Twentieth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1934

Federal Reserve Agent
Second Federal Reserve District

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FEDERAL RESERVE BANK
OF NEW YORK

New York, February 19, 1935

SIRS:

I have the honor to submit herewith the twentieth annual report of the Federal Reserve Bank of New York, covering the year 1934.

Respectfully yours,

J. HERBERT CASE,
Chairman and Federal Reserve Agent.

FEDERAL RESERVE BOARD,
Washington, D. C.

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The Money Market in 1934

The principal developments in the money market during 1934 arose largely out of new monetary legislation and the financing of the Government relief and recovery program. Probably the most important banking development of the year was the unparalleled expansion of the metallic base for the currency and credit supply of the country, the major element in which was the increase in the dollar amount of the monetary gold stock of the United States, following the passage of the Gold Reserve Act of 1934 near the end of January. The dollar value of this country's gold stock at the end of each year since 1914 is shown in round amounts in the following table.

1914	$1,813,000,000
1915	2,312,000,000
1916	2,843,000,000
1917	3,155,000,000
1918	3,160,000,000
1919	2,994,000,000
1920	2,926,000,000
1921	3,660,000,000
1922	3,929,000,000
1923	4,244,000,000
1924	4,499,000,000
1925	4,399,000,000
1926	4,492,000,000
1927	4,379,000,000
1928	4,141,000,000
1929	4,284,000,000
1930	4,593,000,000
1931	4,460,000,000
1932	4,513,000,000
1933	4,323,000,000
1934	8,238,000,000

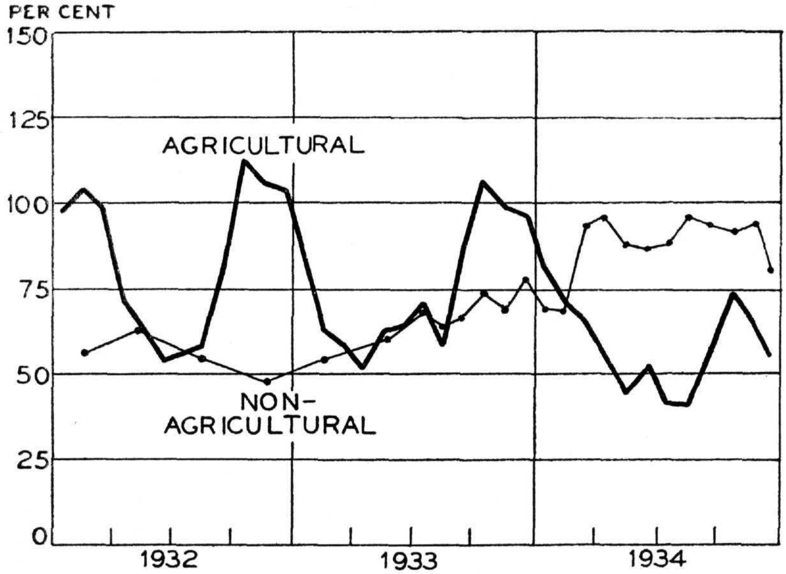
As the figures in this table indicate, the dollar value of the gold stock at the end of 1934 was nearly double the average amount in preceding years since the World War, and was about 4½ times as large as at the end of 1914. The largest factor in the increase during 1934 was the revaluation of existing supplies of gold held by the Treasury at $35 an ounce instead of $20.67 an ounce, which resulted in a write-up of approximately $2,800,000,000 in the gold stock held at the end of January. In addition a very large increase in the gold stock resulted from an inflow of gold from other countries following the resumption of purchases and sales of gold by the United States Treasury at the beginning of February.

At the end of January the cost of gold abroad, in terms of dollars, was the equivalent of approximately $33 an ounce. The offer of $35 an ounce for gold by the United States Treasury under the Gold Reserve Act of 1934 immediately resulted in a heavy inflow of gold at New York from abroad until the quotations for the foreign exchanges of countries that were still on the gold standard rose approximately to their new parities with the dollar so that gold imports no longer were profitable. Several weeks elapsed, however, before the gold exchanges rose to that level, and during February and March receipts of gold at New York reached an aggregate of more than $600,000,000, the largest inflow of gold on record for a comparable period.

The funds transferred to New York from abroad in the weeks immediately following the devaluation of the dollar apparently reflected to some extent a return flow of domestic capital which had been accumulated abroad during the preceding period of approximately nine months in which the value of the dollar in terms of gold had fluctuated considerably. A larger element in the gold inflow appears to have been a movement of capital to this country, representing in part the repayment of short term foreign indebtedness and the repurchase at low cost of foreign dollar securities outstanding in this country, and in part an increase in foreign deposits in the United States and foreign investment in American securities.

The change in the gold value of the dollar also tended to increase the balance of payments due this country by other countries, as it had the effect of increasing the cost to the citizens of the United States of everything purchased abroad and of reducing the cost to foreigners of goods purchased in this country, thus tending to restrict imports and to stimulate exports. The effect on the foreign trade of the United States was to a considerable extent counteracted by higher tariffs abroad or exchange restrictions, but nevertheless the excess of merchandise exports from the United States over imports during 1934 increased to $478,000,000, as compared with $225,000,000 in 1933.

The increase in exports, as the accompanying diagram indicates, was chiefly in products other than agricultural commodities, especially automobiles, machinery, and petroleum products. In the case of agricultural products, the great reduction in 1934 crops resulting from the drought together with the crop restriction program of the Agricultural Adjustment Administration in some cases eliminated exportable surpluses, and in some cases



Quantity Exports of Agricultural and Non-Agricultural Commodities (Department of Agriculture index for agricultural exports; non-agricultural index derived from Department of Commerce index of total exports. Unadjusted for seasonal variation; 1923-25 average = 100 per cent)

caused prices of agricultural products in the United States to rise to such an extent that some shift of foreign demands to other exporting countries occurred, despite the reduced cost of dollars abroad.

In addition to the increase in the balance of payments due this country on merchandise transactions, expenditures abroad by American tourists are reported to have been reduced materially, due at least in part to the reduced purchasing power of the dollar abroad. There were some offsetting transactions such as the purchases of silver abroad for the United States Government, but the net balance of payments to be settled by shipments of gold to this country was materially increased in 1934 as compared with 1933.

Apparently reflecting such payments, and also some renewal of the movement of capital to this country, there was another large movement of gold to the United States in November and December, which brought the total gold imports for the year to more than $1,100,000,000. Most of the imported gold was received at New York, but there were smaller imports at San Francisco and in other districts.

The substantial increase in the price of gold also tended to stimulate the mining of new gold in this country and produced an active market for old gold. The dollar value of new gold produced in the United States during 1934 is reported to have been about $108,000,000, the largest amount since 1915, and the amount of scrap gold purchased by United States assay offices and mints appears to have been close to $100,000,000.

Silver Purchases

Another piece of monetary legislation which was a factor of some importance in the money market position in 1934 was the enactment on June 19, 1934 of the Silver Purchase Act of 1934, providing for the purchase of silver at home or abroad until the aggregate silver holdings of the Government are equal in value to one-third of the monetary gold holdings of the United States. Under authority of this Act, the Secretary of the Treasury has made substantial purchases of silver during the year. The amount of these purchases has not been reported currently by the Treasury, but the silver holdings of the Government shown by published Treasury statements have increased substantially. At the end of 1934 the statement showed $720,000,000 of silver, held chiefly against silver certificates outstanding, as compared with $507,000,000 at the end of 1933; also $87,000,000 cost value, and $11,000,000 recoinage value, of silver in the general fund of the Treasury, as compared with $36,000,000 at the end of 1933.

Since the Treasury is authorized to issue silver certificates against silver purchased, the acquisitions of silver during 1934 also tended to increase the metallic base for the currency and credit system of this country. The issue of silver certificates against silver acquired by the Government was begun promptly, and at the end of the year the volume of silver coin and silver certificates in circulation showed an increase of $210,000,000 over a year previous.

Changes in the amounts of currency of various kinds outstanding outside of the Treasury and the Reserve Banks at the end of 1933 and 1934 are shown in the following table.

(In millions of dollars)

	Dec. 31, 1933	Dec. 31, 1934	Change
Gold certificates	213	130	— 83
Silver certificates	407	592	+185
Silver coin	301	326	+ 25
Minor coin	117	125	+ 8
Treasury notes of 1890	1	1	—
United States notes	286	265	— 21
Federal Reserve notes	3,044	3,176	+132
Federal Reserve Bank notes	208	101	—107
National bank notes	918	820	— 98
	5,495*	5,536	+ 41

*Excluding $310,000,000 of gold coin nominally in circulation at the end of 1933; gold coin subsequently omitted from the reports.

The small reduction in United States notes in circulation may reflect some displacement of such notes by silver certificates, but the reduction in gold certificates outstanding probably reflects chiefly the retirement of currency that came out of hoards during the year, and there was a reduction also in the amount of large denomination bills of other kinds outstanding, probably due to the same cause. Holders of gold certificates were required to turn in their certificates in exchange for other currency early in 1933, but it appears that in some cases the holders of hoarded money were not aware of the fact that the currency they held included some gold certificates. National banks in some cases have retired substantial amounts of their notes, due to the low yields obtainable on new investments relative to the costs of maintaining their notes in circulation. Federal Reserve Bank notes, which were issued as emergency currency in 1933, were retired in considerable volume in 1934, but the reduction in such notes outstanding was more than offset by an increase in the amount of Federal Reserve notes in circulation.

In general, the circulation of currency of denominations up to $20, which is used largely in ordinary business and personal transactions, has increased considerably during the past year, while currency of denominations ranging from $50 to $10,000, changes in which reflect largely the extent of hoarding, has been retired in moderate amount. It is probable, therefore, that the indicated net increase of $41,000,000 in the total amount of currency outstanding does not adequately reflect the actual increase during the year in the amount of currency in use. Not all of the increase in the volume of currency of the smaller denominations outstanding represented an increase in circulation, however, as part of the increase was accounted for by larger holdings of currency in bank vaults.

