ANNUAL REPORT OF THE FEDERAL RESERVE BOARD.

FEDERAL RESERVE BOARD,
Washington, February 1, 1916.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES:

SIR: The first annual report of the Federal Reserve Board, rendered in accordance with the requirements of section 10 of the Federal Reserve Act, was transmitted under date of January 15, 1915, at a time when the Federal Reserve Banks had barely begun active business operations. The Board herewith submits its second report, the first that permits a review of the actual operation of the new system.

In order to provide a complete account of the working of the Federal Reserve System, the Board has called upon each Federal Reserve Agent for a detailed report of the operations and problems of his bank during the year 1915.

The various Federal Reserve Agents have responded fully, and their reports are published as part 2 of this report. Owing to the similarity of problems and experiences in the various districts, it is inevitable that these reports to a certain extent should all cover the same ground, and repetitions were therefore unavoidable, both in the body of the reports and in the statistical material furnished. The Board has, however, deemed it best to present them in somewhat condensed form, in the belief that such publication will furnish very desirable information and will be welcome in this form, particularly to member banks desiring information concerning conditions and operations in any particular district.

GENERAL CONDITION OF MONEY MARKET.

A condition of remarkable ease has been the outstanding feature of the money market of the country during the first year of operation under the Federal Reserve Act. Whatever other causes may have contributed to this result, much of it is due to the stability established and the feeling of security inspired, by the new banking system; so much of it, indeed, as to afford a striking vindication of the wisdom of the law and the efficiency of the agencies of its administration even in advance of the fuller development of their activities. The test of a banking and financial system is its operation. More than a year will be needed for an adequate test of our new banking system. The year which has passed, however, has, owing to the continuance of the economic disturbances and financial uncertainties engendered by the European war, been of more than ordinary significance in supplying experience of the kind that tests the strength of a financial and credit system, and deserves, therefore, extended notice as a period of importance in the history and working of the Federal Reserve Act.

The year 1915 has been a period of marked and sudden transition. In almost every department of financial life conditions have been completely altered. At the close of 1914 foreign commerce was uncertain, business conditions depressed, manufacturing conducted upon a somewhat restricted basis, a considerable floating indebtedness to foreign countries had still to be liquidated, the commodity exchanges of the country were either closed or operating under very great limitations. To-day the export trade of the country has reached the high-water mark, manufacturing is active in nearly all lines and in nearly all sections of the country. Demand for practically all agricultural products is strong, the commodity exchanges of the country are open, depression in business life has given way to a condition of extreme activity. The change has been most notable in certain special industries, where the transformation of conditions has been so great as to be startling. In this fundamental change affecting the whole basis of business and commercial life throughout the country, it has been the part of wisdom that Federal Reserve Banks should conserve their resources and hold themselves in readiness to meet any unexpected developments in the situation. This object has been constantly held in view both by the Federal Reserve Banks themselves and by the Federal Reserve Board. Preparedness and efficiency have, indeed, been the important elements in the Board's policy, and this policy, together with the disturbed conditions abroad which have prevented the reserve banks from engaging in certain classes of operations open to them under the Act, have naturally limited the scope of the operations for the first year of their existence.

GROWTH OF EXPORT TRADE.

The financial history of the year has been to an unprecedented extent founded upon development of the export trade of the United States. That trade, which had been in many departments almost prostrate immediately after the opening of the European war, promptly recovered its vigor in many branches, so that during the early stages of the year's operations, terminating about February, 1915, a surplus of exports, largely of agricultural products, was used to liquidate floating indebtedness existing at the opening of the war. This debt the Board soon after its organization estimated at about $500,000,000. Since then large surpluses of exports have been paid for to a considerable extent through the return of American securities held by foreign owners. Still later, the international balances resulting from continued purchase of goods were settled largely upon a credit basis, aided by sales and transfers of securities sent by foreign owners to the United States. It has been only within the past few months that there can be said to have been restoration of general activity resulting in the development of conditions likely to be ultimately reflected in demands upon the Federal Reserve Banks. There has been within the past few months a very great expansion of loans and deposits by member banks, as is shown by the fact that, whereas the combined loans of national banks were $6,347,636,570.27 at the end of 1914, they were, on November 10, 1915, $7,233,928,973.15; while total deposits between the said dates have increased from $8,236,468,374.36 to $10,157,472,691.86. These facts would seem to indicate that it is prudent to be prepared for a time when the reserve resources of the country will be subjected to a severe test and when the leadership and the operations of the Federal Reserve Banks will become correspondingly more influential.

DEFINITION OF PAPER.

The Board has devoted itself to a definition of different classes of paper which, under the terms of the Federal Reserve Act, may be considered eligible for discount at Federal Reserve Banks, seeking to classify and describe the various kinds, and to fix the qualifications of eligibility upon a reasonable and unmistakable basis which should make clear to the commercial world the conditions to be observed in dealings with Federal Reserve Banks. It has prepared with great care regulations fixing conditions under which banks other than national may be admitted to the system, in order that State institutions may have adequate opportunity to join and ample notice regarding the conditions under which they may be admitted to membership.

The Board has given much attention to the adoption of appropriate measures designed to facilitate the movement of exports and of others intended to promote the ready movement of crops. All this has been done upon a basis furnished by the general work previously accomplished in defining commercial paper and in issuing standard regulations designed to describe the essential elements of the principal types. Very satisfactory results have been accomplished through these efforts. The crop-moving season has been unusually easy with exceptionally little strain or indication of stringency in any locality. The process of financing an enormous and abnormal movement of exports has proceeded without shock. The development of the bankers' acceptance, by means of which American institutions are beginning to occupy a leading place in the financing of the world's international trade, has gone steadily forward. The total amount of such acceptances outstanding at the close of the year 1915 is estimated at fully $100,000,000—an auspicious beginning in this branch of business and one of significant importance, not only with regard to the service rendered to many who would otherwise have suffered from the withdrawal of European credit facilities, but also because of the valuable field of investment thereby opened to the Federal Reserve Banks themselves. Much, nevertheless, remains to be done. Conditions in the principal financial markets of Europe have been such that the Board has not deemed it wise to encourage the several reserve banks either to establish agencies abroad or to embark actively upon foreign exchange transactions. The coming year will see large progress in all of these respects. Foreign banking operations in some fields at least, it is hoped, will not be long deferred; and as business returns to a normal condition abroad, this branch of the operations of the Federal Reserve Banks will steadily and rapidly expand.

The operations of the banks have been limited in their scope by the fact that there was a great volume of fluid resources, due partly to the release of reserves which occurred simultaneously with the opening of the banks and partly to general conditions which have relieved the reserve institutions of demands that would otherwise have been brought to bear upon them, the most striking feature of which is the great inflow of foreign gold into the United States in consequence of enormous sales to foreign countries. As a result of these conditions, the direct discounts of reserve banks for member banks have at no time been much in excess of $30,000,000, notwithstanding that practically every type of commercial paper available for discount at Federal Reserve Banks has been defined and described. Believing that until a firm basis for discount operations had been laid and the organization of the Federal Reserve Banks completed it would be wise to defer any general provision for open-market operations, the Board during the early part of the year confined its instructions and regulations to those classes of open-market operations which were deemed most immediately essential. Included in this category were purchases and sales of Government bonds, bankers' acceptances, and municipal warrants. More recently, in a letter of October 8, confirmed by a circular and regulation of December 6, the Board authorized the several institutions to purchase, at rates to be fixed by them within certain limits prescribed by the Federal Reserve Board, all those classes of bills of exchange which are by the Act made eligible for rediscount. It may be noted that, as shown by analysis of a recent combined statement of all Federal Reserve Banks, more than 75 per cent of the aggregate investments held by them have been obtained through open market operations in government bonds, warrants, acceptances, and commercial paper. They have, therefore, open to them a wide field of operation, and there is to-day no reason why they should not employ their resources as largely as prudence and the requirements of good banking dictate.

DISCOUNT POLICY.

The Board has endeavored during the past year to develop a consistent discount policy, graduating its rates according to the maturity and character of paper discounted or purchased in the open market. Beginning at the opening of the system with a comparatively high rate for ordinary commercial paper and with more or less variation between the different districts, the reserve banks have during the year steadily reduced the general level of discount rates and have worked rapidly and effectively toward uniformity for the entire country. It may not be practicable to maintain uniform rates throughout the twelve districts, but they should unquestionably bear a consistent relation one to another, while a very much greater adherence to uniformity than before the enactment of the Federal Reserve Act will undoubtedly be secured. At the close of 1915 the lowest rates made by the Federal Reserve Banks for any class of paper were those on bankers' acceptances, approved by the Board at from 2 to 4 per cent, but running in actual practice only a little above the lower limit thus stated. Trade acceptances at a prevailing rate of about 3½ per cent, very short-term maturities for ordinary commercial paper at 3 to 3½ per cent, and longer term paper up to 90 days at a current rates of 4 and 4½ per cent were the outstanding features of the discount-rate situation. The fact that commodity paper, that is, notes and bills secured by readily marketable staples, has been acquired in large amounts at rates from 3 to 3½ per cent, and that long-term agricultural paper has, subject to the restrictions of the law, been freely taken by the reserve banks wherever offered, shows what the system can do for the agricultural short-time borrower.

More immediately important to the actual borrower than the rates maintained at the reserve banks are those established by the member banks for their customers. It is an undoubted fact that rates for good commercial paper have never approached so uniform a level in the United States as during the last year—a condition due to a variety of circumstances, prominent among which is the operation of the Federal Reserve System. It is as yet premature to speak positively on this subject, inasmuch as lending conditions and interest rates of the year 1915 are not to be regarded as normal. There can, however, be no doubt that during the year the effect of the Federal Reserve System, heightened as it has been by the steady inflow of gold from foreign countries, has resulted in a material reduction of and marked approach to uniformity of rates throughout large sections of the United States.

With our vast export trade giving rise, as it does, to an enormous quantity of foreign bills; with the gradual growth of the practice of drawing documentary bills against domestic shipments; and with the increasing tendency on the part of business men to put their paper into the trade-acceptance form in lieu of the promissory note, the Federal Reserve Banks should have no difficulty in amply supplying themselves in due time with such amounts of paper as they may deem desirable. Up to the present time it is the judgment of the Board that the banks have acted prudently in abstaining from entering the foreign field or from engaging more actively in open-market transactions than they have. Money rates have been unprecedentedly low, and any attempt of the Federal Reserve Banks to attract business by further reduction of their rates might only have produced a further depression of rates and increased the danger of inflation of credit without, at the same time, bringing additional business to the Federal Reserve Banks. Under ordinary conditions the power to engage in open-market operations will be an important factor in the control of discount rates by the Federal Reserve Banks.

The policy of the Board, for reasons already indicated, has been one of conservatism. When prevailing money rates harden, as they may be expected to in time, it will be the policy of the Board to encourage the Federal Reserve Banks, through the active purchase of paper and the increase of investments, to release funds, and thereby to steady rates at what it conceives to be the normal level.

BANKS AS FISCAL AGENTS.

