project, by Anita A. Summers and Barbara L. Wolfe
- "Branching Restrictions and Commercial Bank Costs," by Donald J. Mullineaux
- "Economies of Scale of Financial Institutions," by Donald J. Mullineaux

Copies of these are available from the Department of Research, Federal Reserve of Philadelphia, Philadelphia, PA 19105.

Annual Operations & Executive Changes

FEDERAL RESERVE BANK of PHILADELPHIA

DIRECTORS AND OFFICERS

An election was held to choose directors of this Bank to succeed John C. Tuten, Chairman and Chief Executive Officer, National Central Bank and National Central Financial Corporation, Lancaster, Class A director; and C. Graham Berwind, Jr., President and Chief Executive Officer, Berwind Corporation, Philadelphia, Class B director; who completed their terms of office. Member banks in Electoral Group 1 elected William B. Eagleson, Jr., Chairman of the Board and President, Girard Trust Bank, Bala-Cynwyd, to succeed Mr. Tuten, and reelected Mr. Berwind to succeed himself. Each will serve a three-year term ending December 31, 1977.

The Board of Governors of the Federal Reserve System redesignated John R. Coleman, President, Haverford College, Haverford, Pennsylvania, as Chairman of the Board of Directors of this Bank, and Federal Reserve Agent for 1975. Edward J. Dwyer, Chairman of the Board, ESB Incorporated, was redesignated Deputy Chairman of the Board for 1975. In another appointment, the Board of Governors named Edward W. Robinson, Jr., Vice President, North Carolina Mutual Life Insurance Company, Philadelphia, to his second three-year term as Class C director.

The Board of Directors reappointed James F. Bodine, President and Chief Operating Officer, First Pennsylvania Corporation and First Pennsylvania Bank N.A., Bala-Cynwyd, to serve in 1975 as the member of the Federal Advisory Council from the Third Federal Reserve District.

Effective January 1, 1974, G. William Metz, Vice President in charge of Fiscal-Safekeeping Operations, began reporting to Alexander A. Kudelich, Senior Vice President, in a move toward consolidation of operations services.

On May 1, Dominic L. Matteo, Check Processing Officer, became Payments Mechanism Officer. Jack P. Besse, Assistant Vice President, was transferred from the Data Processing Department to the Collections and Check Processing Operations and assumed responsibility for checking processing. Both Messrs. Matteo and

Besse report to William E. Roman, Vice President, who has the overall responsibility for the Collections and Check Processing Operations. Kenneth M. Snader, Vice President, Computer Applications, assumed responsibility for the Data Processing functions.

Effective April 22, Joseph R. Joyce, Vice President, Human Resources, was designated Equal Employment Opportunity Officer of the Bank.

On July 19, Robert R. Swander, Vice President and General Auditor, became Vice President responsible for Computer Services, General Services and Protection, Budgeting, Accounting, Operations Research and Transportation, reporting directly to Mark H. Willes, First Vice President. Hugh Barrie, Senior Vice President, assumed the responsibility for directing the move to the new Bank building as well as serving as chief liaison officer between this Bank and the operations departments of the large City banks. Mr. Barrie continues to report to Mr. Willes and retains his responsibilities as communications officer, working on both Bank and System projections on communications, automated clearing houses, and related matters.

William A. James, Senior Vice President, retired July 1.

Effective September 9, Robert R. Swander became Senior Vice President and Donald J. McAneny, Assistant Vice President and Assistant Secretary, became Vice President and General Auditor, succeeding Mr. Swander. Frederick M. Manning assumed the title of Chief Examining Officer and Arthur L. Morath became Banking Structure Officer.

Lyle P. Bickley, Computer Systems Coordinator, resigned October 15. Joseph R. Joyce, Vice President, Human Resources, resigned November 26.

On December 12, Bipin C. Shah joined the official staff as Vice President, Computer Services. Kenneth M. Snader, Vice President, who will retire in January 1975, will assist Mr. Shah in effecting an orderly transfer of responsibilities.

Effective January 1, 1975, W. Lee Hoskins, Vice President, assumed the title of Vice President and Director of Research, and Ira Kaminow, Economic Adviser, became Vice President and Economic Adviser. Joseph J. Ponczka, Examining Officer in the Department of Supervision and Regulation, was transferred to the Fiscal Safekeeping Department, replacing Peter M. DiPlacido, Fiscal Operations Officer, who became Assistant Vice President. Paul E. Kirn, Jr., Cash Operations Officer, and Lawrence C. Santana, Jr., Building and Security Officer, became Assistant Vice Presidents. Glennie M. Matthewson, II, became Assistant Counsel. Donald J. Mullineaux and Ronald D. Watson were promoted to Research Officer and Economist.