Increase in Bank Reserves

The great increase in the monetary base during the past year has been reflected chiefly in a growth in bank reserves. The increment of about $2,800,000,000 in the value of the monetary gold stock of the United States, which accrued to the Government, was set aside by the Treasury to establish a Stabilization Fund and for other purposes, and consequently had no immediate effect on bank reserves, but the proceeds of the heavy inflow of gold from abroad were largely added to member bank reserves. In the first instance most of the funds from this source were received by New York City banks, but not all of the funds remained in New York, as there were very large movements of funds between New York and other districts. Sales of new Treasury securities and Federal tax collections in this district continued greatly to exceed Government expenditures in the district, and for the year as a whole net withdrawals of funds from this district by the Government were close to $1,100,000,000. On the other hand there were almost equally large transfers of private funds to New York from other parts of the country.

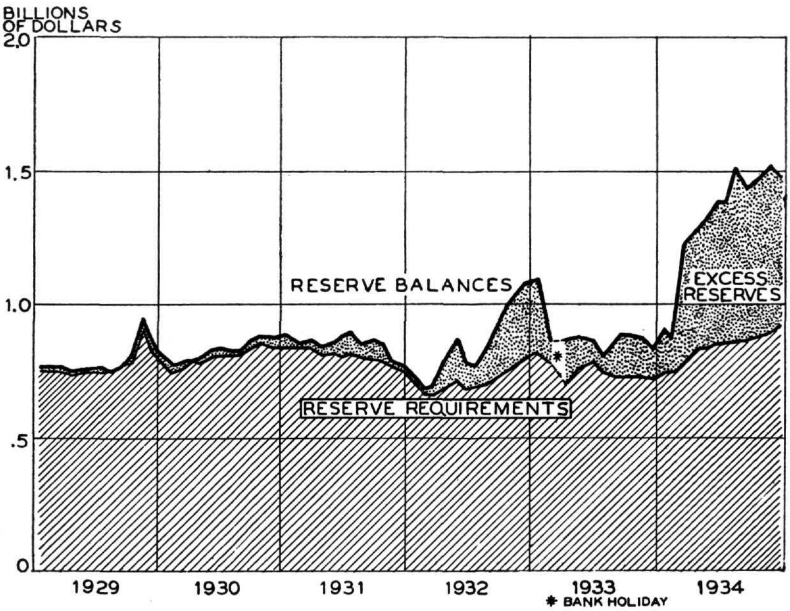
The approximate amounts of the more important transactions that affected the reserves of member banks in this district during 1934 are shown in the following table.

	(In millions of dollars)
Gain through gold receipts	+1,019
Loss through Government withdrawals	—1,093
Gain through commercial and banking transfers	+1,018
Net loss through all other transactions	— 231
Net gain through all transactions	+ 713

As these data indicate, there was an increase of over $700,000,000 in the reserves of member banks in this district during the year as the net result of all transactions. Most of this increase was in the reserves of the large New York City banks. Although nearly $200,000,000 of the additional reserves was absorbed by an increase in reserve requirements, the excess reserves of New York City banks were increased about $500,000,000, and in the latter part of 1934 were far larger than ever before.

The accumulation of excess reserves was not limited to New York City, but occurred in almost equally large volume in other parts of the country. The increase in excess reserves in other localities appears to have been due chiefly to Government expenditures of funds raised in New York and transferred to other parts of the country and of free gold held by the Treasury, which at one time in February amounted to about $380,000,000 (in addition to the profit resulting from the revaluation of the monetary gold stock at the end of January). Other factors were new gold production and recoveries of scrap gold, and issues of silver certificates against silver bullion purchased by the Treasury.

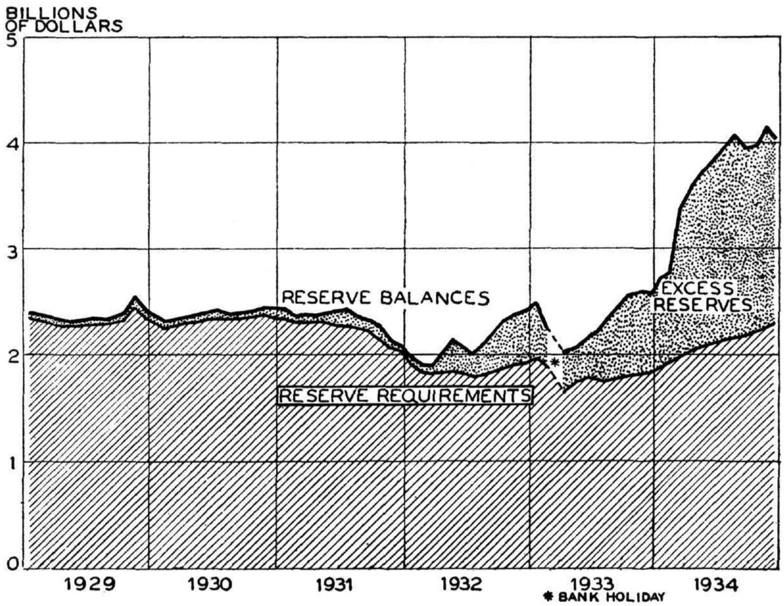
The data on excess reserves of member banks other than New York City banks do not fully reflect the surplus funds of banks in other parts of the country, as many nonmember banks and probably member banks also deposited a part of their surplus funds with their New York City correspondent banks. Deposits of this character apparently account for about half of the total movement of commercial and banking funds to this district that are indicated in the preceding table, as the balances of out of town banks with the large New York City banks increased more than $500,000,000 during the year. The increase in excess reserves in New York, therefore, was counterbalanced by an increase in the deposit liability of the New York banks to their correspondent banks in other localities.



Reserve Position of New York City Member Banks
(Monthly averages of daily figures)

Potential and Actual Expansion of the Money Supply

Some idea of the potential expansion of bank credit and deposits that could be based on the large reserves now held by member banks may be obtained from the diagrams on pages 11 and 12 which show, both for New York City banks and for the country as a whole, a comparison of the actual volume of reserves with required reserves since 1929. In December 1934 the deposits of New York City member banks, exclusive of Government deposits which are specifically secured and require no reserve, averaged around $7,000,000,000, which is approximately the same amount as in December 1929. Yet, at the end of 1934 these banks had excess reserves equal to about two-thirds of their legal reserve requirements. In other words, their total reserves at the end of 1934, assuming the same ratio of deposits to reserves as at present, would support an expansion of credit which would raise their deposits to more than $11,500,000,000, an amount far larger than ever before. For the district as a whole the potential expansion of credit that could be based on the reserves held by member banks at the end of 1934 would raise deposits from about $10,000,000,000 to about $15,000,000,000, as compared with less than $10,500,000,000 in 1929.



Reserve Position of All Member Banks
(Monthly averages of daily figures)

Recent data for all banks throughout the country are not available, but on the basis of member bank data it seems likely that total deposits of all banks at the end of 1934 were in the neighborhood of $44,000,000,000, exclusive of interbank deposits. In view of the fact that all member banks have excess reserves averaging around 85 per cent of their required reserves, the present volume of bank reserves presumably would support an expansion of credit which would raise deposits to something like $80,000,000,000, as compared with an average of about $55,000,000,000 of deposits in 1929.

Although the actual expansion of bank credit and deposits during the past year may seem small in comparison with the potential expansion indicated above, it has, nevertheless, been substantial. In fact, the increase both in total loans and investments and in demand and time deposits of member banks in 1934 was larger than in any preceding year since 1919. The data for member banks in the New York District and elsewhere are indicated in the following table.

(In millions of dollars)

	Dec. 30, 1933	Dec. 31, 1934	Change
Second District			
Total loans and investments....	9,415	10,216	+ 801
Demand and time deposits*....	7,572	8,681	+1,109
All Other Districts			
Total loans and investments....	15,805	17,934	+2,129
Demand and time deposits*....	14,996	18,001	+3,005
Total United States			
Total loans and investments....	25,220	28,150	+2,930
Demand and time deposits*....	22,568	26,682	+4,114

*Exclusive of Government deposits, interbank deposits, certified checks outstanding, etc.

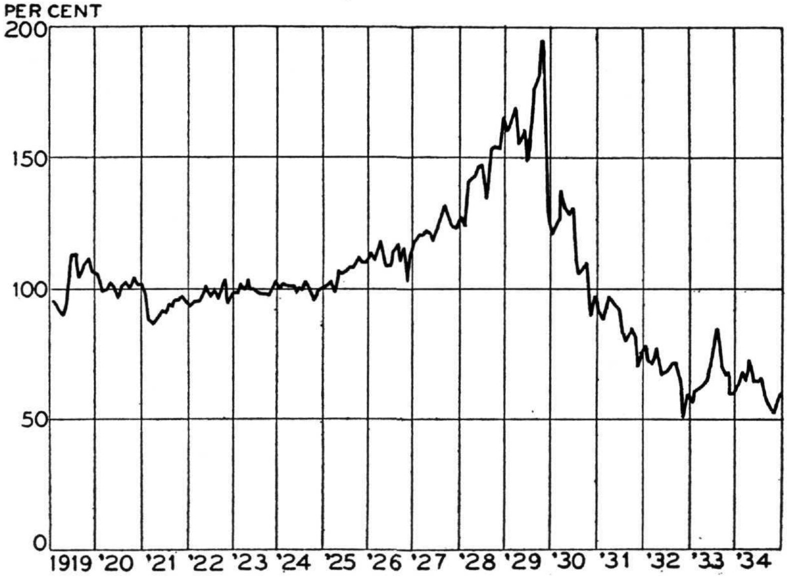
As these data indicate, the percentage increase in the deposits of member banks in this district during the past year, while unusually large, was not as much as in all other districts combined. A considerable part of the increase in New York was accounted for by the gold inflow, whereas in other districts a substantial part of the increase in deposits appears to have been due to Government disbursements of funds raised elsewhere. Most of the increase in deposits was in demand deposits.

The extent to which potential expansion of bank credit and deposits, represented by excess bank reserves, is followed by actual expansion is dependent upon the development of effective demands for credit. The principal channel for credit expansion in 1934, as in 1933, was Treasury financing to provide funds for the Government relief and recovery program. During the year the principal New York City banks increased their holdings of Government securities and Government guaranteed securities by approximately $1,100,000,000, or nearly 50 per cent. At the same time the reporting member banks in other principal cities throughout the country increased their holdings of Government securities and Government guaranteed securities by approximately $1,400,000,000, which represents an increase of about 46 per cent during the year. At the end of 1934 holdings of such securities represented 46 per cent of the total loans and investments of the New York City banks, and 40 per cent of the total loans and investments of reporting banks in other principal cities, as compared with 14½ per cent in New York and 12 per cent in other principal cities at the end of 1930.