An important step toward the enlargement of the scope of the reserve banks and the complete enforcement of the Federal Reserve Act was taken by the Secretary of the Treasury on November 23, when he designated the reserve banks as fiscal agents. Under his direction there were transferred, on January 1, 1916, to the reserve banks funds already on deposit with the member banks in the Federal reserve cities, an aggregate of about $9,000,000. Thus has been begun the important fiscal reform of receiving and disbursing the funds of the United States through the Federal Reserve Banks. Prior to the action thus taken in designating all of the reserve banks as fiscal agents the Secretary of the Treasury had already placed with three of the banks public moneys under the provision which authorizes him to employ them as depositaries and had offered to make similar deposits in the Federal Reserve Banks of St. Louis, Kansas City, and Minneapolis. The banks in which deposits were made were the Federal Reserve Banks of Richmond, Atlanta, and Dallas, $5,000,000 being placed with each. Of this sum, $14,000,000 was transferred through the instrumentality of the gold fund at Washington, and $1,000,000 was directly deposited in cash. The reasons of the Secretary of the Treasury for making these deposits are stated in his annual report to Congress in December, 1915.

COTTON CROP MOVEMENT.

Because of the difficult international conditions, the Federal Reserve Board early in the summer felt that it would be advisable to be prepared for any contingency that might arise in connection with the marketing of the cotton crop. Fears for the situation were widespread in the South, some pessimistic observers predicting a repetition of the disastrous experiences of 1914. The Board, therefore, in June, 1915, appointed a special committee to study the condition and needs of the cotton-growing districts. The committee, realizing the importance of fostering a financial condition in which producers would not be obliged to sacrifice their cotton, but would be assisted in the gradual and orderly marketing of the crop, began its work by investigating warehouse facilities in the cotton belt and by making a careful study of the laws governing warehousing in the Southern States. It also informed itself regarding the extent of crop diversification, which early in the year had been strongly urged by the Department of Agriculture and by bankers' associations in the South. It ascertained that the cotton acreage had been greatly reduced and that food crops had been planted to a greater extent than in previous years, and it was not long in reaching the conclusion that the yield of cotton would be much less than was the case in 1914. Finding the storage facilities for such portion of the crop as might have to be carried over generally adequate, it recommended the creation of a special kind of accommodation to assist those producers who, having made their crop, might desire temporarily to withhold a portion of it from the market. The committee entertained the view that warehouse receipts for cotton, grain, and other staple, nonperishable agricultural products of a readily marketable character, form an excellent basis for bank loans, particularly as under the terms of the Federal Reserve Act and the regulations of the Board, notes thus secured are eligible for rediscount by Federal Reserve Banks.

During the summer, the committee developed a method by which producers could secure low rates upon loans secured in this manner, and in order to encourage cooperation between member banks and producers, the Board issued on September 3, 1915, its commodity paper regulation which provided that notes secured by nonperishable staple commodities, having a specified date of maturity, and upon which member banks had not charged a rate of interest or discount, including all commissions, of more than 6 per cent per annum, should be eligible for rediscount in Federal Reserve Banks at a preferential rate. It should be especially noted that this commodity rate, so called, was not confined to any section of the country or to loans secured by any one commodity, but was general in its nature. It applied not to cotton alone, but to other staple products, such as grain, sugar, and wool. It was, in fact, adopted by several of the reserve banks, some of them, however, receiving but little business under it owing to the abundance of funds in member banks.

The Board, moreover, in the exercise of the powers conferred upon it by the Federal Reserve Act, was fully prepared to set in operation, if it should become necessary, at rates to be fixed by it, the machinery of interbank rediscounting, in order to make available for Federal Reserve Banks requiring larger resources the available funds of other reserve banks, the collective strength of the reserve system as a whole being far in excess of any demands that might reasonably be expected to be brought to bear upon it at that time.

The Board's commodity paper regulation was issued September 3, 1915, well before the time when the movement of the cotton crop could be expected to give rise to drafts upon the southern banks, and it was some time, therefore, before any considerable number of applications for loans at the commodity rate was made. During the month of November the southern reserve banks converted many of their loans into the commodity form. Such loans aggregated $10,300,000 to the end of the year, $7,500,000 being the volume outstanding on December 30, 1915.

The effect of the commodity paper regulation was mainly anticipatory and protective. The certain assurance that whatever funds might be necessary for the gradual and orderly marketing of the cotton crop would be available at moderate rates had an immediate and stimulating effect on sentiment. Other factors which contributed to the same result were the evidences of an early and active buying movement and the realization that the cotton yield would be much less than that of 1914. Within 60 days, prices advanced from 8 cents to 12 cents per pound. There was a steady movement of the staple to primary markets, the price of cotton seed advanced to a figure that added from $20 to $25 a bale to the farmer's income, and comparatively little cotton had to be carried by banks for producers.

CURRENCY MOVEMENT.

The fact that there has been no demand for inter-bank rediscounts, and that the autumn season has passed without the usual stringency due to the necessities of crop moving, point conclusively to the benefits derived from the Federal Reserve System. It is quite true, as has often been observed, that the great release of reserves under the Federal Reserve Act produced an unusual ease of money the country over. This general ease, however, would not of itself have solved the difficulty of crop moving, or have met the regularly recurring currency requirements of the various agricultural sections of the country. These requirements have been met during the present year without the great movement of currency that has been necessary in former years, and at a very greatly reduced cost to the community. This favorable result is largely due to the operation of the national clearance system conducted by the Board by means of the gold settlement fund at Washington. This fund now aggregates about $80,000,000 and since the beginning of June, when it was inaugurated, about a billion dollars have been cleared at a negligible expense of a thousand dollars. The benefits derived in this connection are a conclusive demonstration of the merits of the reserve system in disposing of one of the Nation's most troublesome and most discussed financial problems of former years.

FOREIGN BORROWING.

In the course of the year's operations the Board has received many inquiries with reference to its attitude toward foreign borrowing in the United States, and its policy with reference to the obligations of foreign governments. The subject has received careful attention, and the Board has reached the conclusion that its province should be primarily that of overseeing the regular business operations of the Federal Reserve Banks without endeavoring to direct them. It has further reached the conclusion, supported by competent legal advice, that the purpose for which goods are sold or exported, or the use to which such goods are ultimately put, does not fall within its province or jurisdiction. If the transactions which have given rise to such sales or shipments are of a true commercial nature, if the basis upon which they rest is such as to comply with the requirements of the Federal Reserve Act, and if the maturity of the loan falls within the limitation of the law, then the paper growing out of them, no matter by whom or for what drawn, may at will be discounted by Federal Reserve Banks, and must be regarded as falling within the legitimate sphere of their operations. The Federal Reserve Act makes no provision for collateral bond or stock loans, or for the purchase by reserve institutions of foreign governments' obligations. Neither such obligations, therefore, nor loans to member banks based thereon are eligible as investments for Federal Reserve Banks. The operation of the reserve system is a matter of business to be conducted in accordance with the terms of the Reserve Act and the regulations of the Board. It is not the province of the Board to deal with problems involving international relationships of the United States, either for the purpose of restricting or extending exportations.

The eligibility of paper for reserve banks is determined by considerations which are as valid under one set of international relationships as another; the function of passing upon and dealing in such paper under these regulations belongs to the several reserve banks. The Board, however, believes that the financing of the country's export trade is at the present time one of the most important financial problems with which the nation has to deal; and it is of the opinion that Federal Reserve Banks can not, even if they would, avoid their legitimate and proper share of responsibility of assisting in this process of financing.

STANDARDIZATION OF COMMERCIAL PAPER.

The belief of the Board that the Federal Reserve Banks are now in position to render efficient service in the event of stringency is in no small part based upon the response of member banks to the efforts of the Board in standardizing and unifying types of commercial paper and borrowing practices. It was a current remark when the Federal Reserve Act was under consideration that member banks would find but little of the kinds and maturities of paper made eligible for rediscount. Experience has shown the exaggerated character of this view, but it has also shown the desirability, not to say necessity, of securing a thorough standardization of paper in order that those items which might perhaps be open to technical objections should be plainly and obviously brought within the requirements of the law, and in order that member banks may obtain experience and facility in carrying through rediscount operations. In this regard much progress has been made; and many banks which believed at the opening of the year that no considerable part of their paper would be available for rediscount, now recognize that a substantial proportion of it either is already eligible or may easily be made to comply with the provisions of the law. With the aid and cooperation of Federal Reserve Agents, country bankers have been made acquainted not only with the terms of the Act, but with the Board's regulations, and it is believed that in the event of necessity, the flow of paper to Federal Reserve Banks for discount with a view to obtaining additional accommodations will be prompt and will continue steady.

During the past year the Board has held many conferences for the purpose of developing a better understanding of the duties of the Federal Reserve System and the meaning of the Federal Reserve Act, as well as for the purpose of obtaining advice and suggestions regarding problems that were before it for solution and for developing uniformity of operations upon the highest basis of efficiency.

The regulations of the Board have been prepared with a view to the necessities of practically every part of the country, including both agricultural and city constituencies, and there is now no reason why prompt and ready relief should not be rendered at any time of difficulty, or why regular relations should not be maintained with member banks desiring accommodation in the furtherance of their business. It will be possible from this time forward greatly to simplify circulars and regulations with such few changes in substance as may be needed. At the present moment active business relations are maintained by Federal Reserve Banks with a substantial number of member banks and this number is steadily on the increase. The reserve banks are, in short, living and active members of the banking community, and not only have done a creditable amount of business thus far, incidentally relieving many strained and difficult situations, but have prepared the way for a very much larger scope of activity in the event of necessity. Meantime they have had a most important influence in securing reasonable rates for rediscounts to member banks from their correspondents. They have performed both an educational and a commercial function. In the further and progressive development of their reserve functions under the Federal Reserve Act they have, in accordance with the terms of the Act, received from member banks, under date of November 16, an additional installment of reserves, amounting from country banks to one-twelfth, and from reserve city banks to one-fifteenth of their total required reserves. Some member banks, recognizing the wisdom of maintaining the reserve institutions in as efficient a condition as possible, have already adopted the practice of keeping with their reserve bank excess balances over and above their minimum required reserves. For all these reasons the reserve banks find themselves in much stronger position than they were a year ago, the aggregate of their gold and lawful money being $345,260,000 on December 31, as against $229,069,000 on the same date a year earlier. It is hoped that as the system further develops member banks may, both as a matter of convenience to themselves and in order to strengthen their Federal Reserve Banks, adopt the plan of keeping with their reserve banks larger excess balances.

UNIFICATION OF BANKING.

In this process of developing the reserve power, of cultivating good relations with member banks, of educating their members to a recognition of the true theory upon which the reserve system is founded, and of otherwise carrying on the larger purposes aimed at by the Federal Reserve Act, the Board has been mindful of the delicate and important duty of unifying, so far as possible, the banking system of the country—a duty plainly imposed upon it by the provisions of the statute. This duty has presented itself in two ways—in the broadening of the power of national banks in such a way as to afford them such advantages as were deemed consistent with safety, and in the admission of State institutions to membership in the reserve system. It was no doubt the view of the framers of the Federal Reserve Act that, because of the admission of State institutions to the full advantages of the law, national banks should be in some measure compensated by the granting of certain auxiliary privileges—the reduction of reserves against savings accounts, the extension of the power to act as trustee, executor, administrator, etc., and in other ways. The Board, however, deemed it essential that such grants of fiduciary authority should be made only to those institutions whose past record and present condition are such as to furnish evidence of their worthiness to be thus recognized. It has instituted careful examination into the condition of each institution making application for such powers, after a method fully described in this report, and has not scrupled to reject the applications of many banks which, although in a sound and solvent condition, were not considered to fulfil the several requirements of worthiness from a fiduciary standpoint.