DIRECTORS AS OF JANUARY 1, 1975

JOHN R. COLEMAN, Chairman of the Board and Federal Reserve Agent

EDWARD J. DWYER, Deputy Chairman

GROUP		Term expires December 31
	CLASS A	
1	WILLIAM B. EAGLESON, JR. Chairman of the Board and President Girard Trust Bank Bala-Cynwyd, Pennsylvania	1977
2	JOHN J. HASSLER President The City National Bank and Trust Company of Salem Salem, New Jersey	1975
3	THOMAS L. MILLER President Upper Dauphin National Bank Millersburg, Pennsylvania	1976
	CLASS B	
1	WILLIAM S. MASLAND President C. H. Masland & Sons Carlisle, Pennsylvania	1976

DIRECTORS AS OF JANUARY 1, 1975

CLASS B

2	C. GRAHAM BERWIND, JR. Chairman of the Board and President Berwind Corporation Philadelphia, Pennsylvania	1977
3	BERNARD D. BROEKER Director Bethlehem Steel Corporation Bethlehem, Pennsylvania	1975

CLASS C

	JOHN R. COLEMAN President Haverford College Haverford, Pennsylvania	1976
	EDWARD W. ROBINSON, JR. Vice President North Carolina Mutual Life Insurance Company Philadelphia, Pennsylvania	1977
	EDWARD J. DWYER Chairman of the Board ESB Incorporated Philadelphia, Pennsylvania	1975

MEMBER OF THE FEDERAL ADVISORY COUNCIL

	JAMES F. BODINE President and Chief Operating Officer First Pennsylvania Corporation and First Pennsylvania Bank N.A. Bala-Cynwyd, Pennsylvania	1975

OFFICERS AS OF JANUARY 1, 1975

DAVID P. EASTBURN, *President*

MARK H. WILLES, *First Vice President*

HUGH BARRIE, *Senior Vice President*
EDWARD G. BOEHNE, *Senior Vice President*
ALEXANDER A. KUDELICH, *Senior Vice President*
ROBERT R. SWANDER, *Senior Vice President*
JOSEPH M. CASE, *Vice President*
HUGH CHAIRNOFF, *Vice President and Lending Officer*
D. RUSSELL CONNOR, *Vice President*
THOMAS K. DESCH, Vice President
RICHARD W. EPPS, Vice President
HILIARY H. HOLLOWAY, *Vice President and General Counsel*
W. LEE HOSKINS, *Vice President and Director of Research*
IRA KAMINOW, *Vice President and Economic Adviser*
DONALD J. McANENY, *Vice President and General Auditor*
G. WILLIAM METZ, *Vice President*
LAWRENCE C. MURDOCH, JR., *Vice President and Secretary*
WILLIAM E. ROMAN, *Vice President*
BIPIN C. SHAH, *Vice President*
KENNETH M. SNADER, *Vice President*
JACK P. BESSE, *Assistant Vice President*
PETER M. DiPLACIDO, *Assistant Vice President*
PAUL E. KIRN, JR., *Assistant Vice President*
A. LAMONT MAGEE, *Assistant General Auditor*
WARREN R. MOLL, *Assistant Vice President*
GLENNIE M. MATTHEWSON, II, *Assistant Counsel*
LAWRENCE C. SANTANA, JR., *Assistant Vice President*
ELIZABETH S. WEBB, *Assistant Counsel*
EVELYN G. BATTISTA, *Human Resources Officer and Assistant Secretary*
SAMUEL J. CULBERT, JR., *Bank Services Officer*
GEORGE C. HAAG, *Public Services Officer*
JUDITH H. HELMUTH, *Computer Services Officer*
KATHLEEN C. HOLMES, *Research Officer and Assistant Secretary*
EDWIN C. LODGE, *Accounting Officer*
FREDERICK M. MANNING, *Chief Examining Officer*
DOMINIC L. MATTEO, *Payments Mechanism Officer*
ARTHUR L. MORATH, JR., *Banking Structure Officer*
DONALD J. MULLINEAUX, *Research Officer and Economist*
STEPHEN M. ONDECK, *Examining Officer—Commercial*
JOSEPH J. PONCZKA, *Fiscal Operations Officer*
DAVID H. SCOTT, *Regulations Officer*
ROBERT A. WALLGREN, *Examining Officer—Trust*
RONALD D. WATSON, *Research Officer and Economist*