Except for a substantial seasonal expansion of loans during the autumn period of crop moving and seasonal business activities, there was little evidence during 1934 of an increase in bank credit in forms other than investments in Government securities. In fact, the total loans of the principal New York City banks were about $380,000,000 less at the end of 1934 than at the end of 1933, and the total loans of the reporting banks in other principal cities were approximately $370,000,000 less than at the end of 1933, due chiefly to the continued liquidation of security loans accompanying irregular security markets throughout the year. Toward the end of 1934 security loans in the reporting member banks were at levels about as low as at any time since 1919. There appears to have been some further decline also in foreign loans, but the volume of domestic commercial loans outstanding in the reporting banks apparently was not materially changed, further liquidation or writing off of old loans being offset in the total by new loans made during the year, including loans made indirectly through the commercial paper and acceptance markets.

The conditions which would make for a large expansion of bank loans, however, did not yet appear to be present at the end of 1934. There was still no material revival of security flotations to provide capital for business enterprises, which during the recovery from some of the earlier periods of depression has caused a considerable expansion of security loans; no increase occurred in speculative borrowing on securities; and there has been little evidence of any tendency on the part of business organizations to borrow funds with which to expand their stocks of merchandise or materials.

Furthermore, the deposits now available have not thus far been used to anything like their full capacity. This is reflected in the accompanying diagram, which shows that the average rate of turnover of demand deposits diminished during 1934 to approximately the lowest point of the depression.



Rate of Turnover of Demand Deposits in Principal Cities in Per Cent of the 1919-1925 Average (Adjusted for seasonal variation)

Credit Needs of Business

Business needs for credit in 1934 again appeared to be largely for loans of more distant maturity than the ordinary commercial loans made for the purpose of financing seasonal activities. The prolonged and severe depression made it necessary for many business concerns to draw on their accumulated surpluses during the past few years to meet operating deficits and interest requirements, and in some cases depleted their working capital. Many other concerns appear to have greatly reduced their expenditures on maintenance of plants and equipment, in order to maintain a strong cash position. For efficient handling of a larger volume of business, therefore, some concerns need additional working capital, and others need substantial additions to their fixed capital investments.

In order to meet the need for working capital, especially on the part of small concerns, and thus to enable them to maintain or to increase their employment, legislation was enacted by Congress in June 1934 which authorized the Federal Reserve Banks in exceptional circumstances, when the requisite funds were not available from the usual sources on a reasonable basis, to make loans of working capital to established commercial and industrial enterprises. The Act also authorized the Reserve Banks to discount loans of this character for member banks, and to assume up to 80 per cent of the liability for the repayment of loans so discounted. Another section of the Act authorized the Reconstruction Finance Corporation to make direct working capital loans under somewhat similar conditions.

In this district every effort was made to bring this legislation to the attention of prospective borrowers, and as a result a large number of inquiries were received by this bank concerning the possibility of obtaining loans. Many of the inquiries were for loans of a character which plainly would not be eligible under the industrial loan act, such as mortgage loans on homes and various other types not contemplated by this legislation, but wherever there appeared to be a possibility of making an eligible loan on a reasonably sound basis the inquirer was encouraged to file a formal application. These applications were received in moderate number throughout the latter half of the year.

In some cases investigation of these applications by the Industrial Advisory Committee appointed to consider applications in this district did not indicate the possibility of making loans on a sound basis, but a considerable number were recommended favorably by the Committee and approved by the Federal Reserve Bank. The number of loans approved up to the end of December 1934, including commitments to discount loans made in the first instance by banks of the district and to assume liability for a substantial part of the risk involved, totaled 159, and the aggregate amount involved was about $11,000,000.

While the amount of loans approved by the Federal Reserve Bank of New York under this new legislation is not large relative to the total volume of bank credit outstanding in this district, the loans are of substantial benefit to a number of communities in the district, as they enable business concerns to maintain or increase their operations and thus provide employment which otherwise would presumably not be available in those communities.

A more detailed account of the organization created in this district to handle applications for loans of working capital and of the results up to the end of December 1934 is contained in a subsequent section of this report.

New Capital Issues

The 1934 record of new capital supplied to business organizations of the country, through the security markets, is largely a repetition of the record for 1933. The amount of new capital raised by domestic corporations through the sale of securities in 1934 totaled about $160,000,000, which is the same amount as in 1933, and compares with $324,000,000 in 1932, about $1,500,000,000 in 1931, and from $3,600,000,000 to $4,500,000,000 in the years 1926 to 1930, exclusive of 1929 when the volume was much larger. Refunding issues sold by corporations were in larger volume in 1934 than in 1933, but were not sufficient to offset all maturities during the year, and altogether it appears that the amount of capital available to business in this country diminished somewhat further during the past year.

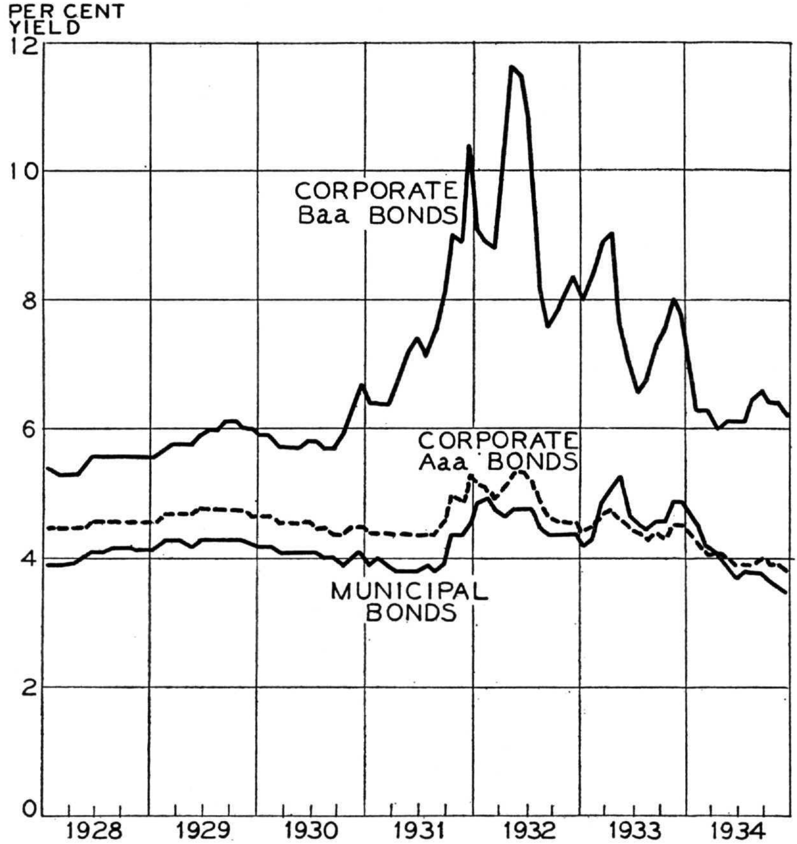
The following table shows the volume of new securities sold during 1934 in comparison with the preceding eight years.

Domestic Capital Issues
(In millions of dollars)

Year	New Capital			Refunding		
	Corporate Issues*	State and Municipal**	Total	Corporate Issues*	State and Municipal**	Total
1926	3,626	1,435	5,061	820	62	882
1927	4,393	1,562	5,955	1,842	127	1,969
1928	4,490	1,443	5,933	1,580	36	1,616
1929	5,716	1,418	7,134	1,373	13	1,386
1930	4,150	1,498	5,648	474	76	550
1931	1,536	1,309	2,845	820	72	892
1932	324	827	1,151	318	193	511
1933	160	541	701	219	69	288
1934	160	909	1,069	312	452	764

*Excludes investment trust issues, etc. **Includes Federal Land Bank and Federal Intermediate Credit Bank issues.
Source: Commercial and Financial Chronicle (adjusted).

The principal change in the volume of new financing through the security markets in 1934 was a moderate increase in sales of securities by States and municipalities, both for refunding purposes and to provide additional funds. The credit standing of many local governmental organizations showed material improvement in 1934, apparently due partly to better collections of taxes, partly to some reduction in ordinary expenditures, and partly to the assumption by the Federal Government of a larger part of the burden of relief expenditures. The improvement in the credit standing of municipalities is reflected in the accompanying diagram, which shows the changes in the average yield on a number of high grade municipal securities at market prices during the past few years. The reduction in the average yield on such securities from nearly 5 per cent toward the end of 1933



Average Yield on Domestic Corporate Bonds and Municipal Bonds (Moody's Investors Service yields for Aaa and Baa bonds; Standard Statistics Company yield for municipal bonds)

to about $3\frac{1}{2}$ per cent at the end of 1934 reflected a readier market for such securities, and resulted in a considerable reduction in the cost of municipal borrowing.

The market for the highest grade corporation securities showed further improvement during the year accompanying the improvement in the market for high grade municipal securities, but, in general, the corporations that are heavily in arrears in their expenditures on plant and equipment and are therefore most in need of additional capital are not those whose securities are given the highest ratings in the security markets, and they are, therefore, unable to obtain additional capital at rates anywhere near the yields on the highest grade securities. For securities rated as of medium grade, the market during 1934 showed no such improvement as in the case of the highest grade securities. Prices of medium grade securities fluctuated irregularly, and, on the whole, showed no great progress during the year. Yields on industrial bonds declined further during the year, but yields on medium grade public utility and railroad bonds, although far below the levels prevailing from the autumn of 1931 to the middle of 1932, showed no appreciable further reduction after January 1934, and, as the diagram shows, the interest cost involved in borrowing through the sale of medium grade securities in general was still high relative to years prior to 1931.

In addition to a fairly high rate of interest, borrowers through the sale of medium grade securities would have to pay the cost of distributing the securities, as well as the cost of preparing and filing registration statements with the Securities Exchange Commission, so that the actual cost of the borrowing would be substantially above the nominal interest rate. Consequently, there is little incentive to such borrowing until there appears to be a reasonably good prospect that the profits of the borrower will be more than adequate to cover the cost of the funds borrowed. Furthermore, the continued relatively high yields on medium grade securities reflect a limited market for such securities, due to continued reluctance on the part of investors to assume any appreciable degree of risk in investing their funds. This continued reluctance of investors to participate in the risks of business has been made more apparent during the past year, as the elimination of interest on demand deposits and reduction of interest on time deposits has increased the spread between the return obtained from bank deposits and the return offered by medium grade securities.