It is with regret that the Board reports that its action in thus granting the powers authorized by the Federal Reserve Act to national banks has been the subject of much criticism and opposition on the part of a number of trust companies even in those States in which trust companies are engaged in the business of commercial banking in direct competition with national banks. Suits have been instituted in two or more States to test the constitutionality of section 11 (k) and to prevent by injunction or otherwise the exercise of the powers of trustee, executor, administrator, and registrar of stocks and bonds by national banks, either on the ground that the Act is unconstitutional or that the exercise of these powers is in contravention of the laws of the State in which such national banks are located. Advices have been received that similar suits will be brought in other States. The Board has authorized its counsel to intervene in these cases; to file briefs in support of the constitutionality of the Act; and to appear and argue the questions involved when this course is deemed necessary or advisable. Every effort will be made to obtain an early adjudication of this important question by the Supreme Court of the United States.

A somewhat similar, although less marked, situation has developed with respect to savings accounts. Under regulations carefully developed by the Board, it has been sought to limit the number of accounts against which reduction of reserves to 5 per cent has been permitted to those which are beyond question what they profess to be, the reduction, therefore, involving no element of danger to the liquid condition of the banks. Despite this care, some State officials have considered it their duty to attempt to restrict the development of the savings deposit function of national banks, and in California this attitude has been carried so far that the Board has recommended to the local Federal Reserve Bank the institution of injunction proceedings, designed to protect the rights of the member banks. A similar condition of affairs exists with respect to the other branch of the process of unification—that relating to the admission of State banks and trust companies to membership. The Board has nevertheless deemed it wise to offer to all eligible State institutions the utmost freedom in associating themselves with the system, in order that there might, if possible, be developed a uniform banking system embodying as large a proportion as possible of the eligible commercial banks of the country under a single general oversight for the same general purposes—the prevention of stringency or financial difficulty and the strengthening and enlargement of the financial resources of the country. After full investigation, the Board, therefore, decided that State banks should be given, subject to suitable restrictions, the privilege of withdrawal from the system at their own option, and has in other ways endeavored to facilitate the process of affiliation. While the attitude of State banks and trust companies has been such that but 32 have been admitted to membership, 84 others have become members by conversion or by reorganization as national banks during 1915. This number, moreover, includes some of the best institutions in the country.

It is an unfortunate fact that in some of the States reserve requirements for State banks and trust companies have been materially lowered by legislative enactment since the adoption of the Federal Reserve Act. The only justification for the reduction of the reserve requirements for national banks is the fact that the national banks are members of the Federal Reserve System and that the Federal Reserve Banks hold a part of the consolidated reserves of the national banks, and are, therefore, in position to come immediately with all of their resources to the support of the national banks in case of necessity or emergency. In other words, the entire strength of the Federal Reserve System is substituted for the reduced reserve requirement of the national banks. On the other hand, where the State banks and trust companies have reduced their reserves to the same level as the national banks without becoming members of the Federal Reserve System, such State banks and trust companies have not available to them the strength and resources of the Federal Reserve Banks as a substitute for their lowered reserves. This is an element of danger in our banking system, because the weakening of the reserves of the State banks and trust companies makes them more vulnerable in times of emergency, and it is conceivable that a situation might arise in the affairs of such State banks and trust companies where they might have to call upon the credit structure of the national banks and the Federal Reserve System for support when they would not be entitled to it because they had not contributed to the strength of the Federal Reserve System by taking membership in it. The Board is giving serious thought to this question, and to the action that may be taken to guard against the consequences of this situation. In the meantime the Board is firmly of the opinion that the States themselves should, instead of permitting a reduction in the reserves of State banks and trust companies, require them to maintain reserves higher than the reserves of national banks so long as such State banks and trust companies do not become members of the Federal Reserve System. It is scarcely necessary to say that the credit resources of the country would be greatly enlarged and strengthened, with corresponding benefit to business and to all the people of the country, were the State banks and trust companies to be joined together with the national banks in the homogeneous and well-organized banking system provided by the Federal Reserve Act.

It would be deplorable were feelings of State or local pride to lead any of the States into "competition" with the Federal Reserve System such as would prompt them to lower their own banking standards or reserve requirements with a view of enabling or inducing State banks to refrain from taking membership therein. The Board is satisfied that State banks gain in safety and that the States sacrifice none of their prerogatives or powers when such banks become members of the Federal Reserve System, and therefore expresses the hope that no seeming divergence of interest will be permitted to impede the establishment of higher standards of banking.

CLEARINGS AND COLLECTIONS.

Section 16 of the Federal Reserve Act made general provision for the establishment of a system of clearance of checks throughout the United States, each Federal Reserve Bank being required to act as a clearing house for its members if directed by the Federal Reserve Board, while the Federal Reserve Board was authorized to clear for the reserve banks themselves.

The Board had from the first recognized its duty to make this provision of the law effective as fully and at as early a date as conditions would permit; and in its first report spoke of this as "one of the most important responsibilities with which it is charged under the Act." So, regarding its duty in this particular, it undertook early in 1915 the preparation of a general circular and regulations intended to provide for the clearing of checks within the several Federal reserve districts, while it also took under advisement the establishment of a gold settlement fund at Washington for the purpose of clearing obligations between Federal Reserve Banks. The latter undertaking has been carried to a successful conclusion and the gold settlement fund has been in full and satisfactory operation since about the first of June. The Board, however, had not advanced far with its work relating to the intradistrict branch of the clearance system before technical and other difficulties began to make their appearance. Many banks, both city and country, throughout the system were opposed to the enforcement of the provisions of the law because of the loss of exchange charges which would thereby be entailed upon them. Legal questions were also raised, it being argued that there is no power to compel a member bank not located in a Federal Reserve city to pay or have charged to its account at the Federal Reserve Bank of its district a check which it had not seen and approved prior to the time of presentation at its own counter. For the purpose of ascertaining the Board's powers in this connection the opinion of the Attorney General has been requested.

While the Board was not inclined to attach undue importance to objections based upon self-interest, it felt that it must take cognizance of all legal objections, and it recognized that the clearing question was essentially a reserve problem rather than a technical question or a mere matter of administration. Inasmuch as the Federal Reserve Act had granted a period of three years within which to effect the final transfer of reserves to Federal Reserve Banks (balances with correspondents counting as reserves in the meantime), there was a certain ground for objection to the immediate introduction of complete clearance at Federal Reserve Banks. As is well known, reserve balances in some reserve cities have heretofore been used for the purpose of providing for exchange and collection operations, and so long as this function on the part of city correspondents continued there was some argument in favor of deferring any compulsory application of par clearance at the reserve banks. Study of the problem, moreover, shows that, pending the time when State banks enter the system in larger numbers, it may be necessary for some member banks to collect and clear through their correspondents in reserve cities.

So complex was the situation and so serious the difficulty involved in the compulsory application of any system, however carefully conceived, that the Board felt it would be well if member banks could be brought to recognize of their own free will the advantages of a general and nation-wide clearing system—advantages which would inure not only to the benefit of the public at large, but ultimately to the direct benefit of the member banks themselves from the purely business standpoint. It therefore took under favorable consideration the question of a voluntary clearing system. Both the difficulties of a compulsory plan and the probable merits of a voluntary system had been strongly represented to the Board by the governors of the respective Federal Reserve Banks who at various meetings had thoroughly canvassed the whole situation. Under a plan, proposed by the governors, which in most districts became effective during June, 1915, provision was made for the acceptance at par by the Federal Reserve Bank of each district of checks drawn upon any member bank of that district which had previously assented to the provisions of the scheme. It was hoped that a very large number of member banks would promptly affiliate themselves with the new system of clearing and that the natural force of economic competition would ultimately attract to it those who at first might hesitate.

This system, as already stated, became operative in most districts during June, 1915. Prior to this whole discussion, however, two districts had already undertaken the application of the clearing provision of the law. Early in December, 1914, district No. 10 and district No. 8 (Kansas City and St. Louis) had sought and obtained permission to apply to their members a complete system of required clearing. This system had been in full operation in both districts prior to the general application of the voluntary system. Upon the inauguration of the latter the directors of the Federal Reserve Bank of St. Louis deemed it wise to offer to their member banks the option of withdrawing from the clearance system if they so desired; but so successful had been the working of the plan that comparatively few retired, about 80 per cent of all continuing their membership. The Federal Reserve Bank of Kansas City continued its required system as before for the benefit of all its member banks, numbering 950. As about 365 banks continued their membership in the St. Louis district, a total of approximately 1,300 was included in the clearing system of the two districts in question. Outside of these two districts about 1,100 member banks voluntarily affiliated themselves with the clearing system within a short time after its inauguration, and there was a subsequent net inward movement of about 50 additional members, making approximately 1,150 banks which of their own free will have assented to the voluntary clearing plan. This is considerably less than 25 per cent of the institutions eligible for membership, and the proportion has been so small as to prove a severe disappointment to those who had confidently expected that the foresight and enlightened self-interest of the member banks would speedily accomplish the desired result. Some progress has been made through the action of the banks, both member and nonmember, in improving exchange conditions and in providing for the clearance of country checks at points where this practice has never before prevailed; but in the main comparatively small advance has thus far been made in rendering effective the provisions of the law requiring the standardization of exchange and clearance practices. This slowness is largely due to the failure of jobbers and merchants to appreciate the advantages of the clearance system and to enlarge its membership by insisting that their own banks join and cooperate in the plan. The subject has recently been reopened at the conferences between the governors of the Federal Reserve Banks, the Federal Reserve Agents, the transit managers of the reserve banks, and the Board itself, with a view to extending the present system not only in the several districts themselves but as between the various districts. For many years it has been lawful for banks to count as reserves deposits with other banks. It was never the intention of the Federal Reserve Act that member banks should continue the maintenance of these reserve accounts. On the contrary, the full meaning of the Act is manifestly opposed to such an idea. It is the plain conception of the Act that the reserve banks should, to a very large extent, if not entirely, perform the work that is now being done by correspondent banks in this respect. This means that the reserve balances to be carried in the future by the reserve banks instead of by the correspondent banks should serve as the basis for a system of clearing and collecting the exchanges of the country. Whatever can be done to bring about the prompt and effective use of this new system of bank settlement will be done.

ISSUE OF NOTES.

During the year 1915 the circulation of Federal Reserve notes has increased to $188,817,000 as of December 31, 1915. Believing that the country should be prepared against any contingency, the Board had authorized the printing of about $700,000,000 of these notes. Almost one-quarter of the total supply printed has been placed in circulation. On December 31, 1915, however, only $16,675,000 of notes secured by commercial paper pledged with the Federal Reserve Agents was outstanding as an obligation of the Federal Reserve Banks. The liability of the Federal Reserve Banks as to the remainder has been discharged by the deposit with the Federal Reserve Agents of a like amount of gold and lawful money. This result has been achieved by the Federal Reserve Banks in responding to requirements for currency by issuing Federal Reserve notes rather than by parting with gold. While the gold pledged with the Federal Reserve Agents represents a very valuable protection in case of a substantial demand for gold, it must be observed that the process is expensive without, at the same time, giving to the Federal Reserve Banks that additional strength and lending power which they would secure in case the law were amended so that the Federal Reserve Banks would remain liable for the outstanding notes, but, on the other hand, would retain property title to the gold delivered to the Federal Reserve Agents, which, in that case, would not be paid in to extinguish the liability upon the notes but would be deposited as collateral security against them.

Further reference is made to this subject under the head of amendments.

BRANCHES AND AGENCIES.