STATEMENT OF CONDITION
Federal Reserve Bank of Philadelphia

(000s omitted in dollar figures)	End of Year 1974	1973
ASSETS		
Gold certificate account	$ 613,730	$ 817,012
Special Drawing Rights Certificate	23,000	23,000
Federal Reserve notes of other Federal Reserve banks	81,816	63,038
Other cash	10,164	2,217
Loans and securities:		
Discounts and advances	23,235	19,436
Federal Agency obligations	265,883	106,094
United States Government securities	4,526,831	4,296,215
Total loans and securities	$4,815,949	$4,421,745
Uncollected cash items	343,481	394,286
Bank premises	30,942	10,435
All other assets	67,078	46,196
Total assets	$5,986,161	$5,777,929
LIABILITIES		
Federal Reserve notes	$4,468,137	$4,092,297
Deposits:		
Member bank reserve accounts	864,771	1,028,954
United States Government	151,723	139,424
Foreign	14,210	12,740
Other deposits	28,558	39,301
Total deposits	$5,986,161	$1,220,419
Deferred availability cash items	309,619	330,854
All other liabilities	65,288	51,176
Total liabilities	$5,902,305	$5,694,746
CAPITAL ACCOUNTS		
Capital paid in	41,928	41,592
Surplus	41,928	41,592
Total liabilities and capital accounts	$5,986,161	$5,777,929
Ratio of gold certificate reserve to Federal Reserve note liability	13.7%	20.0%

EARNINGS AND EXPENSES
Federal Reserve Bank of Philadelphia

(000s omitted)	1974	1973
Earnings from:		
United States Government securities	$328,474	$257,976
Other sources	7,377	6,529
Total current earnings	$335,851	$264,505
Net expenses:		
Operating expenses*	23,670	21,089
Cost of Federal Reserve currency	2,295	2,053
Assessment for expenses of Board of Governors	2,009	2,192
Total net expenses	$ 27,974	$ 25,334
Current net earnings	$307,877	$239,171
Additions to current net earnings:		
Miscellaneous nonoperating income	151	71
Total additions	$ 151	$ 71
Deductions from current net earnings:		
Loss on sales of U.S. Government securities	2,291	1,894
Loss on foreign currency transactions	1,664	2,323
Miscellaneous nonoperating expenses	2,254	24
Total deductions	$ 6,209	$ 4,242
Net deductions	6,058	4,171
Net earnings before payments to U.S. Treasury	301,819	235,000
Dividends paid	$ 2,490	$ 2,417
Paid to U.S. Treasury (interest on Federal Reserve notes)	298,993	229,888
Transferred to or deducted from (−) Surplus	336	2,695
	$301,819	$235,000

*After deducting reimbursable or recoverable expenses

VOLUME OF OPERATIONS
Federal Reserve Bank of Philadelphia

Number of pieces (000s omitted)	1974	1973	1972
Collections			
Ordinary checks*	547,080	545,463	438,534
Government checks (paper and card)	41,313	38,052	36,560
Postal money orders (card)	9,295	11,285	12,016
Noncash items	1,007	963	948
Food stamps redeemed	121,528	89,494	79,369
Clearing operations in connection with direct sendings and wire and group clearing plans**	572	585	608
Transfers of funds	448	382	382
Currency counted	380,085	377,043	372,511
Discounts and advances to member banks	3	2	(a)
Depository receipts for withheld taxes	2,196	2,038	1,664
Fiscal agency activities:			
Marketable securities delivered or redeemed	431	289	292
Computerized marketable securities (Book entry transactions)	16	18	12
Savings bonds and notes (Federal Reserve Bank and agents)			
Issues (including reissues)	12,015	12,589	10,665
Redemptions	8,728	8,609	7,497
Coupons redeemed (Government and agencies)	536	592	726
Dollar amounts (000,000s omitted)			
Collections:			
Ordinary checks*	$184,597	$164,136	$139,115
Government checks (paper and card)	15,134	13,433	11,795
Postal money orders (card)	268	226	219
Noncash items	3,195	2,698	2,707
Food stamps redeemed	254	172	152
Clearing operations in connection with direct sendings and wire and group clearing plans**	97,912	98,938	87,787
Transfers of funds	914,436	616,427	568,433
Currency counted	3,227	3,058	2,853
Discounts and advances to member banks	16,760	15,502	2,725
Depository receipts for withheld taxes	10,659	9,754	8,275
Fiscal agency activities:			
Marketable securities delivered or redeemed	12,808	11,452	8,950
Computerized marketable securities (Book entry transactions)	16,379	30,560	29,657
Savings bonds and notes (Federal Reserve Bank and agents)			
Issues (including reissues)	671	680	623
Redemptions	559	540	355
Coupons redeemed (Government and agencies)	377	356	158

*Checks handled in sealed packages counted as units
**Debits and credit items.
(a) Less than 1,000 rounded.

FEDERAL RESERVE BANK of PHILADELPHIA
PHILADELPHIA, PENNSYLVANIA 19105

business review
FEDERAL RESERVE BANK
OF PHILADELPHIA
PHILADELPHIA, PA. 19105

BULK RATE
U. S. POSTAGE
PAID
Philadelphia, Pa.
Permit No. 138