Despite the lack of a renewed flow of capital into business enterprise of various kinds on a large scale during the past year, there was some further recovery in the activity of the capital goods industries, due very largely to projects financed by the Government, but the general level of activity in these industries remained far below that of the years preceding 1931. The following table contains representative data to indicate the comparative volume of business in capital goods industries during 1934 and the preceding eleven years.

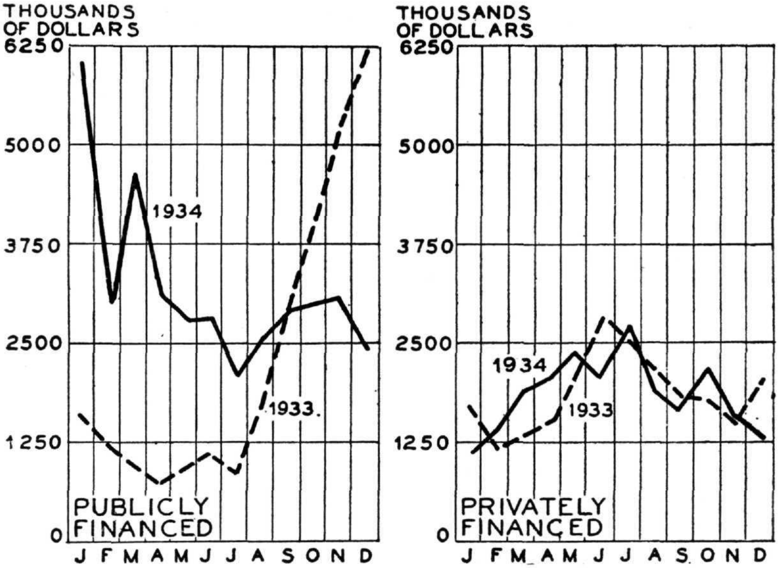
Shipments of Railroad and Industrial Equipment and Construction Contracts
(In percentages of 1923-1925 averages)

	Freight Cars	Locomotives	Wood Working Machinery	Foundry Equipment*	Machine Tools*	Construction Contracts
	(1)	(2)	(3)	(4)	(5)	(6)
1923	144	166	120	107	106	84
1924	80	77	90	85	75	94
1925	76	58	90	108	119	122
1926	78	82	96	114	128	130
1927	53	49	81	101	109	128
1928	39	26	79	141	187	135
1929	71	44	89	160	223	117
1930	63	41	47	85	101	92
1931	7	8	29	42	59	63
1932	1	8	12	16	28	27
1933	1	6	13	30	39	26
1934	11	11	13	47	66	31

*Orders.

Sources:
(1) Interstate Commerce Commission.
(2) U. S. Dept. of Commerce, Bureau of Census.
(3) Association of Manufacturers of Wood Working Machinery.
(4) Foundry Equipment Manufacturers' Association.
(5) National Machine Tool Builders' Association.
(6) F. W. Dodge Corporation.

As these data indicate, orders for railroad equipment, which had declined almost to the vanishing point, showed a modest upturn in 1934, due largely to orders for new equipment financed by loans obtained from the Public Works Administration. Building contracts also rose somewhat from 26 per cent of the 1923-25 average in 1933, to 31 per cent in 1934. As the accompanying diagram indicates, however, the revival of construction activities was almost exclusively due to publicly



Daily Average Value of Building and Engineering Contracts Awarded, Classified as to Publicly or Privately Financed Construction (F. W. Dodge Corporation data for 37 States)

financed projects which were initiated under the Public Works Administration, and the volume of new projects was diminishing in the latter part of the year, although expenditures under contracts previously awarded continued in large volume. The housing renovation program was reported to have produced a fairly substantial volume of business in the later months of 1934, but much of the work undertaken was of kinds that are not covered by the reported data on construction contracts, such as painting, plumbing and heating work, and other minor repairs. Machine tool orders also showed a further moderate increase, due partly to domestic business and partly to an increase in foreign business, and in this case the greater part of the expenditure probably was financed privately.

In the aggregate, however, industrial expenditures on plant and equipment during the past year have remained very low relative to most of the post-war years, and recent estimates of the volume of deferred maintenance indicate that very large expenditures would be required to eliminate obsolescence that has developed during the depression. Thus far only a beginning has been made in privately financed expenditures of this character.

Credit Policy and Operations of the Bank During 1934

The policy of this bank during the past year has continued to favor the maintenance of easy money conditions, with the aim of facilitating the financing of business recovery. In view of the very large addition to member bank reserves that resulted chiefly from the gold inflow, further purchases of Government securities in the open market were unnecessary. The credit policy of the bank was therefore reflected mainly in the maintenance of Government security holdings at the previous high level, in cooperation with the Federal Reserve System as a whole, and in a reduction in the rediscount rate of this bank from 2 per cent to 1½ per cent, effective February 2. The latter rate is the same as that which prevailed for a few months in 1931, and is the lowest rate ever established by a Reserve Bank.

The following table summarizes the factors that led to the large increase in member bank reserves during the past year.

	Dec. 27, 1933 to Dec. 26, 1934
	(In millions of dollars)
Sources of additional reserve funds:	
Increase in gold stock (1)	1,384
Increase in Treasury currency (2)	200
All other	58
Total	1,642
Uses of reserve funds:	
To meet outflow of currency	91
To retire discounts at Federal Reserve Banks	102
To retire bills held by Federal Reserve Banks	105
To meet Treasury withdrawals	58
Total	356
Net addition to reserves	1,286

(1) Exclusive of increase resulting from revaluation of the dollar. (2) Reflecting increase in silver currency outstanding partly offset by decrease in National bank notes outstanding.

Under the conditions prevailing in the money market during 1934 as a result of the further large accumulation of idle bank reserves which resulted from gold imports and Treasury expenditures, open market money rates declined somewhat further to new low levels. Rates charged by banks on direct loans to customers declined slightly further in conformity with open market rates, and at the end of 1934 were also at the lowest levels on record.

Money Rates at New York

	Dec. 30, 1933	Dec. 31, 1934
Stock Exchange call loans	1	1
Stock Exchange 90 day loans	*1	*¾—1
Prime commercial paper—4 to 6 months	1½	¾—1
Bills—90 day unindorsed	½	⅛
Customers' rates on commercial loans	†2.23	†1.96
Treasury securities		
Maturing March (yield)	0.12	No yield
Maturing June (yield)	0.25	No yield
Maturing December (yield)	1.82	No yield
Average rate on latest Treasury bill sales		
91 day issue	0.73	....
182 day issue	....	0.10
Federal Reserve Bank of New York rediscount rate	2	1½
Federal Reserve Bank of New York buying rate for 90 day indorsed bills	½	½

*Nominal. †Average rate of leading banks at middle of month.

The extremely low levels to which short term money rates fell increased the pressure on investors and investing institutions to employ their funds for longer periods, and thus tended to some extent at least to overcome the strong inclination, which developed during the period of rapidly declining bond prices and the freezing of less marketable long term investments, to limit the employment of additional funds to the most liquid types of loans and investments. The reluctance to invest funds for extended periods has been broken down only gradually, however, and new long term investment still is largely confined to the highest grade securities, as the preceding section of this report indicated.

Fiscal Agency Operations

The activities of the bank during the past year were devoted more largely than at any time since the war to operations incident to its duties as fiscal agent for the United States Government in the Second Federal Reserve District. One of the most important duties of the bank in this connection was to assist the

Treasury in planning new Government financing, and to handle for the Treasury the mechanics of selling new Government securities and redeeming maturing securities. The bank kept the Treasury informed constantly of conditions in the market for Government securities and of investment tendencies, and endeavored in every way to help the Treasury to adjust its offerings of new Government securities to market conditions. The success of the Government financing program is indicated by the fact that, despite an increase of about $4,500,000,000 in the National debt, long term Government securities sold at prices that yielded an average of about 2.80 per cent in December 1934, as compared with about 3.50 per cent in December 1933.

During 1934 the Federal Reserve Bank of New York sold for the United States Treasury in this district a total of about $8,500,000,000 of Government securities. This huge volume of securities included nearly $3,000,000,000 of new securities the proceeds of which contributed to the funds required by the Government for emergency expenditures for the relief and recovery program. In addition, over $5,500,000,000 of securities were issued in exchange for or to replace maturing Government obligations of various kinds.

The work of the Securities Department of the bank was devoted more largely than in a number of years to the handling of subscriptions to and allotments of these new issues of Government securities, and a huge volume of work was also involved in the handling by the Government Bond and Safekeeping Department of the issue of new securities, the redemption of maturing securities, denominational exchanges of outstanding securities, and the maintenance of records of the liabilities to the Government of depositary institutions for deposits arising out of payments for Government securities purchased by such institutions. Redemptions and exchanges of maturing Government securities during the year amounted to about $5,500,000,000, and the volume of denominational exchanges reached a total of $5,000,000,000. These amounts, together with the issue of $8,500,000,000 of new securities, brought the total of Government securities handled to more than $19,000,000,000.

Another function of the Federal Reserve Bank of New York as fiscal agent for the Government which reached huge volume in 1934 was the custody of collateral for loans made by the various Government agencies and subsidiary corporations, especially the Reconstruction Finance Corporation and the Farm Credit Administration. The work done in this connection involved the receipt and checking of collateral deposited by borrowers with these corporations, the receipt and crediting of interest, substitutions of collateral, and the maintenance of complete records on all such transactions. At the end of 1934 the volume of collateral in the custody of the Government Bond and Safekeeping Department of the bank which was held for the various Government agencies reached a total of more than $3,000,000,000.

Another department of the bank whose activities were largely devoted in 1934 to operations conducted for the United States Government was the Foreign Department. Through this department the bank acted as agent of the Treasury in the purchase and sale of gold and the purchase of silver at New York and abroad and in other transactions reviewed in a later section of this report under the heading of "Foreign Exchange Control." The Foreign Department kept the Treasury informed of conditions in the foreign exchange market, and, in connection with the regulations issued by the Secretary of the Treasury on November 12, developed a new system of reports on foreign exchange operations to be submitted by banks, security dealers, and exporters and importers, for the purpose of keeping the Government informed of movements of capital between this and other countries, and of other transactions that affect the foreign exchanges.