The question of branches of Federal Reserve Banks has received careful attention during the past year. There has been intimation from several quarters that the establishment of a branch at a given point would be acceptable to the banks of that place. Only in one instance—that of New Orleans—did the Board receive a definite request from a Federal Reserve Bank to establish a branch. Believing that New Orleans and the adjacent territory could make advantageous use of this additional banking machinery, the Board authorized the establishment of a branch of the Federal Reserve Bank of Atlanta to be located in New Orleans, and this branch was opened for business on September 10. Operations at the New Orleans branch have proceeded satisfactorily, and the institution has been of considerable use to the local banks. The branch is already more than self-supporting.

Investigation and experience have seemed to show that, at least for some years to come, the organization of branches with completely equipped offices, vaults, and the like, and with a full staff of salaried officials, will be too heavy an expense for most of the reserve banks, yet, that valuable service could be performed by local offices of the several banks in not a few places. The Board has, therefore, had under consideration the question whether establishing local agencies might not meet the requirements of the case better than the more fully organized branch office. Competent legal opinion is to the effect that the creation of such local offices is permissible under the terms of the law, and the Board believes that it may prove practicable to meet banking necessities in many sections of the country by this means.

CHANGES IN DISTRICTS.

Practically as soon as it was organized the Board received applications from various cities and districts asking for changes in the adjustments that had been made by the Organization Committee, under the Board's general power to review the findings of that body. As set forth in its first report, it appointed dates for the hearing of each case, and on May 4 it announced decisions readjusting the boundaries between the second and third, the boundaries between the fourth and fifth, and the boundaries between the tenth and eleventh districts. The details of this action are stated in Exhibit M. The appeals presented by the cities of Pittsburgh and Baltimore, which regarded their claims to designation as the site of a reserve bank as superior to the cities of Cleveland and Richmond, respectively, were not finally disposed of, the Board feeling that further experience would be necessary in order to reach an intelligent conclusion regarding this whole matter. Later requests were received from certain banks in Louisiana for transfer from the Dallas to the New Orleans district, by certain banks in Connecticut for transfer from the Boston to the New York district, and by certain other banks in southern Wisconsin for transfer from the Minneapolis to the Chicago district. Believing that the subject ought not to be delayed indefinitely, full consideration was given to it during the months of October and November by a special committee of the Board, and the question was considered whether a reduction in the number of reserve banks was not desirable and whether, if desirable, it might not be made in such a manner as incidentally to settle the various pending appeals. Further consideration of this subject was suspended, in view of an opinion rendered by the Attorney General of the United States on November 22, wherein it was held that the Board possessed no power to reduce the number of Federal Reserve Districts. The question what action to take on appeals still pending must, therefore, be considered in the light of this opinion, which has materially changed some of the aspects of the case. A further opinion has been asked as to whether the Board has power to change the location of a Federal Reserve Bank within a district.

OPERATION AND EXPENSES.

Meantime the experience already secured in the operation of Federal Reserve Banks has thrown much light both upon the conditions of their operation, the problems they will have to meet, and the cost to which they will be subjected in doing business. Due to the conditions prevailing during the past year, as already set forth, the reserve banks as a unit have done little more than to provide for their current expenses. The complete tabular statement of income and outgo, furnished on pages 87–95, shows that the current expenses for 1915 have been covered and in addition a sum of $639,881 realized. The condition of the banks as income producers is not, however, uniform, nor should their usefulness be gauged by their earning capacity. As will be seen from the statement in question, in the case of the Richmond bank the excess of earnings over current expenses for the past calendar year was $233,331, or over 8 per cent of the average paid-in capital, while in the case of nine other banks these excesses varied from less than $4,000, or a fraction of 1 per cent, to $137,336, or over 6.5 per cent of the paid-in capital. Two banks are shown to have declared dividends. There are still two institutions which during the past year have not fully covered their current expenses, although such deficiency is of relatively small amount. The Board, in submitting this tabular statement of earnings and expenses, feels warranted in expressing the conviction that the system, as a whole, has been economically and efficiently operated. In order that the fullest information may be afforded concerning the conditions obtaining in each of the banks, there is submitted the complete salary roll of each institution, as well as an estimate, in round numbers, of the expense and dividend requirements of the several institutions. An inspection of the detailed salary rolls in comparison with the salaries for bank officers and employees in the several reserve cities will show that Federal Reserve Banks have been operated upon what is practically an ordinary commercial basis in so far as relates to expenses, the only criticism that might reasonably be made being apparently that certain of the institutions were slightly "overstaffed" at the beginning; that is to say, had in their employ a rather disproportionate number of officers of the higher class and salary rating. This difficulty of organization could not be avoided, in view of the uncertainty regarding the volume of business to be developed by the several banks and the possibility that at any time conditions might be such as to require a large and rapid expansion of the operations of the several institutions. The Board, therefore, believes that the institutions have been fulfilling their duty efficiently and satisfactorily in the face of a difficult international financial situation; and looks confidently forward to a material enlargement of operations in the near future, in the natural course of events.

"Regulation in ordinary times as well as protection in extraordinary times" was the principle laid down by the Board in its first annual report for defining the general scope of activities of the Federal Reserve Banks. The conditions of the last year, however, have happily not been such as to call for the exercise of the emergency function of the reserve banks nor have they been such as to call for much regulative action on the part of the banks. Speaking by and large of the situation in the midst of which the reserve banks have found themselves during the first year of their existence, it has been one of such ease and quiescence as not to call for much activity on the part of the reserve banks except in a few districts, but the experience gained has confirmed the Board in the conclusion expressed a year ago that "normally a considerable proportion of their resources should always be kept invested in order that the release or withdrawal from active employment of their banking funds may exercise a beneficial influence," and that "to influence the market a reserve bank must always be in the market." The events of the year also seem to make clear that in all except unusual years it may be expected that the proportion of their resources which the reserve banks will have to keep loaned or invested in order to exercise a proper regulative effect upon the market or will be able to invest through operations in the open market as such a market develops, will produce earnings sufficient for dividend purposes as well.

OPERATIONS OF THE BOARD.

The Board's own internal organization has not been materially changed since its first report. Various divisions whose organization was then outlined have continued in operation. Two (those of correspondence and mail and files) have been consolidated with the secretary's office. Only very slight changes in the personnel or size of the staff have been effected. At present the actual cost of conducting the work of the Federal Reserve Board, including members' salaries and the total payments to the staff in Washington, as well as the examining corps, is about $18,000 per month. So far as can be judged, this sum is not likely to vary much in the near future, except in so far as it may be increased by the added cost of examining State banks which may join the system, should such action be necessary, or by the growth of the statistical department.

The Board has foreborne to enter into a multitude of details concerning its work which might prove of interest and importance. Full information with regard to the year's operations has been afforded in the Federal Reserve Bulletin, which is now published monthly and in which is given a complete account of the operations of the Board as they are developed. Full statistical data and complete detailed reports for each of the Federal reserve districts are presented in exhibits hereto attached, and a complete file of the Bulletin is herewith transmitted.

PROPOSED AMENDMENTS.

A year's experience in the operation of the Federal Reserve Act has confirmed the Board in its profound conviction that the Act has been one of the most beneficial pieces of legislation ever adopted by Congress. Not only have its fundamental principles been fully vindicated but in most details the working of the measure has been successful. The Act, however, is a progressive piece of legislation and creates new conditions as the result of its own operation. Modification in its terms growing in part out of these new conditions will subsequently be required from time to time.

For the present the Board presents the following suggestions for amendments to the Act:

(1) In addition to powers now possessed in this connection by Federal Reserve Banks and national banks, the latter should be permitted to subscribe for and hold stock in banks organized for the special purpose of doing a banking business in foreign countries.

(2) With the approval of the Federal Reserve Board the issue of Federal Reserve notes to Federal Reserve Banks should be permitted either against the deposit of an equal amount, face value, of

notes, drafts, bills of exchange, and bankers' acceptances acquired by Federal Reserve Banks under sections 13 and 14 of the Act, or of gold, or of both, provided, however, that gold so deposited with a Federal Reserve Agent shall count as part of the reserve required by the Act to be maintained by the bank against such notes outstanding.

(3) The acceptance system, provision for which is made in foreign trade operations by the Federal Reserve Act, should be extended to the domestic trade in so far as relates to documentary acceptances secured by shipping documents or warehouse receipts, covering readily marketable commodities or against the pledge of goods actually sold.

There can be but little question of the safety of such acceptances, and their use will tend to equalize interest rates the country over and help to broaden the discount market.

(4) Permission should be granted to national banks to establish branch offices within the city, or within the county, in which they are located.

(5) In order to enable member banks to obtain prompt and economical accommodations for periods not to exceed fifteen days, the Federal Reserve Banks should be permitted to make advances to member banks against their promissory notes secured by such notes, drafts, bills of exchange, and bankers' acceptances as the law at present permits to be rediscounted or purchased; or against the deposit or pledge of United States Government bonds, the purchase of which is now permitted under the law.

(6) The Board furthermore recommends that the power of national banks to make loans on farm lands as provided in section 24 be extended so as to permit any national bank not situated in a central reserve city to make loans secured by improved and unencumbered farm land situated within its Federal Reserve district, or within a radius of 100 miles from the place in which such bank is located, irrespective of district lines. It also recommends that the powers of national banks be further extended to permit any such bank to make loans on any improved and unencumbered real estate located within 100 miles of the place in which such bank is located, irrespective of district lines; provided, however, that the aggregate of farm land loans and other real estate loans made by any national bank shall not exceed 25 per centum of its capital and surplus or one-third of its time deposits; and provided further, that no such real estate loan, as distinguished from a farm land loan, shall exceed a period of one year nor exceed 50 per centum of the actual value of the property offered as security.

It is believed that the enactment of these amendments will, besides enlarging the usefulness of the national banks, result in greatly strengthening the operation of the Federal Reserve Act, and more completely realize the purposes of its framers. The text of the amendments designed to carry out these recommendations will be submitted by the Board at an early date. The Board has under consideration other suggestions for amendments to the Federal Reserve Act concerning which no conclusions have yet been reached, and regarding which the Board will take occasion to submit its views to the Congress at an appropriate time in the future.

W. G. McAdoo,
Secretary of the Treasury, Chairman.
John Skelton Williams,
Comptroller of the Currency.

C. S. Hamlin, *Governor.*
F. A. Delano, *Vice Governor.*
P. M. Warburg.
W. P. G. Harding.
A. C. Miller.
Members, Federal Reserve Board.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD.

FEDERAL RESERVE BOARD,
Washington, January 15, 1918.

SIR: In conformity with the requirements of section 10 of the Federal Reserve Act, the fourth annual report of the operations of the Federal Reserve Board for the calendar year ended December 31, 1917, is submitted herewith.

The outstanding feature of the year has been the entry of the United States into the war. The declaration by Congress of a state of war, on April 6, had been preceded by a period of unprecedented activity and expansion in practically all lines of business and industry, tempered, however, in the minds of thoughtful men, by uncertainty and apprehension as to ultimate adjustments. The feverish conditions brought about by an unparalleled increase in business activity, changing our position from a debtor to a creditor nation, the great influx of gold into the country, and the large foreign credits negotiated here, had convinced the Board that the time had come when the Federal Reserve system should be strengthened and brought to the highest state of efficiency, in order that it might perform the most effective service in either one of two events which seemed likely to take place—the conclusion of a general peace in Europe, or the entry of the United States itself into the war. In the event of peace, a radical readjustment was to be expected, and there would have been a slowing down of those industries which were engaged in supplying war material, a consequent heavy falling off in our exports, accompanied, in all probability, by a strong demand upon us for credit and gold. On the other hand, in the case of our own belligerency, it was foreseen that there would be a greatly increased demand for all articles necessary for the equipment and maintenance of our own military and naval establishments, and much larger demands for the sale of goods and for credit to the countries associated with us in the war, for both of which large loans would be necessary. It was foreseen, in addition, that we should anticipate a cessation of gold shipments to us by the allied powers, as well as a contraction of our export trade to neutrals.

For these reasons, the Board felt that it should in either event, during this period of uncertainty, adhere strictly to its policy of maintaining the liquid character of the assets of the Federal Reserve Banks, of discouraging any unnecessary expansion of credits, and that it should also cause the reduction to very moderate proportions of the holdings of the Federal Reserve Banks of such investments as bonds and warrants which had heretofore been made primarily for the sake of income. Early in the year, therefore, the Board began to carry out these policies and the end of March found the Federal Reserve Banks in a very strong position. Holdings of municipal warrants, which at times had been freely purchased by some of the banks, had then been reduced to a comparatively small amount.

In order better to provide for the strengthening of our banking structure, for the conservation and greater concentration of our gold supply, and for the more effective control of its outflow, the Board in January suggested some amendments to the Federal Reserve Act which were designed to make membership in the system more attractive to the State banks and trust companies, to modify reserve requirements in such a way as to increase the gold holdings of the Federal Reserve Banks and to make their gold more available as a basis for an elastic note issue. These amendments finally became law on June 21 and will be discussed more fully in other parts of this report. In anticipation of these changes and of future contingencies, the Board determined upon the preparation of a much larger supply of Federal Reserve notes. During the months of January and February it placed additional orders with the Bureau of Engraving and Printing, through the Comptroller of the Currency, for more than $900,000,000 of notes, and arranged also that the stock of notes on hand should no longer be reduced through withdrawals for current needs, but that as drawn upon by the Federal Reserve Banks new orders in equal amount should be placed automatically. In order to insure immediate availability, ample supplies of notes were placed at the subtreasuries for delivery to the Federal Reserve agents as required. The precautions taken have been justified by events, as there developed a strong demand for Federal Reserve notes throughout the year.

When a state of war was declared on April 6, the reserve position of the Federal Reserve Banks was strong, and gold in the Federal Reserve Banks and with Federal Reserve agents amounted to $943,552,000, the combined reserve against deposits and notes averaging 84.7 per cent.

FEDERAL RESERVE BANKS AS FISCAL AGENTS OF THE UNITED STATES.

The entry of the country into war resulted almost immediately in the assignment to the Federal Reserve Banks of a new and important fiscal agency function. Under authority of section 15 of the Federal Reserve

Act the banks when required by the Secretary of the Treasury shall act as fiscal agents of the United States. The Federal Reserve Banks were charged by the Secretary of the Treasury with the duty of placing issues of short-time Treasury certificates and redeeming them at maturity. During the latter part of April the Secretary of the Treasury made public the details of the first bond issue, known as the Liberty Loan of 1917, and at the same time announced that each Federal Reserve Bank would be constituted a central agency in its district for the organization of a bond campaign, for receiving subscriptions and payments, making deliveries, and managing the necessary details. These new duties have brought the banks into more intimate contact, both with the Treasury Department and with the banks of their districts, and have also increased their operating problems. It has been necessary for them to add to their working space and to more than double their clerical staffs. They have rendered especially valuable service in the prompt flotation of the various issues of Treasury certificates of indebtedness which, running for short periods only, in anticipation of receipts from the long-term bonds, were placed with banks to a greater extent than with the investing public.

The initial offering of $50,000,000 of Treasury certificates, in anticipation of income-tax receipts accruing on June 30, was made before rates for money had advanced and before plans could be perfected for the subsequent larger operations. Accordingly, at the request of the Secretary of the Treasury, the Federal Reserve Banks themselves subscribed for the entire issue, at the rate of 2 per cent per annum. This constituted their first direct service to the Government in its war financing. This issue, however, was only a beginning. It was followed by an offering of $250,000,000, at 3 per cent, on April 25, which was quickly distributed by the Federal Reserve Banks among the member and nonmember banks of their respective districts. Since then these issues have been repeated on eleven subsequent occasions, four having been made in anticipation of the first Liberty loan of $2,000,000,000, which was closed on June 15, while six were anticipatory of the second Liberty loan, subscriptions to which closed on October 27. A later issue of approximately $700,000,000, in anticipation of taxes due next June, has a longer time to run than the others and was intended primarily for the convenience of those who will have taxes to pay on account of incomes and excess profits. Subscriptions were opened during the last days of December by the Federal Reserve Banks for a new offering of the same character.

While the two classes of certificates appeal to banks and investors in varying degree, they serve similar purposes. The short-time certificates offered in anticipation of Liberty loan issues have in view the important object of enabling prospective investors. banks or individuals, to anticipate their payments on account of their Liberty loan subscriptions. The Government in this manner absorbs accumulated savings as they become available and has thus been enabled to dispose of nearly $6,000,000,000 of long-term bonds without creating at any time disturbance of the money market. In like manner the certificates issued in anticipation of taxes will serve the purpose of avoiding stringency conditions during the second half of June, when it is expected that over $2,000,000,000 of internal-revenue taxes will be paid. By placing these certificates of indebtedness with taxpayers, corporations, or individuals as they become prepared to set aside the amount of their tax liability, payments to the Government are distributed over several months, and approximately $1,000,000,000 of tax payments have thus been anticipated up to this time, and it may be expected, therefore, as was the case with the Liberty loan payments, that the entire payment on account of taxes due in June will be made without affecting the money market adversely.

In his annual report to Congress the Secretary of the Treasury made acknowledgment of the services rendered by the Federal Reserve Banks as fiscal agents as follows:

> The Federal Reserve system has been of incalculable value during this period of war financing on the most extensive scale ever undertaken by any nation in the history of the world. It would have been impossible to carry through these unprecedented financing operations under our old banking system. The effective machinery afforded by the Federal Reserve Banks has permitted the Government to execute its plans without a tremor of disturbance. Great credit is due the 12 Federal Reserve Banks for their broad grasp of the situation and their intelligent and comprehensive cooperation.

The Federal Reserve Banks have from the first met with a prompt and hearty response from the member and nonmember banks in their respective districts, both in the flotation of Treasury certificates and of the Liberty bonds. The Federal Reserve Banks have cooperated with the Treasury in every possible way to avoid and relieve pressure upon the money market. Under the direction of the Treasury, and for its account, they have redeposited funds with subscribing banks and have permitted payments by credit on account of subscriptions due, passing upon and receiving for the Treasury the securities given as collateral for these deposits and deferred payments.

Funds accumulating with the Federal Reserve Banks for account of the Treasury have been returned to the market with as little delay as possible, whether funds were disbursed in settlement of purchases made by the United States or deposited with banks acting as agents for foreign Governments associated with us in the war; or whether they were redeposited with subscribing banks in order to remain available for the usual requirements of trade and commerce. So effectively and speedily have these funds been returned to the money market in the manner above described, that the average balances maintained by the Treasury with the Federal Reserve Banks, considering the volume of business transacted, have been low, the average of balances shown in the Board's weekly statements since April 6 being $145,268,000 for the whole system.

Notwithstanding the facility with which the transactions have been conducted, it is obvious that the shifting of several billion dollars can not be effected without creating temporary demands for funds in various places, and wherever these have arisen an adequate measure of relief has been readily afforded by the Federal Reserve Banks through open-market transactions or by means of rediscounts for member banks.

DISCOUNT POLICY.

Upon the Federal Reserve Board has fallen the responsibility of directing the policies of the system so as to insure prompt accommodation to banks whose customers required assistance either in providing for commercial demands caused by increased business activities, or in making their payments for bonds, as well as to banks which bought bonds for their own account. It was important that there be no disturbance in the money market and that interest rates should be normal and as free as possible from fluctuation. The Board accordingly, before the subscriptions to the first Liberty bond issue were closed, and in anticipation of the amendments which became law on June 21, established a preferential rate of discount for notes of member banks secured by Government obligations, whether certificates or bonds. As a further means of relief, the Board authorized Federal Reserve Banks to discount for nonmember banks, upon the indorsement of a member bank, notes secured by Government obligations, whether made by the nonmember banks themselves or by their customers, when the proceeds had been or were to be used for carrying Treasury certificates or United States bonds. These measures involved modifications in discount schedules and rates, which may be enumerated as follows:

(1) The establishment of a rate of 3 per cent per annum for the discount at Federal Reserve Banks of notes of member banks running not longer than 15 days secured by Treasury certificates of indebtedness, which certificates had been issued at rates varying from 3 to 3¼ per cent per annum.

(2) The establishment of a rate of discount at Federal Reserve Banks of 3½ per cent per annum for customers' notes running up to 90 days, secured by Government obligations and indorsed by mem-

ber banks, when such notes had been made for the purpose of obtaining funds for the purchase of Government obligations.

(3) The authorization of Federal Reserve Banks to discount for member banks, on behalf of nonmember banks, notes of nonmember banks or their customers, secured by Government obligations, for the purpose of obtaining funds with which to purchase United States bonds or notes.

(4) The establishment of a one-day rate of from 2 to 4 per cent at New York for the purpose of restoring to the market, funds temporarily withdrawn through Government loan operations.

In addition, a general assurance was given savings banks and trust companies that the Board desired in every way to cooperate with them in avoiding stringency and that the Federal Reserve Banks were prepared to extend through member banks every reasonable accommodation not inconsistent with law for the purpose of relieving any strain which might result from withdrawals of deposits for purchases of Government securities.

The rediscount policy of the Board, which was intended to assist those desiring to subscribe for the first Liberty loan by assuring banking accommodation pending the payment in full of their subscriptions, was amply justified by results. As nearly as can be ascertained, scarcely more than $300,000,000 of the loan was actually subscribed by banks for their own account, and of this amount a very large part was quickly transferred to private investors who had not originally subscribed for or been allotted all the bonds they desired to obtain.

The amount of rediscounts at Federal Reserve Banks of notes secured by Government obligations reached its maximum of $83,185,000 on June 22, one week after the closing of subscriptions for the loan, but these notes were paid off so rapidly that the total of such rediscounts had on August 17 fallen to $11,051,000. Reports from all sections of the country indicate that only a comparatively small percentage of the first issue of Liberty bonds is now being carried upon a long-term installment basis, and that as a rule both banks and private investors were able, within a few weeks, to pay for the securities which they agreed to take.

EFFECT OF ADDITIONAL LOANS.

The services rendered by the Federal Reserve Banks during the second Liberty loan campaign, which began on October 1 and ended on October 27, were even more marked than in the first instance. The experience which had been gained on the former occasion, the fact that more time had been afforded for efficient organization, a better understanding by the people of the merits of Government bonds as an investment, and a general awakening of a sense of patriotic duty all combined to bring about the vigorous cooperation of the public generally. The arrangements previously made to accommodate the banks and their customers who desired to subscribe to Government bonds remained effective, and there were no changes in discount rates, notwithstanding the advance of one-half of 1 per cent in the rate of interest carried by the bonds themselves, until the close of November and the middle of December, when general advances of from ½ to 1 per cent in rates of Federal Reserve Banks were made.