Supervision of Member Banks

During the past year there has also been a great expansion in the work of the bank in connection with the supervision of member banks in the district. In past years it was the practice of this bank to leave the work of examining member banks largely to National and State examiners, especially in view of the fact that the Comptroller of the Currency and the heads of the State banking departments had powers to enforce compliance with banking laws which were not held by the Reserve Bank. The Banking Act of 1933 and other recent banking legislation greatly enlarged the responsibilities of the Federal Reserve System for supervision of member banks, and also increased the powers of the System with respect to such supervision, especially in the case of State member banks. It has, therefore, become necessary for the Federal Reserve Banks in executing these responsibilities to strengthen greatly their examination staffs. During the past year the Federal Reserve Bank of New York nearly doubled its staff assigned to the Bank Examinations Department following a considerable increase in 1933, and assigned two additional officers to the direction of the work of supervising and examining State member banks in this district and of assisting such banks to strengthen their position.

In addition it was necessary to assign one or more of the bank's Assistant Counsel to work of the Bank Examinations Department, especially in connection with applications under the Clayton Act for permits whereby bank directors could serve on the boards of two or more banking institutions, applications under section 32 of the Banking Act of 1933 for permits to serve at the same time as directors or officers of member banks and as officers, directors, or managers of organizations engaged in the security business, and applications of holding company affiliates for permits to vote the stock of member banks which they owned or controlled.

One of the important functions of the department during the past year has been to assist member banks in rearranging and strengthening their capital structures. The capital of many banks had been materially reduced during the past few years by losses on loans and depreciation of investments caused by the depression, and, in order that there might be no question as to the strength of the banks, it became desirable to increase the capital of such banks. Some of the additional bank capital was obtained by local subscription, but in many cases it was not found possible to obtain adequate amounts of new capital in that way, and a large part of the new capital was provided by the Reconstruction Finance Corporation through the purchase of preferred stock or capital notes of the banks. By the end of 1934 arrangements had been made whereby 63 State member banks in this district obtained a total of nearly $59,000,000 of additional capital largely from the Corporation, and 262 National banks obtained $143,000,000 of new capital. At the close of the year this work was nearing completion.

Industrial Loans

Another new activity for the Federal Reserve Bank of New York, as well as for other Federal Reserve Banks, resulted from the passage on June 19, 1934, of an Act of Congress which authorized the Reserve Banks to lend working capital to established industrial or commercial businesses which are unable to obtain the requisite funds from the usual sources at reasonable rates, provided such industries are able to offer a reasonably secure basis for credit. In accordance with this law an Industrial Advisory Committee was appointed promptly to consider applications for working capital, and to make recommendations to the Federal Reserve Bank. The Committee for this district at the end of 1934 was as follows:

Mr. William H. Pouch (Chairman),
President, Concrete Steel Company, New York, N. Y.

Mr. John A. Hartford (Vice Chairman),
President, Great Atlantic & Pacific Tea Company, New York, N. Y.

Mr. John B. Clark,
President, Clark Thread Company, Newark, N. J.

Mr. Albert A. Hopeman,
President, A. W. Hopeman & Sons Co., Rochester, N. Y.

Mr. Arthur G. Nelson,
Treasurer, A. G. Nelson Paper Company, New York, N. Y.

Mr. Selden O. Martin was appointed to direct the Committee's investigation of the applications received. A staff was assembled to assist in this work, largely from the Credit and Discount Departments of the bank, supplemented where necessary by the employment of additional employees having special qualifications for industrial loan work.

In order to inform the banks of the district more fully as to the purpose of the legislation and the procedure to be followed in making loans, a series of meetings was arranged in cooperation with the New York and New Jersey State Bankers Associations, at which all banks in the district were invited to be represented. These meetings were followed by visits of representatives of this bank to banks throughout the district to discuss needs for working capital by the industries of the various localities, and ways of supplying those needs. In this connection, the services of Mr. Frederick E. Worden, Vice President of The National Bank of Auburn, N. Y., were obtained to assist in informing the banks concerning the industrial loan legislation and advising the banks concerning the procedure to be followed in order to supply needs for working capital in their respective communities.

At the end of 1934 the Industrial Advisory Committee in this district had received 531 formal applications for loans, amounting in the aggregate to approximately $37,000,000, and applications were continuing to be received in moderate number. These applications covered a wide range of manufacturing, construction, and service industries, as well as various forms of commercial activities. The amounts applied for ranged from $300 to $6,000,000.

The status of applications that had been received by the Federal Reserve Bank of New York from the Industrial Advisory Committee and acted upon by the Bank up to the end of the year was as follows:

	Number	Amount
Approved	136	$8,202,440
Conditionally approved and under consideration by applicants	15	1,428,500
Conditionally approved and nonacceptance indicated by applicants	8	1,407,000
Rejected	292	13,743,035
Total	451	$24,780,975

As these figures indicate, the applications approved, conditionally or finally, represented 35 per cent of the total number and 45 per cent of the total amount of all applications that had been passed upon at the end of the year.

Each application was reviewed with great care, and every effort was made to arrange loans, either directly or in conjunction with member banks or other lending institutions, wherever it appeared possible to extend credit on a sound basis. The banks of the district cooperated in the investigation of these applications and in many cases participated in the credits extended.

A number of applicants were assisted in effecting reorganizations or readjustments of their affairs, which were of considerable benefit to them quite apart from the loans. In other cases the steps taken in connection with the consideration of applications enabled prospective borrowers to obtain credit from sources other than the Reserve Bank.

In a number of cases, however, no arrangements appeared to be feasible under which loans could be made on a sound basis. The records of many applicants gave no reasonable basis for the expectation that loans, if made, could be used profitably, as the operations of the applicants had been conducted at a loss for periods extending further back than the beginning of the depression. Under such conditions it appeared likely that further loans would only increase the eventual difficulties of the borrowers. Usually more than one unfavorable condition entered into the rejection of an application, however. A classification of applications rejected, showing the reasons for rejection, is given in the following table.

Reasons for Rejection of Applications

	Number
Ineligible	
(a) Not established industrial or commercial enterprise	21
(b) Not for working capital	14
Unsatisfactory financial condition	288
Unsatisfactory business prospects	223
Unsatisfactory management	175
Insufficient security	272
Total, excluding duplications	292

Other Operations

The total personnel of the bank was not materially enlarged during the year despite the great increase in the activities discussed up to this point. The volume of work in operating departments, such as the Check Department, which ordinarily account for a large percentage of the total staff of the bank, although somewhat larger in 1934 than in 1933, remained substantially below the volume in prosperous years. The decline in the volume of work of such departments has made possible a moderate reduction in their personnel through transfers and by permitting vacancies resulting from resignations to go unfilled, which to a considerable extent has offset the increased staffs required to handle fiscal agency operations, bank examinations work, and the industrial loan work.

Data on the volume of work of types that can be measured readily are contained in the following table.

	1933	1934
Number of Pieces Handled		
Bills discounted:		
Applications	18,459	6,046
Notes discounted	55,416	17,719
Bills purchased in open market for own account	39,799	4,016
Currency received and counted	596,588,000	596,026,000
Coin received and counted	940,727,000	991,453,000
Checks handled	143,372,000	157,703,000
Collection items handled:		
United States Government coupons paid	4,121,000	5,033,000
All other	2,641,000	2,364,000
United States Government direct obligations—issues, redemptions, and exchanges by fiscal agency department	1,160,000	1,275,000
Transfers of funds	307,000	271,000
Amounts Handled		
Bills discounted	$4,753,386,000	$416,046,000
Bills purchased in open market for own account	387,051,000	17,770,000
Currency received and counted	3,709,098,000	3,043,595,000
Coin received and counted	207,095,000	107,597,000
Checks handled	57,739,743,000	56,048,590,000
Collection items handled:		
United States Government coupons paid	286,418,000	351,076,000
All other	1,682,712,000	1,843,785,000
United States Government direct obligations—issues, redemptions, and exchanges by fiscal agency department	16,115,993,000	19,421,691,000
Transfers of funds	37,289,786,000	28,642,418,000

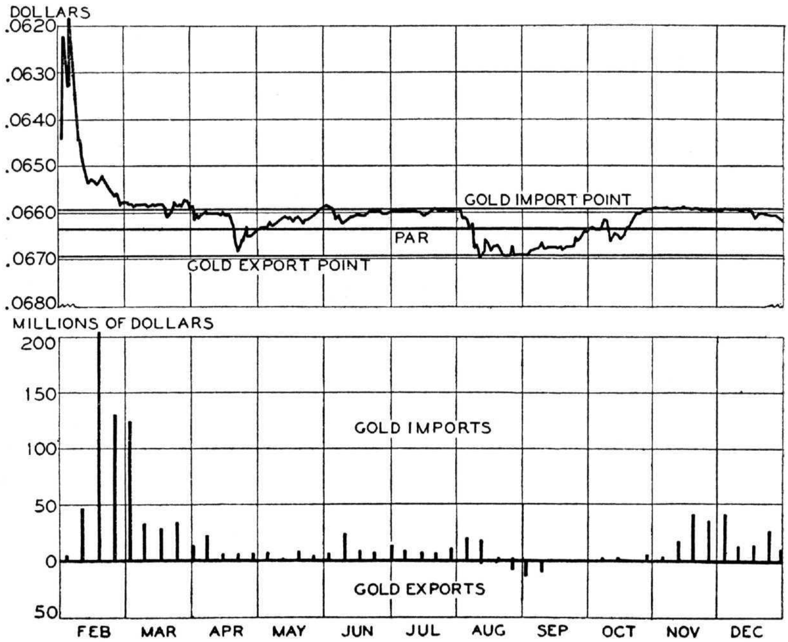
Foreign Exchanges and Gold Movements

The value of the dollar in the foreign exchange market fluctuated during January 1934 within a range of 61 to a little over 64 per cent of its old parity, measured by quotations for the French franc, being influenced to some extent by the buying rate for gold fixed by the Reconstruction Finance Corporation during the first half of the month and by the United States Treasury during the second half of the month, although a free movement of gold between this and other countries was still prohibited. The cost of gold in the London market, in terms of dollars, ranged during the month between $32 and a little over $33 an ounce, as compared with a price of $34.06 fixed by the Reconstruction Finance Corporation during the first half of January, and a Treasury price of $34.45 from January 16 to 30.

On January 31, following the approval of the Gold Reserve Act of 1934 on the preceding day, a Presidential proclamation was issued under which the weight of the gold dollar, which had been 25.8 grains nine-tenths fine since January 18, 1837, was fixed at 15 5/21 grains nine-tenths fine, or 59.06 per cent of the earlier gold content. On the same day the Secretary of the Treasury announced that beginning February 1 and "until further notice" he would "sell gold for export to foreign central banks whenever our exchange rates with gold standard currencies reach gold export point. . . . all such sales of gold will be made through the Federal Reserve Bank of New York as fiscal agent of the United States . . . at $35 per fine ounce plus one-quarter per cent handling charge." On February 1, the Secretary of the Treasury declared that "until further notice" he would "buy imported fine gold bars through the Federal Reserve Bank of New York . . . and other gold, foreign and domestic, through any United States mint or the United States assay offices at New York or Seattle . . . at the rate of $35 per fine troy ounce, less the usual mint charges and less one-quarter of one per cent for handling charges."

Under the Gold Reserve Act of 1934 private holding of monetary gold was prohibited, and the Federal Reserve Banks, which up to that point had retained their gold reserves, were required to deposit all gold coin and bullion which they held with the Treasury, in payment for which the Reserve Banks were given credits in the Treasury payable in gold certificates. Payment was made at the old rate of $20.67 an ounce, so that, following the revaluation of the dollar, the increment in the value of gold previously held by the Federal Reserve Banks accrued to the Treasury.

The fixing of the new weight of the gold dollar automatically established new parities between the dollar and foreign currencies, the new par for the French franc becoming 6.6335 cents. The theoretical gold import point from Paris to New York—that is, the point at or below which it is more advantageous to ship gold than to buy dollars in the foreign exchange market for the settlement of balances outstanding in favor of this country—subsequently has been slightly above 6.59 cents. On January 31 the closing cable rate for the French franc in New York rose to 6.42¼ cents, as compared with 6.28½ cents on January 30, and on February 1 the rate rose slightly further. The limited steamship facilities for the transfer of gold from France to the United States prevented a prompt rise in French franc quotations to the new parity value, however; in fact, following political disturbances in France, the franc quotation declined for a few days, reaching a low point of 6.18½ cents on February 5, and it was not until March 21 that the franc reached the point at which gold shipments from Paris ceased to be profitable.



Daily Fluctuations of Dollar Exchange (Measured in Terms of the French Franc) and Weekly Gold Movements at New York

The course of the other major gold currencies was substantially the same as that of the French franc, and none of them rose above its theoretical gold import point until early April.

As a result of the foreign exchange position a very heavy gold movement into the United States took place, bringing in during the two months of February and March approximately $363,000,000 of gold from England, $125,000,000 from France, $67,000,000 from Holland, and $10,000,000 from Switzerland, or a round total of $565,000,000 from these four countries. In addition, there were shipments of dishoarded gold from India and China, and of newly mined gold from Canada and Mexico, which brought the total imports during February and March to an aggregate of more than $600,000,000. The predominant part played by England in this movement appears to have been due to two factors: first, a large amount of gold moved from France to England and was immediately re-exported to New York; and second, it was profitable to buy gold in the open market in London for sale to the United States Treasury. The fixing of the price of gold in the United States at $35 an ounce also caused a revival in Indian exports of gold in February and brought about a rerouting of Canadian gold to New York, its most convenient market, from London, to which it had been temporarily diverted by the absence of a ready market for gold in the United States.

Discussion of proposals for silver legislation in the United States caused a flurry in the exchange markets in April, and in the course of trading on April 21 the gold exchanges crossed or were close to the theoretical export points from New York. As soon as it became known that the Secretary of the Treasury stood ready to deliver gold for export to specific countries that are still on the gold standard, however, the dollar strengthened without the aid of gold shipments, and by the end of the day the exchanges were again within the gold points.

The European gold currencies continued relatively weak subsequently until August, and gold continued to flow to the United States, although in considerably smaller amounts than in February and March. Altogether, the additions to the United States monetary gold stock resulting from gold imports from February to August reached a total of approximately $886,000,000.

During August, the nationalization of private silver holdings in the United States and silver purchases abroad, combined with some renewal of discussions concerning currency inflation in the

United States, brought about a sudden weakening of the dollar in the foreign exchange markets. The leading gold exchanges rose so suddenly in mid-August that several shipments of gold arriving at New York on arbitrage account were immediately re-exported to Europe. The gold exchanges crossed their respective export points from New York on August 22, and initiated an outward movement of gold in the course of which $29,000,000 was shipped to France, $4,000,000 to Belgium, and $500,000 to Holland. This movement ended on September 5, although the Belgian and the Swiss currencies continued intermittently above the theoretical gold export points for the next two weeks.

The gold exchanges then fluctuated within the gold export and import points until the last week of October, when first the belga and then the French franc dropped below their respective import points, followed by the guilder in the second week of November and the Swiss franc in the last week of that month. This gave rise to the second major import movement of the year which brought to the United States, during November and December, $92,000,000 of gold from France, $27,000,000 from Holland, $13,000,000 from Belgium, and $20,000,000 from the open market in London, and also substantial shipments from India and Canada. In the aggregate about $200,000,000 of gold was received from abroad in these two months. At the close of the year the gold exchanges were above the gold import points, but were still at a discount from parity with the dollar.

The first of the accompanying tables shows the sources and destinations of exports and imports of gold from February to

February 1—December 31, 1934
(In thousands of dollars)

Country	Exports to	Imports from	Net
Belgium	$4,049	$12,901	+ $8,852
Canada	155	86,957	+ 86,802
China and Hongkong	......	18,326	+ 18,326
Colombia	8	16,905	+ 16,897
England	1,779	486,230	+484,451
France	29,531	284,037	+254,506
Holland	500	101,727	+101,227
India	......	78,313	+ 78,313
Mexico	202	30,104	+ 29,902
Philippines	......	11,256	+ 11,256
Switzerland	......	10,157	+ 10,157
All Other	1,893	16,890	+ 14,997
Total	$38,117	$1,153,803	+$1,115,686

December, inclusive, and the second table summarizes the additions to the monetary gold stock of the United States during 1934.

(In millions of dollars)

	Jan. 1—31, 1934 (old value)	Feb. 1—Dec. 31, 1934 (new value)
Shipments:		
Imports	1.9	1,153.8
Exports	4.7	38.1
Net imports	*2.8	1,115.7
Gold earmarked here for foreign account:		
New earmarkings	0.2	18.6
Releases from earmark	12.4	89.0
Net release	12.2	70.4
Other factors, including newly mined domestic gold and scrap gold	12.0	213.7
Total addition of new gold to monetary stock	21.4	1,399.8
Increment resulting from reduction in weight of gold dollar on Jan. 31, 1934	....	2,805.5
Total increase in dollar value of United States monetary gold stock	21.4	4,205.3

*Net exports.

The non-gold currencies fluctuated irregularly during 1934, and, in general, their quotations in the New York market showed no such rise for the year as a whole as did the quotations for the gold currencies. The pound sterling opened the year at \$5.17¾ but several times during January was quoted under \$5. Following the devaluation of the dollar, sterling advanced in February and showed continued strength in the next two months, being quoted at \$5.13½ at the end of April. However, except for a temporary recovery in October and November, the trend of sterling throughout the last eight months of 1934 was downward, and the cable quotation at the end of the year was \$4.94¼. The so-called "sterling area" currencies followed much the same course as sterling, as did also the Japanese yen.

The official reichsmark, which is only one of several types of marks employed in the settlement of Germany's international transactions, followed the gold currencies quite closely. The Italian lira did not at any time touch parity with the dollar after January 31, remaining well below the point at which gold shipments from Rome to New York would have been profitable if gold exports from Italy on arbitrage account had been allowed.

The Chinese dollar moved steadily downward from a high of $0.3588 on February 18 to $0.3175 on May 2, accompanying a decline in the market price of silver. Thereafter, as the price of silver advanced, the Chinese dollar rose, touching a high of $0.39 on October 11. However, beginning in the second week of May the Chinese dollar was constantly at a discount from its theoretical silver parity, despite supporting shipments of silver from Shanghai which rose to unprecedented amounts in August and September. On August 10, following nationalization of silver in the United States, the Chinese dollar exchange stood at a discount of 5 per cent from its theoretical parity; on October 15, when the Chinese Government adopted an export tax on silver and an equalization charge designed to bring up the Chinese price to the London market quotation of the day, the discount from silver parity was 10.8 per cent, and this discount increased to a peak of 19.9 per cent on October 18. In the last business week of December the discount averaged 15.69 per cent, and the average quotation of the Shanghai dollar in New York was $0.3411 as against a theoretical parity of $0.4046.

The official rate of the Argentine peso, which is the rate at which the Argentine foreign exchange control will buy exporters' bills, was pegged to the pound sterling at 15 pesos to the pound beginning January 20, 1934. Quotation here on the peso

(Closing Cable Rates at New York)

Exchange on	Par**	1934		
		High	Low	December 31
Belgium	$.2354	$.2386	$.2165	$.2352
Denmark	.4537	.2320	.2189	.2207
England	8.2397	5.1888	4.8825	4.9425
France	.0663	.06700	.06090	.06618
Germany	.4033	.4073	.3697	.4032
Holland	.6806	.6882	.6260	.6782
Italy	.0891	.0873	.0817	.0857
Norway	.4537	.2610	.2460	.2485
Spain	.3267	.1388	.1270	.1373
Sweden	.4537	.2677	.2525	.2550
Switzerland	.3267	.3317	.3013	.3250
Canada	1.6931	1.0369	.9837	1.0075
Argentina*	.7187	.3477	.3255	.3296
Brazil*	.2026	.0880	.0818	.0845
Uruguay	1.7511	.8000	.7500	.8000
Japan	.8440	.3113	.2845	.2880
India	.6180	.3912	.3695	.3725
Shanghai	.....	.3900	.3175	.3475

*Official rates. **New parities established January 31, 1934.

therefore followed closely the course of the pound sterling. The official milreis rate, that is, the rate at which the Bank of Brazil furnished cover for imports up to 60 per cent of the drafts approved for collection (the other 40 per cent having to be acquired in the free market) touched a high for the year in April at \$0.088, ruled during the summer at \$0.085 and above, and declined to slightly under \$0.082 in the closing months of the year.