The fact that the second loan, as offered to the public, was 50 per cent greater than the first, while actual subscriptions received were in an even greater proportion, naturally increased very substantially the operations of the Federal Reserve Banks in discounting paper secured by Government obligations. The total of such paper discounted at the Federal Reserve Banks reached a maximum on November 30, when the aggregate amount of notes under discount secured by Government obligations was $499,265,000. On December 28 the total amount of discounts of this character had been reduced to $283,421,000, but the greater part of this reduction was due to the payment of maturing Treasury certificates, and there is as yet nothing to indicate that transfers of bonds to investors have been made to so great an extent as was the case with the first Liberty loan.

Experience during the year with these operations and an analysis of the consequent changes in the banking situation demonstrate how greatly the entry of the United States into the war has increased the responsibility of the Federal Reserve system in its relations to the Treasury and to the public. Not only have new duties devolved upon the Federal Reserve system, but it has been made more directly responsible for the banking situation as a whole. The Federal Reserve Board is not responsible for the financial policy of the Government, except in so far as the Secretary of the Treasury may choose to call upon its members for service in an advisory capacity. The Board, however, is charged by law with the exercise of a general supervision over the Federal Reserve Banks, both as to their ordinary business and with respect to their functions as fiscal agents of the Government. In the latter capacity they are undertaking grave duties and responsibilities, and their activities are of such scope that any administrative mistakes or errors of judgment might entail serious consequences. This responsibility is fully appreciated by the Board, which, while it has been actuated by a desire to do all in its power to give the country every advantage accruing from the financial resources of the Federal Reserve system, has constantly realized that its primary duty is to maintain the system in the strongest possible position.

The discount policy of the Board has accordingly been governed by these two considerations. It was necessary, in order to facilitate the operations of the Treasury, that discount rates at the Federal Reserve Banks be maintained on a basis in harmony with the low interest rates borne by the Government loans during the period from the beginning of war down to the completion of the second Liberty loan. It was fortunate that this policy could be carried out without infringing too greatly upon the resources of the Federal Reserve Banks, for it is obvious that any advance in rates paid by the Government on its obligations was necessarily gradual, moving up from 3 per cent, the rate paid on the certificates issued in May, to $3\frac{1}{2}$ per cent and later to 4 per cent, the rate carried by the second Liberty loan issue. A more gradual advance might have endangered the success of the financial operations of the Treasury, while a more rapid movement might have brought about a convulsion in the securities market.

As the rates on Government issues advanced it became feasible for the Federal Reserve Banks to raise their rates. These rates were advanced after the banks had responded fully to all calls made upon them during the period when the first and second installments were being paid in on account of subscriptions to the second Liberty loan. It is obvious, however, that it must now be the serious concern of the Board to strengthen the reserves of the Federal Reserve Banks by having them reduce their investments before the opening of the next Liberty loan campaign.

WAR-TIME BANKING.

Since the beginning of the war, and more especially since the entry of this country into the war, deposits in banks have increased enormously, but it should be remembered that loans and discounts and investments have increased in an even greater degree. The country's gold holdings in three years have increased more than a billion dollars and are now larger than those of any other country, but at the same time the percentage of gold reserve against deposits has decreased. These conditions are not unusual in times of war, and to a certain extent they can not be prevented, but the banks of the country should make it their business to keep these tendencies under control and to prevent too rapid an expansion of credits as far as possible without placing in jeopardy the supreme object of our national effort—the winning of the war. We should realize that in the accomplishment of this purpose the conservation of our economic and financial strength is just as important as the augmentation of our military power, and that upon this conservation our military strength depends. There must be a conservation of credit as well as of goods, and credit, generally speaking, should not be used except where it is required for the common welfare, as in planting crops, the manufacture of necessary articles, the extension of transportation facilities, or in such construction work as may be essential in bringing about increased production. Limitation in ordinary lines of credit is necessary to make room for the credits required by the Government for the purchase of supplies essential for war purposes.

It must be expected that the war activities of the Government will bring about a further expansion of deposits and loans in banks, and in order to keep our credit structure strong it is necessary that the banks should exert their influence and lend their energies to a more general absorption of Government loans by savings, and to limitation of private credits wherever practicable without causing hardship. We must look to the future and prepare unceasingly for further demands which may be made upon us. The products of the fields, the forests, the mines, and the manufacturing establishments of the country are not, generally speaking, in the nature of luxuries. They can, as a rule, be classed as necessaries, and with the outlook ahead of us there seems to be no possibility of overproduction. It seems, therefore, that the banks of the country, from the standpoint of good business as well as from patriotism, should lend their funds and credits freely to those engaged in these productive enterprises, and their power to serve the country in this way will be increased by the curtailment of unnecessary credits and by the adoption by the people generally of a policy of common sense practical economy.

NEED OF COOPERATION.

The Federal Reserve act as amended last June provides that State banks admitted to membership may retain substantially all of their statutory and charter powers. Thus State-bank members are governed by their own State laws and remain under the supervision of their State banking departments. Their interest rates and the limitations upon their loans are determined entirely by State law. There are hundreds of good banks throughout the country not yet members, but which are eligible for membership, and it seems proper to refer here to a statement issued by the President of the United States on October 13 last in which he called attention to the fact that "the extent to which our country can withstand the financial strains for which we must be prepared will depend very largely upon the strength and staying power of the Federal Reserve banks," and in which he urged the importance of developing our banking power to the maximum degree and of providing financial machinery adequate for the very great financial requirements imposed upon our country by reason of the war. He pointed out that all banks should cooperate in strengthening the position of the Federal Reserve system, thereby strengthening the Nation's banking power, and urged upon every bank officer and director to consider the question of membership in the Federal Reserve system as a "solemn obligation."

Since the date of the President's statement the banking departments of nearly all of the States have expressed approval of membership in the Federal Reserve system on the part of the banks under their supervision, and the response of the banks has been most gratifying. However, the legal requirements in a number of States prohibit or militate against the cooperation of State banks and trust companies with the Federal Reserve system, making it impossible or impracticable for them to become members or to exchange their gold for Federal Reserve notes. The Board would suggest to the banks in these States that efforts be made to obtain such legislative action as may be necessary to enable them to cooperate with the system.

DISCOUNT RATES.

The discount rates of the Federal Reserve Banks have an important bearing upon the problems of Government financing and upon the condition of the banks of the country as a whole. Since the first adjustment of discount rates, effective shortly after the organization of the Federal Reserve Banks, changes have been comparatively infrequent and have been discussed in previous reports. At the beginning of the year 1917 money was in abundant supply and discount rates were low. The expectation of some that the entry of the United States into the war would cause an abrupt advance in rates was not realized. While market rates have advanced substantially, the process has been gradual, and there were no changes made in the rates of Federal Reserve Banks until the flotation of the first Liberty Loan was well under way. Then, in order to facilitate the disposal of the bonds, the Board indicated to the Federal Reserve Banks that it would be desirable to establish preferential rates in favor of notes secured by Government obligations. In the case of such paper, as with ordinary commercial paper, a distinction was made between short maturities and those running for a longer period. Accordingly, notes of member banks running not longer than 15 days and secured by Government obligations, were in general put upon a 3 per cent basis, while 90-day paper, secured in the same way, was given a rate of 3½ per cent, which rates were about one-half of 1 per cent below the rates fixed for ordinary commercial paper of the same maturities.

Because of the generous cooperation of many banks throughout the country in making advances to purchasers of Government bonds at the same rate of interest as that carried by the securities, these bond purchasers have had the full advantage of the facilities afforded by Federal Reserve Banks in the rediscount of their notes. A firmer tendency became apparent during the summer at some of the financial centers, and the 4 per cent rate borne by the second Liberty Loan (one-half per cent more than the first) suggested the desirability of a general advance of one-half of 1 per cent in Federal Reserve discount rates. As already stated, this advance has been made, but the differential in favor of paper secured by Government obligations is still maintained. The discount schedules have been consolidated and simplified by reducing the number of separate classifications.

In connection with the revision of rates, it was deemed proper to merge with the ordinary commercial rates the special rate which was made in the summer of 1915 for paper secured by warehouse receipts for staple and readily marketable products of a nonperishable character, known as commodity paper. The continuance of this rate, which had been made originally for the purpose of assisting the orderly marketing of crops in order to avoid speculation and violent fluctuations, had become unnecessary because of the great advance in the price of agricultural products, and because of the policy of price control adopted by the Government. Changed conditions made it desirable that these products should move steadily to market, and it seemed best in the circumstances not to encourage their unnecessary holding by producers or middle men. Complete tables showing these changes in discount rates, are appended to this report.

EFFECT OF THE AMENDMENTS OF JUNE 21.

The amendments to the Federal Reserve Act which became law on June 21 last, were most opportune, as they added greatly to the ability of the Federal Reserve system to assist in meeting the financial requirements of the Government, and to exercise a controlling influence in the money market, just at a time when much larger demands were being made upon it because of war financing. The amendments are substantially those recommended by the Board in its last annual report, and have brought about greatly increased holdings of gold in the Federal Reserve Banks, and more active cooperation on the part of State banks and trust companies, many of which, attracted by the more favorable conditions of membership, have now allied themselves with the system.

The process of issuing notes has been simplified by permitting their issuance against both gold alone and gold and eligible paper as security—the gold thus acquired being permitted to be counted as a part of the required gold reserve against notes. The effective gold holdings of the Federal Reserve Banks have thus been greatly augmented and their discount power commensurately increased, while the capacity of the system to adapt its operations more closely to the changing requirements of the public has been greatly enlarged.

As a result of these changes the Federal Reserve note will more *speedily* attain the position originally intended for it; from being an occasional emergency currency used to supplement deficiencies in the supply of other existing forms of currency, it is becoming the most important constituent of our circulating medium responding promptly and naturally to currency requirements from whatever source proceeding, thus promising to give to our whole currency a kind and degree of elasticity it has never before possessed. When issued against gold the Federal Reserve note virtually functions as a gold certificate, taking the place in the circulating medium of the amount of gold for which it was exchanged. When issued against commercial paper it has more of the character of bank credit currency. In times when trade is active and the country needs increased currency the Federal Reserve note will be issued in increasing degree against commercial paper as collateral. In times of slackening demand for currency, commercial paper will be withdrawn and gold deposited in its place to provide for the redemption of notes which have been issued to the member banks. While giving greater flexibility to the Federal Reserve note, the recent amendments have not changed its security, for, as provided in the original act, the Federal Reserve note remains covered by an equivalent value in gold, or gold plus commercial paper held in trust for the public by the Federal Reserve agent as the representative of the Government.

Amendments to the act have also changed the former reserve requirements for member banks by fixing them at 13 per cent, 10 per cent, and 7 per cent for central reserve city, reserve city, and country banks, respectively, and have, at the same time, strengthened the position of the Federal Reserve Banks themselves by requiring the maintenance with them of the member banks' entire reserves in collected funds, the amount and character of vault cash to be carried by a member bank being left to its discretion, as determined by actual needs. This change, together with the complete transfer of reserves prior to the expiration of the time limit set by the original act, involved the transfer of a large amount of actual money to the Federal Reserve Banks. The termination of the period when funds deposited with banks in reserve cities might be counted as reserve for country banks would not, for reasons explained in the Board's last annual report, have made necessary any material transfer in cash, but the new reserve requirements led to the shifting of about $250,000,000 and a corresponding increase in the cash holdings of Federal Reserve Banks.