Canadian exchange held at a premium over its former parity with the dollar throughout most of the year. It was strongest in September at \$1.03 11/16, and closed the year at \$1.00¾.

Silver Legislation

In a message to Congress dated May 22, 1934 the President declared that "we should move forward as rapidly as conditions permit in broadening the metallic base of our monetary system," and he recommended "legislation at the present session declaring it to be the policy of the United States to increase the amount of silver in our monetary stocks with the ultimate objective of having and maintaining one-quarter of their monetary value in silver and three-quarters in gold." He recommended further that authority should be given him to make the purchases of silver necessary to attain this ultimate objective, that he receive authority to purchase accumulated silver in the United States at a maximum price of fifty cents an ounce and to regulate trading in and imports and exports of silver, and that a tax of at least 50 per cent be levied on the profits accruing from dealings in silver. These recommendations were embodied in the Silver Purchase Act of 1934, approved June 19, 1934.

Provision for the regulation of trading in silver was made in the Secretary of the Treasury's Order relating to silver, approved June 28, and an Executive Order requiring the delivery of silver to the United States mints was promulgated on August 9, 1934. The Executive Order directed that, with certain specified exceptions (including coin, newly mined silver, industrial or fabricated silver, and silver held for a foreign government or central bank or for the Bank for International Settlements), all silver situated in the United States should be delivered to the United States mints within ninety days after date of the Order, to be paid for at the monetary value of the silver (\$1.2929+ a fine troy ounce) less a deduction of 61 8/25 per cent thereof for seigniorage and other mint charges, the rate working out at 50.01 cents. The disposition of newly mined silver recovered "from natural deposits in the United States" had already been regulated by the President's Proclamation of December 21, 1933 which required that such silver be sold to the United States mints and paid for at its monetary value less seigniorage of 50 per cent, or approximately 64.6 cents a fine ounce.

The substance of the Executive Order of August 9, 1934 was announced in the President's Proclamation of the same date, and regulations governing the delivery of silver, settlement therefor, and licensing of silver holding thereunder, were issued by the Secretary of the Treasury under date of August 17, 1934. Under these regulations the Federal Reserve Banks were designated to receive, investigate, and transmit to the Secretary of the Treasury applications for licenses to withhold, acquire and withhold, or export silver within the purposes of the Silver Purchase Act of 1934 and the Executive Order of August 9, 1934.

Foreign Exchange Control

The President's Executive Order of January 15, 1934, continued the prohibition against foreign exchange transactions except such as may be undertaken "for normal commercial or business requirements, reasonable traveling and other personal requirements, or the fulfillment of legally enforceable obligations incurred prior to March 9, 1933," except under license issued therefor, and continued the requirement that the Federal Reserve Banks shall keep themselves currently informed as to foreign exchange transactions entered into in their districts. This Executive Order increased the prohibitions to include the exportation of United States currency or coin without a license.

Throughout most of 1934 the foreign exchange office of this bank operated within the provisions of the pertinent sections of that Executive Order in receiving applications for licenses authorizing transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) or silver coin in specific cases, otherwise considered prohibited, and in issuing such licenses as the Secretary of the Treasury approved.

Under date of November 12, 1934, the Secretary of the Treasury, with the approval of the President, made public "Regulations relating to transactions in foreign exchange, transfers of credit, and the export of coin and currency," which in substance lifted the restrictions on foreign exchange transactions which had been imposed by the President's Executive Orders of

March 10, 1933, and January 15, 1934. Article 2 of the Regulations of November 12, 1934 provides that "Licenses may be granted, and a general license is hereby granted, to all individuals, partnerships, associations, and corporations, authorizing any and all transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) and silver coin." Article 3 directs that every person engaging in foreign exchange transactions "shall furnish to the Federal Reserve Bank of the district in which such person has his principal place of business in the United States complete information relative thereto upon report forms prescribed by the Secretary of the Treasury, except that reports are not required to be furnished by (1) persons not carrying during any part of the reporting period, accounts abroad or accounts in the United States for non-residents thereof, or (2) persons whose aggregate transactions, transfers, exports, or withdrawals for their own account and the account of others do not exceed $5,000 during any seven-day period."

Returns in this district, as required by the Secretary of the Treasury, were called for by the Federal Reserve Bank of New York on a weekly schedule beginning with the week ended December 5, 1934, from banks and bankers, and brokers and dealers in securities; from other persons subject to Article 3 of the Regulations, on a monthly schedule beginning December 26, 1934.

Foreign Relations

During 1934 accounts were opened at this bank, with the approval of the Federal Reserve Board, for the Banco Central de Guatemala and the Banco de Mexico. This raised from thirty-three to thirty-five the number of foreign banks of issue (and the Bank for International Settlements) with which relations are maintained by the Federal Reserve Bank of New York on behalf of all twelve Federal Reserve Banks. Balances maintained by foreign correspondents with this bank rose from $4,233,000 at the close of 1933 to $19,394,000 at the end of 1934.

No new credits were extended to foreign central banks in 1934 by the Federal Reserve Banks. The principal amount of the credit outstanding in favor of the National Bank of Hungary, described in the Nineteenth Annual Report of this bank, was reduced to $3,140,000 by the repayment of $417,000 during the past year.

Membership Changes in 1934

The number of member banks in this district again showed a decrease in 1934 but the membership in per cent of all banks was the same as at the end of 1933. Mergers of member banks accounted for most of the reduction in the number of member banks. Five unlicensed banks were declared insolvent during the year, one bank was placed voluntarily in liquidation, and one trust company withdrew from membership, but there were 12 State banks and trust companies admitted to membership.

The tables below show the number of member and nonmember banks classified according to their charters and indicate the changes in membership during the year.

Number of Member and Nonmember Banks in Second Federal Reserve District at End of Year

Type of Bank	December 31, 1934			December 31, 1933		
	Members	Non-Members	Per Cent Members	Members	Non-Members	Per Cent Members
National Banks.......	627**	0	100	650	0	100
State Banks*.........	52	137	28	49	142	26
Trust Companies......	112	153	42	108	158	41
Total............	791	290	73	807	300	73

*Excludes Savings banks. **Excludes one unlicensed National bank whose Federal Reserve Bank stock was canceled before the end of the year but which was still included in the Comptroller of the Currency's records of National banks.

Changes in Federal Reserve Membership in Second District During 1934

Total membership beginning of year..	807
Increases: (a)	
National banks organized (b)...................................	22
Admission of State banks and Trust companies.......................	12
Total increases	34
Decreases:	
Member banks combined with other members	14
Member banks combined with nonmembers	2
Insolvencies	5
Voluntary liquidation	1
Withdrawal	1
Succeeded by newly chartered members............................	27
Total decreases	50
Net decrease	16
Total membership end of year....................................	791

(a) In addition to figures shown on this table, one nonmember was absorbed by a member during the year.

(b) Organized to succeed 27 banks under conservators.

Financial Statement

As complete operating statistics of each Federal Reserve Bank are published in the annual report of the Federal Reserve Board, only the statement of condition and the statement of income and disbursements are given in the following pages.

STATEMENT OF CONDITION

Assets	Dec. 31, 1934	Dec. 31, 1933
Gold certificates on hand and due from U. S. Treasury	$1,836,675,210.83	$266,839,000.00
Gold		660,856,377.59
Redemption fund—Federal Reserve notes	1,499,448.30	10,706,936.10
Other cash	56,764,189.82	50,103,377.09
Total reserves	$1,894,938,848.95	$988,505,690.78
Redemption fund—Federal Reserve Bank notes	$1,427,250.00	$2,870,550.00
Bills discounted:		
Secured by U. S. Government obligations, direct and/or fully guaranteed	$1,538,400.00	$14,511,406.58
Other bills discounted	2,689,936.86	26,179,152.29
Total bills discounted	$4,228,336.86	$40,690,558.87
Bills bought in open market	$1,982,388.31	$22,257,269.41
Industrial advances	812,958.11	
U. S. Government securities:		
Bonds	$141,017,850.00	$170,046,450.00
Treasury notes	475,234,100.00	361,239,500.00
Certificates and bills	161,566,000.00	305,469,500.00
Total U. S. Government securities	$777,817,950.00	$836,755,450.00
Other securities		$903,150.00
Total bills and securities	$784,841,633.28	$900,606,428.28
Due from foreign banks	$299,486.84	$1,228,386.94
Federal Reserve notes of other banks	6,949,800.00	3,726,200.00
Uncollected items	126,518,561.18	126,521,195.83
Bank premises	11,437,469.61	11,066,289.25
All other assets	30,001,455.67	25,103,167.10
Total assets	$2,856,414,505.53	$2,059,627,908.18

LIABILITIES	DEC. 31, 1934	DEC. 31, 1933
Federal Reserve notes in actual circulation......	$680,934,670.00	$651,086,245.00
Federal Reserve Bank note circulation—net.....	25,468,250.00	54,007,550.00
Deposits:		
Member bank—reserve account...............	$1,749,711,107.75	$1,036,523,489.48
U. S. Treasurer—general account............	29,697,150.03	742,071.89
Foreign bank	6,847,881.50	1,459,770.32
Special deposits:		
Member bank		3,801,703.08
Nonmember bank		1,314,350.93
Other deposits	123,495,275.92	34,313,038.99
Total deposits	$1,909,751,415.20	$1,078,154,424.69
Deferred availability items....................	$120,722,942.88	$119,762,308.72
Capital paid in...............................	59,606,300.00	58,279,550.00
Surplus (Section 7)..........................	* 49,964,201.68	* 87,746,274.81
Surplus (Section 13b).........................	772,864.32	
Reserve for contingencies.....................	7,509,990.26	4,737,209.12
All other liabilities..........................	1,683,871.19	5,854,345.84
Total liabilities	$2,856,414,505.53	$2,059,627,908.18
Ratio of total reserves to deposit and Federal Reserve note liabilities combined..........	73.1%	57.2%
Contingent liability on bills purchased for foreign correspondents	$246,540.97	$1,272,394.68
Commitments to make industrial advances.......	3,891,798.34	

*Under Section 12B of the Federal Reserve Act, each Federal Reserve Bank was required to subscribe to Class B stock in the Federal Deposit Insurance Corporation in an amount equal to one-half of such bank's surplus as of January 1, 1933. The subscriptions were paid during 1934 and the amounts so paid were charged to the surplus accounts of the Federal Reserve Banks.

INCOME AND DISBURSEMENTS

Items of income and disbursements for the year 1934 are shown with data for the year 1933 in the following statement. Total earnings in 1934 were $1,442,000 less than in 1933, due to a smaller volume of loans and investments and a lower level of interest rates in 1934. Current expenses for operation were slightly larger than in the previous year chiefly as a result of the increased volume of work in connection with the granting of loans to industry, the additional activities of the Bank Examinations Department, and a larger assessment to cover the expenses of the Federal Reserve Board. Current net earnings were increased, however, by a profit of $2,481,437 on United States Government securities sold, and after provision for depreciation and reserves net earnings were over $2,000,000 larger than in 1933.

Regular dividends of $3,567,690 were paid to member banks and $4,747,138 was added to surplus.

	1934	1933
Earnings	$16,081,934.73	$17,523,930.26
Current expenses	7,335,989.80	7,052,351.44
Current net earnings	$8,745,944.93	$10,471,578.82
Additions to current net earnings:		
Profit on U. S. Government securities sold	$2,481,437.11	$426,822.07
All other	239,947.40	319,794.71
Total additions	$2,721,384.51	$746,616.78
Deductions from current net earnings:		
Bank premises—depreciation	$186,426.99	$1,751,494.95
Furniture and equipment	75,848.76	41,319.38
Reserve for possible losses	2,836,227.96	3,011,181.28
Reserve for self-insurance	57,105.41	66,398.20
All other	4,586.93	150,075.44
Total deductions	$3,160,196.05	$5,020,469.25
Net deductions from current net earnings	$438,811.54	$4,273,852.47
Net earnings	$8,307,133.39	$6,197,726.35
Withdrawn from surplus (Section 13b)	7,693.79	
	$8,314,827.18	$6,197,726.35
Dividends paid	$3,567,689.66	$3,509,872.84
Transferred to surplus (Section 7)	4,747,137.52	2,687,853.51

Changes in Directors and Officers

At a regular election during the autumn of 1934, George W. Davison, Chairman of the Board of Trustees, Central Hanover Bank and Trust Company, New York, N. Y., was reelected by member banks in Group 1 as a Class A director for a term of three years beginning January 1, 1935; Thomas J. Watson, President, International Business Machines Corporation, New York, N. Y., was reelected by member banks in Group 1 as a Class B director for a term of three years, beginning January 1, 1935.

The Federal Reserve Board reappointed J. Herbert Case as a Class C director for a term of three years, beginning January 1, 1935, and redesignated him as Chairman of the Board and as Federal Reserve Agent for the year 1935. The Federal Reserve Board also reappointed Owen D. Young as Deputy Chairman of the Board of Directors for the year 1935.

The Federal Reserve Board appointed Howard Kellogg, President, Spencer Kellogg & Sons, Inc., Buffalo, N. Y., as a director of the Buffalo Branch for a term of three years ending December 31, 1937, to succeed George G. Kleindinst, of Buffalo, whose term expired December 31, 1934.

The Board of Directors of this bank appointed Edward B. Vreeland, President, Salamanca Trust Company, Salamanca, N. Y., as a director of the Buffalo Branch for a term of three years ending December 31, 1937, to succeed Raymond N. Ball, of Rochester, N. Y., whose term expired December 31, 1934.

The Board of Directors of this bank also reappointed Robert M. O'Hara as Managing Director of the Buffalo Branch for the year 1935.

MEMBER OF FEDERAL ADVISORY COUNCIL

The Board of Directors of this bank designated James H. Perkins, Chairman, The National City Bank of New York, New York, N. Y., as a member of the Federal Advisory Council for the Second Federal Reserve District for the year 1935, to succeed Walter E. Frew, Chairman of the Board of Directors of the Corn Exchange Bank Trust Company, New York, N. Y., whose term expired December 31, 1934.

CHANGES IN OFFICERS

On January 3, 1934, Harold V. Roelse, Manager of the Reports Department and Assistant Secretary, was appointed Assistant Federal Reserve Agent, in addition to his other duties.

On January 5, 1934, Ray M. Gidney was appointed Deputy Governor. On September 1, he resigned as Deputy Governor and was appointed Assistant Federal Reserve Agent to act in the capacity of senior assistant in the general work of the Agent's function.

On January 5, 1934, Allan Sproul, formerly Assistant Deputy Governor and Secretary, was appointed Assistant to the Governor, and continued as Secretary; Myles C. McCahill was appointed a Manager of the Administration Department.

On June 30, 1934, Rufus J. Trimble was appointed Assistant Counsel, and assigned to assist in the new activity of the bank in making industrial loans under Section 13b of the Federal Reserve Act as added by the Act of June 19, 1934.

On September 21, 1934, Charles H. Coe, formerly Assistant Deputy Governor, was appointed Deputy Governor; Herbert H. Kimball, formerly Assistant Counsel, was appointed Assistant Deputy Governor; Charles N. Van Houten, Jr., formerly Chief of Loan Collection Division, was appointed Manager of the newly created Security Custody Department; I. Ward Waters, formerly Manager of the Check Department, which was consolidated with the Collection Department, was made Manager of the newly created Cash Custody Department; and the former Check Department was consolidated with the Collection Department, under Valentine Willis, Manager of the Collection Department.

On September 24, 1934, William F. Sheehan was appointed Chief Examiner (Bank Examinations Department).

On September 28, 1934, William F. Treiber was appointed Assistant Counsel.

DIRECTORS AND OFFICERS

January 1, 1935

DIRECTORS

Class	Group		Term Expires Dec. 31
A	1	George W. Davison, Greenwich, Conn. Chairman, Board of Trustees, Central Hanover Bank and Trust Company, New York, N. Y.	1937
A	2	Edward K. Mills, Morristown, N. J. President, Morristown Trust Company	1935
A	3	Cecil R. Berry, Waverly, N. Y. President, The Citizens National Bank of Waverly	1936
B	1	Thomas J. Watson, Short Hills, N. J. President, International Business Machines Corporation, New York, N. Y.	1937
B	2	Walter C. Teagle, Port Chester, N. Y. President, Standard Oil Company (New Jersey), New York, N. Y.	1935
B	3	Robert T. Stevens, Plainfield, N. J. President, J. P. Stevens & Company, Inc., New York, N. Y.	1936
C		J. Herbert Case, New York, N. Y., *Chairman*	1937
C		Owen D. Young, New York, N. Y., *Deputy Chairman* Chairman, General Electric Company	1935
C		Clarence M. Woolley, Greenwich, Conn. Chairman, American Radiator and Standard Sanitary Corporation, New York, N. Y.	1936

MEMBER OF FEDERAL ADVISORY COUNCIL

James H. Perkins
Chairman, The National City Bank of New York, New York, N. Y.

OFFICERS OF FEDERAL RESERVE AGENT'S FUNCTION

J. Herbert Case, *Federal Reserve Agent*

William H. Dillistin, *Assistant Federal Reserve Agent and Manager, Bank Examinations Department*

Herbert S. Downs, *Assistant Federal Reserve Agent and Manager, Bank Relations Department*

Ray M. Gidney, *Assistant Federal Reserve Agent*

Harold V. Roelse, *Assistant Federal Reserve Agent, Manager, Reports Department, and Assistant Secretary*

Carl Snyder, *General Statistician*

Edward L. Dodge, *General Auditor*

George W. Ferguson, *Assistant General Auditor*

OFFICERS

George L. Harrison, *Governor*

W. Randolph Burgess, *Deputy Governor*
Charles H. Coe, *Deputy Governor*
Jay E. Crane, *Deputy Governor*
Walter S. Logan, *Deputy Governor and General Counsel*
Leslie R. Rounds, *Deputy Governor*
Louis F. Sailer, *Deputy Governor*

John H. Williams, *Economist*
Allan Sproul, *Assistant to the Governor and Secretary*

J. Wilson Jones, *Assistant Deputy Governor*
Herbert H. Kimball, *Assistant Deputy Governor*
L. Werner Knoke, *Assistant Deputy Governor*
Walter B. Matteson, *Assistant Deputy Governor*
James M. Rice, *Assistant Deputy Governor*

Dudley H. Barrows, *Manager, Administration Department*
Wesley W. Burt, *Manager, Accounting Department*
Donald J. Cameron, *Manager, Foreign Department*
Felix T. Davis, *Assistant Counsel*
Edward O. Douglas, *Manager, Bill Department*
Edwin C. French, *Manager, Cash Department*
Myles C. McCahill, *Manager, Administration Department*
Robert F. McMurray, *Manager, Government Bond and Safe-keeping Department*
Jacques A. Mitchell, *Manager, Credit Department*
Arthur Phelan, *Manager, Discount Department*
William A. Scott, *Manager, Government Bond and Safe-keeping Department*
William F. Sheehan, *Chief Examiner (Bank Examinations Department)*
Todd G. Tiebout, *Assistant Counsel*
William F. Treiber, *Assistant Counsel*
Rufus J. Trimble, *Assistant Counsel*
Charles N. Van Houten, Jr., *Manager, Security Custody Department*
I. Ward Waters, *Manager, Cash Custody Department*
Valentine Willis, *Manager, Collection Department*

BUFFALO BRANCH

DIRECTORS

	Term Expires Dec. 31
Frederick B. Cooley, Buffalo President, New York Car Wheel Company	1935
Lewis G. Harriman, Buffalo President, Manufacturers and Traders Trust Company	1935
Howard Kellogg, Buffalo President, Spencer Kellogg & Sons, Inc.	1937
Edward G. Miner, Rochester Chairman, Pfaudler Company	1936
George F. Rand, Buffalo President, The Marine Trust Company of Buffalo	1936
Edward B. Vreeland, Salamanca, N. Y. President, Salamanca Trust Company	1937
Robert M. O'Hara, *Managing Director*	1935

OFFICERS

Robert M. O'Hara, *Managing Director*
R. B. Wiltse, *Assistant Manager*
Halsey W. Snow, *Cashier*
Clifford L. Blakeslee, *Assistant Cashier*