Another amendment included in the act of June 21 permits nonmember banks to open, for exchange or collection purposes, accounts with Federal Reserve Banks, thereby availing themselves of the facilities of the check clearing and collection system. This change, at the outset, increased still further the cash holdings of the Federal Reserve Banks, as several large nonmember institutions opened accounts of this kind with Federal Reserve Banks. Most of these institutions have since become members of the system, so that the balances now carried by nonmember banks are relatively small, amounting on December 31 to $16,480,000. The gain in actual cash by Federal Reserve Banks, following the amendments, may be best demonstrated by a comparison of their condition on June 1 (three weeks before the amendments were adopted), with their condition on August 3. On the earlier date the gold and lawful money held by Federal Reserve Banks and by Federal Reserve agents amounted to $933,427,000, while on the latter date the total was $1,421,382,000, and for the same period the free gold—that is, the surplus over required reserves—increased $300,000,000.

MEMBERSHIP OF STATE BANKS.

Second only in importance to the change in the reserve and note issue provisions of the law must be reckoned the amendment to section 9, under which State banks and trust companies may become members of the Federal Reserve system and retain at the same time their full charter and statutory privileges. The law as originally enacted gave the Federal Reserve Board discretionary powers as to the conditions under which State banks and trust companies might become members of the Federal Reserve system. In formulating regulations for the admission of State institutions the Board had to choose between two policies. It could stipulate that State banks in becoming members should conform to the requirements made upon national banks, or else it could admit them upon conditions which would leave them undisturbed in the free exercise of their charter rights and privileges as far as might be consistent with conservative banking. The Board chose to adopt a liberal policy in dealing with the State banks and trust companies, while committing itself to the principle that greater powers should be given national banks in order that there might be, as far as practicable, a basis of equality between all member banks. The Board accordingly issued regulations which were liberal in their terms, both as to the admission of State banks as members and as to their rights to withdraw at their discretion. But there had always been a question in the minds of many as to the permanence of these regulations in the absence of definite statutory guaranties. The action of Congress in confirming what the Board had attempted to accomplish by regulation has given State banking institutions firm assurance that they may continue to carry on their lawful banking business in substantially the same way as they have heretofore done, without fear of future changes in methods prescribed, and it has given them in addition the definite right to withdraw from the system upon six months' notice, subject to conditions which they regard as reasonable.

The inducement to the State banks to become members of the system thus held out by the amendment to section 9 of the act was further strengthened by an opinion of the Attorney General of the United States rendered on September 10, in which he expressed the view that this amendment, in reserving to the State banks as members their full statutory and charter powers, released them from the restrictions of section 8 of the Clayton Act, as to interlocking directors, to which they had been previously held to be subject, in common with the national banks. Just at a time when the principal obstacles which had previously stood in the way of the enlargement of the system by State bank membership were thus overcome by statute and by authoritative legal interpretation, an additional incentive was given the State banks and trust companies to apply for membership in the system by reason of the rapid development of the Government's requirements in war financing, the patriotic desire to assist in meeting and supplying these needs, and an appreciation of the added safety to themselves resulting from membership. Compelling reasons for membership in the system from a patriotic standpoint were brought to the attention of all the banks in a strong statement by the President on October 13, to which reference has already been made. Under all these influences many of the strongest State banks and trust companies in the United States have filed their applications and have been admitted to membership. At the time of the passage of the amendatory act 53 State banks and trust companies were members of the system, but on December 31 membership had been increased to 250. The aggregate capital and surplus of the member State banks and trust companies was on that date $525,205,530 and aggregate resources of about $5,000,000,000, as compared with $78,491,165, and $825,000,000 on June 21. It is estimated that the membership of the Federal Reserve system represents at this time about 75 per cent of the total commercial banking assets of the country. Thus it is evident that substantial progress has been made toward the complete unification of our banking system.

A table showing the titles, dates of admission, capital and surplus, and aggregate resources of State bank members appears in the appendix.

CREDIT EXPANSION.

Great as is the admitted power of the Federal Reserve system, equipped with its new resources and supported by the greater part of the banking reserve of the country, there are, nevertheless, limits to its capacity. During the past year there have been, very naturally, some expressions of anxiety on the part of the financial community as to expansion of credits. The Board has fully recognized the dangers of overexpansion and has endeavored in every way not hurtful to war financing to prevent such a condition. The question as to how far expansion may drift toward the danger point, despite concentration and careful use of our banking resources, should be carefully considered in the development of a sound policy for the future. The following tabulation of combined statements of the 12 Federal Reserve Banks shows the changes in the reserve position of the Federal Reserve system during the year, the figures being as of December 30, 1916, March 30, June 29, August 3, November 2, and December 28, 1917, the four dates last named reflecting the changes directly attributable to the flotation of the Liberty loans:

Combined resources and liabilities of the Federal Reserve system.

[000 omitted.]

	Dec. 30, 1916.	Mar. 30, 1917.	June 29, 1917.	Aug. 3, 1917.	Nov. 2, 1917.	Dec. 28, 1917.
A.—RESOURCES.						
Gold coin and certificates in vault	$283,091	$374,903	$484,264	$399,785	$501,311	$499,917
Settlement fund	170,470	200,061	345,845	438,153	378,514	317,520
Gold with foreign agencies			52,362	52,500	52,500	52,500
Total gold held by banks	453,561	574,964	882,471	890,438	932,325	869,937
Gold with Federal Reserve agents	282,522	360,668	402,693	467,845	602,433	781,851
Gold-redemption fund	1,703	2,414	9,402	9,390	11,317	19,345
Total gold reserves	737,786	938,046	1,294,566	1,367,673	1,546,075	1,671,133
Legal tender notes, silver, etc	19,325	9,282	39,840	53,709	50,744	49,635
Total reserves	757,111	947,328	1,334,406	1,421,382	1,596,819	1,720,768
Bills discounted—members and Federal Reserve banks	28,552	20,106	197,242	130,948	503,965	680,706
Bills bought in open market	128,956	84,473	202,270	174,183	186,012	275,366
Total bills on hand	157,508	104,579	399,512	305,131	689,977	956,072
United States Government long-time securities	44,247	29,275	36,426	42,422	53,851	48,350
United States Government short-time securities	11,167	18,425	34,302	25,464	45,211	58,883
Municipal warrants	8,974	15,715	2,446	1,249	1,267	1,005
Loans on gold coin and bullion			21,850			
Total earning assets	221,896	167,994	494,536	374,266	790,306	1,064,310
Due from other Federal Reserve Banks, net	44,543	2,275	1,448	4,746	14,383	11,976
Uncollected items		132,759	221,705	197,058	317,901	301,067
Total deductions from gross deposits	44,543	135,034	223,153	201,804	332,284	313,043
Redemption fund against Federal Reserve bank notes	400	400	500	500	537	537
Other resources	6,544	5,393	799	492	1,588	2,813
Total resources	1,030,494	1,256,149	2,053,394	1,998,444	2,721,534	3,101,471
B.—LIABILITIES.						
Capital paid in	55,694	56,075	57,176	57,881	64,291	70,442
Government deposits	27,662	20,567	300,966	56,765	175,912	108,213
Due to members—reserve account		720,411	1,033,460	1,192,887	1,372,023	1,453,166
Member bank deposits, net	671,793					
Collection items		100,961	149,527	132,053	191,811	191,689
All other deposits, including foreign government credits			1,000	14,269	25,310	17,965
Total gross deposits	699,455	841,939	1,484,953	1,395,974	1,765,056	1,771,037
Net deposits	654,912	706,905	1,261,800	1,194,170	1,432,772	1,457,994
Federal Reserve notes in actual circulation	274,796	357,610	508,807	540,785	881,001	1,246,488
Federal Reserve Bank notes in circulation, net liability			934	2,828	8,000	8,000
All other liabilities	549	525	1,524	976	3,186	5,504
Total liabilities	1,030,494	1,256,149	2,053,394	1,998,444	2,721,534	3,101,471
Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined	79.4	88.1	73.2	78.9	66.8	61.8
Ratio of total reserves to net deposit and Federal Reserve note liabilities combined	81.4	89.0	75.4	81.9	69.0	63.6

From the foregoing it will be noted that the increase in the total invested funds grouped as bills discounted and bought, during the months intervening between the beginning and the close of the year 1917, is about $798,564,000. Of this sum, $515,143,000 is represented by purchase or discount of commercial paper, the remaining $283,-421,000 representing the discount by the banks of paper secured by Government obligations, for the purpose of enabling buyers of bonds and certificates to carry them during the period necessary for the liquidation of their own obligations thus incurred. The reduction in the reserve percentages of the Federal Reserve Banks against notes and deposits was most marked during the periods between March 30 and June 29 and between August 3 and November 2. During the month of July there was a notable strengthening of the reserve position, but a similar recovery subsequent to the closing of the second Liberty loan had not taken place up to December 31.

Taking the year as a whole, it will be noted that, although there has been a great increase in the total assets of the system, there has been a reduction of gold and lawful money reserves from 81.4 per cent at the beginning, to 63.6 per cent at the end of the year, but it should not be overlooked that the figures for December 28, 1917, represent the condition existing at a time when the process of distributing the second Liberty loan was still uncompleted. The question whether the final absorption by the ultimate investor of the second Liberty loan and the resulting financial adjustments would bring about as favorable a situation as that which existed at the closing of the first loan, is still an open one, but indications are that there will be a larger amount of bonds left in the hands of the banks and that a correspondingly greater volume of discounts secured by Government obligations may remain with the Federal Reserve Banks than was the case at the close of the first Liberty loan. The existing condition is susceptible of improvement and will be improved as the public performs its duty of absorbing the Government loans out of savings. The position of the banks with respect to credit expansion is indicated by the condensed statement of the deposits, loans, discounts, and investments of the national banks as reported to the Comptroller of the Currency on November 20, 1917, as compared with corresponding figures on December 31, 1914; November 10, 1915, and November 17, 1916.

[In thousands of dollars; 000 omitted.]

	Dec. 31, 1914.	Nov. 10, 1915.	Nov. 17, 1916.	Nov. 20, 1917.
Deposits, net, on which reserve is computed.	6,668,325	8,256,662	9,976,980	10,348,800
Loans and discounts, including overdrafts.	6,363,435	7,241,140	8,355,101	9,550,571
United States bonds	791,995	777,765	724,473	[2] 2,354,183
Other stocks, bonds, and securities [1]	1,313,787	1,343,822	1,747,794	1,949,619

[1] Exclusive of Federal Reserve Bank stock.
[2] Includes United States certificates of indebtedness and payments on account of subscriptions for Liberty loan bonds.

It is proper to point out that while, during the year 1917, there has been a lessening of the fluidity and immediate availability of the country's banking resources, the change is not surprising when there is considered the extent of the requirements which have been made upon our banking system. It is evident also, from an analysis of the figures, that the decrease in reserve strength is attributable only in a minor degree to normal commercial discounts and that it is mainly the result of Government financing and the consequent demands upon our resources.

What effect the credit expansion which has taken place in the United States during the past year and the years preceding—since the beginning of the European war—may have exerted on prices should not pass unnoted. Wholesale prices are estimated by the Bureau of Labor Statistics to have advanced during the year 1917 by about 24 per cent, which may be compared with an estimated advance of 47 per cent from July, 1914, to December 31, 1916. Retail prices of principal articles of food are shown by the same office to have risen 23 per cent between July 15, 1914, and December 15, 1916, and 24 per cent between the latter date and December 15, 1917. The fact that there has been a rise of the general price level is incontestable. Indeed, it has recently become the subject of general observation and comment. There is, however, difference of opinion as to the precise degree of influence to be attributed to the several factors which have produced the result. The entire world is passing through a period of profound economic disturbance. In many of the richest producing countries a large part of the able-bodied population has been withdrawn from productive employment for service in the Army. Industry has suffered much dislocation and disorganization. Overseas trade has been suspended or interrupted. There has been much destruction of industrial capital and an enormous consumption of products by the armies. Inevitably, such a condition, involving either an absolute or relative shortage of many primary materials and necessaries, must have advanced values and prices to a very appreciable extent, even had there been no considerable change in the volume of credit and currency.

In thus stating the influence upon prices of unprecedented industrial conditions the Board would not, however, convey the impression that it does not appreciate to its full importance the effect on recent price movements of the rapid and abnormal growth of the volume of credit created by all the warring nations. Indeed, so alive is the Board to the dangers that attend this phenomenon that it regards it as one of its most important duties to prevent, as far as practicable, expansion of banking credit from running an uncontrolled course.

Banking expansion, it may be admitted, is an unavoidable incident of war finance, but every effort should nevertheless be made to counteract it as far as possible by limiting banking credit not clearly needed for the purpose of producing or carrying goods necessary for the life of a Nation at war. Goods and credit must be saved to the utmost of our ability in order to check the upward movement of prices and in order to free for the use of the Government the goods and savings required for the winning of the war.

To encourage and to foster necessary business and to discourage and curtail unnecessary business must be our national endeavor, and will require the intelligent and zealous cooperation of the banking community. The problem of exercising an effective and proper control over credit involved in the public offering of securities does not present great difficulty. An effective and proper control over individual credits no doubt offers greater, though not insurmountable, difficulties. How to accomplish these results without bringing about unnecessary hardship or acute disturbance or injustice is a matter that will receive the close study and attention of the Federal Reserve Board.

PRIVATE AND CORPORATE FINANCING.

A feature of the banking and financial situation which has been developing during the past year, and to which the attention of the Board has been frequently directed, is the position of firms and private corporations having short-term obligations maturing in the near future, and which have been accustomed to procure accommodations upon terms not now obtainable. The action of the President in taking control of the railroads and the plans outlined by him for maintaining their revenues and their credit have disposed for the present of a most serious financial problem, but there remains to be considered the question of meeting the requirements of many corporations heretofore accustomed to appeal to the securities market for the purpose of providing themselves with necessary capital. The effect of the Government's borrowing on a very large scale has been to withdraw from the market a large proportion of the funds normally available for other short term or long term loans.

The adverse influence thus exerted upon the loan and investment market is necessarily incidental to heavy Government operations of this kind. The resulting situation is more or less disturbing to all who have been accustomed to resort to banks for loans on collateral, but it is particularly distressing to the larger borrowers who rely upon the securities market. The situation has been further complicated by the continuous return of our securities from Europe, and by a comparatively large volume of obligations of foreign Governments carried by member and nonmember banks, resulting in a diminution of their percentage of liquid assets. These conditions are reflected in the requests which the Board has for some time past been receiving from many quarters that the rediscount privilege be extended to paper of a character and form which had never been regarded as eligible. Perhaps the most urgent appeal of this kind has been that the Board permit Federal Reserve Banks to discount notes which have been placed upon the market under an agreement between the borrowers and their bankers, providing for a considerable number of successive renewals, the advances having been made to the borrowers for a definite term of years. Had the Board permitted such paper to be rediscounted, Federal Reserve Banks would in a short time have been burdened with paper which the makers did not expect to liquidate at maturity. The discount of paper based upon such an agreement for repeated renewals is not consistent with the underlying principles of the Federal Reserve Act, and the Board had no hesitation in stating that it did not regard paper subject to such agreements as a proper investment for Federal Reserve Banks. The Board's attitude does not imply any question of the legitimacy of the purpose for which the funds were desired, or of the inherent soundness of the paper itself, but rather that such transactions are not of a kind which Federal Reserve Banks ought to facilitate, as they should never overlook their obligation to preserve the genuine and liquid character of their assets.

Other propositions of a somewhat similar character were submitted to the Board for consideration, and their significance is that there is pressure on the part of commercial and manufacturing enterprises to gain access to the rediscount facilities of the Federal Reserve Banks and use the system to supply funds which, properly or in normal circumstances, should be provided by the securities market. The policy of the Board, however, has invariably been to interpret and apply the law in accordance with its manifest intent and underlying principles, with the end in view always of safeguarding and maintaining the liquid character of the assets of the Federal Reserve Banks. This duty, always present, has become imperative because of the fact that the entire reserves of the member banks, so far as based upon legal requirements, are now, by the act of June 21, 1917, carried on the books of the Federal Reserve Banks. Upon these banks and upon the Federal Reserve Board, therefore, falls the responsibility for the maintenance of a liquid condition, and upon them will justly fall censure for any unauthorized use of these reserve funds which are held under a trusteeship of the highest character.

Therefore, in no circumstances, can the Board admit the eligibility of paper, by whomsoever made, which in its essential character fails to conform to sound banking principles and to the provisions of the Federal Reserve Act. In making this statement of its attitude, however, the Board does not ignore or overlook the very serious problems which now confront private enterprises in providing for their financial requirements both as to new money and maturing obligations.

Reference has already been made to the position of the savings banks and investment institutions in general. Undoubtedly some effective measure, not so much of actual relief as of organization to afford relief if required, is desirable, and if made available will be of great benefit to the banking situation.

The resulting problem is one which does not come within the scope of the Federal Reserve system, but it is nevertheless one to which the Board can not be indifferent, because, until some satisfactory solution is found, it will be under pressure to sanction practices and to make rulings designed to open the resources of the system to uses manifestly foreign to the intent of the act. The Board therefore respectfully suggests early consideration by Congress of the problem of corporate financing in the belief that no satisfactory solution will be found that does not involve some degree of governmental intervention. The Board is of the opinion that some plan for governmental intervention or aid can be worked out which would meet the requirements of the situation satisfactorily.

CONSERVATION OF GOLD.

As a result of the entry of the country into the war and of the large credits given the allied Governments there was an almost complete cessation of the movement of gold to this country which had been continuous since the early months of the year 1915. In fact, the movement had begun to slacken as early as November, 1916. Foreign Governments had found it convenient to liquidate their obligations due in other countries by purchasing remittances in our own markets, frequently against credits opened by our banks or by our Government. The aggregate trade balance has continued in favor of this country, even though balances are against it in some cases. During the second quarter of the year there developed a strong tendency to withdraw gold by those neutrals whose supplies of raw materials had been drawn upon by our own Government and by other Governments associated with us in the war, and during the months of June, July, and August, our net loss of gold amounted to about $100,000,000. The movement of gold having already been restricted in all of the belligerent countries, demands for it in settling international accounts, in adjusting exchange rates, and in strengthening reserves, were naturally made in our own markets.

As the movement began to assume larger proportions, the President, on September 7, issued a proclamation to the effect that—

"except at such time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress, the following articles, namely: Coin, bullion, and currency shall not, on and after the 10th day of September, in the year 1917, be exported from or shipped from or taken out of the United States or its territorial possessions * * *."

By Executive order of the same date the President directed that—

"1. Any individual, firm, or corporation desiring to export from the United States or any of its territorial possessions to any foreign country named in the proclamation dated September 7, 1917, any coin, bullion, or currency, shall first file an application in triplicate with the Federal reserve bank of the district in which such individual, firm, or corporation is located, such application to state under oath and in detail the nature of the transaction, the amount involved, the parties directly and indirectly interested, and such other information as may be of assistance to the proper authorities in determining whether the exportation for which a license is desired will be compatible with the public interest.

"2. Each Federal reserve bank shall keep a record copy of each application filed with it under the provisions of this regulation and shall forward the original application and a duplicate to the Federal Reserve Board at Washington together with such information or suggestions as it may believe proper in the circumstances and shall in addition make a formal recommendation as to whether or not in its opinion the exportation should be permitted.

"3. The Federal Reserve Board, subject to the approval of the Secretary of the Treasury, is hereby authorized and empowered upon receipt of such application and the recommendation of the Federal reserve bank, to make such ruling as it may deem proper in the circumstances and if in its opinion the exportation in question be compatible with the public interest, to permit said exportation to be made; otherwise to refuse it."

In pursuance of this order the Federal Reserve Board, with the approval of the Secretary of the Treasury, issued regulations governing the administrative procedure with regard to the exportation of coin, bullion, and currency,[1] and now considers and passes upon all applications for such shipments.

Applications for permission to ship gold to European neutral countries have, except for a few days following the date of the order, been invariably declined. A different problem, however, presented itself in the case of applications for shipments of gold to the Orient, to Canada, to Mexico, and to South American countries, which had been furnishing necessary raw materials. It was

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[1] See page 183.

deemed important to continue these trade relationships, while reducing shipments of gold to a minimum. For a short time gold shipments were permitted to go to India, in order to give importers reasonable time to adjust themselves to the new conditions. Silver has been permitted to flow freely to the Orient as a means of payment for Asiatic balances. In addition, as a result of negotiations between the Treasury Department and representatives of the Indian Government, provision has been made for rupee exchange to the extent of 10,000,000 rupees, which were allotted by Federal Reserve Banks to importers according to their necessities.[1] In a few cases shipments of gold are being permitted to South American countries, although it is hoped that arrangements can be concluded at an early date which will facilitate exchanges with these countries and obviate the necessity of making further gold shipments in any considerable volume.

Applications for shipments of gold into Mexico have been granted only for Government account and in cases where such shipments have been shown to be necessary to effect the importation into the United States of necessary products. The exportations have been limited, as far as possible, and the greater part of the gold which has been shipped has been applied to the payment of Mexican export duties and to meeting the requirements of Mexican law as to the return into Mexico of the value of the full gold content and 25 per cent of silver content of ores and bullion exported from Mexico. Each application has been considered upon its own merits, the Board having given notice in its regulations dated September 21, 1917, that the granting of any specific application would not constitute a precedent. In considering applications the Board has adhered strictly to the principle laid down in the Executive order that if, in its opinion, the exportation applied for was not compatible with the public interest it should be refused, and has acted also in close cooperation with the State and Treasury Departments and the War Trade Board.

Foreign exchange rates have been abnormal throughout the year, and in many of the countries which send us necessary material, American bills are at a heavy discount due partly to the restrictions placed on our export trade and partly to the adverse trade balances of countries associated with us in the war. The Board is making a close study of our trade relationships with neutral countries and has secured the services of Mr. Frederick I. Kent, of New York, as its foreign exchange adviser.

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[1] Later an additional credit of 10,000,000 rupees was arranged, and since Jan. 1, 1918, an exchange agreement with the Government of Argentina was entered into.

CLEARING AND COLLECTION.

The volume of checks handled by the Federal Reserve Banks during the year has increased enormously, although there have been no great additions to the number of nonmember banks which remit at par to Federal Reserve Banks. Section 13 of the act was amended last June as recommended by the Board, so as to allow Federal Reserve Banks to receive accounts for collection and exchange purposes from such nonmember banks and trust companies as may agree to remit to Federal Reserve Banks at par for checks drawn upon themselves and which will, in addition, maintain balances with the Federal Reserve Bank sufficient to offset the items in transit held for their account by the Federal Reserve Bank. Comparatively few nonmember banks have, however, availed themselves of this privilege, and the Federal Reserve Banks are still unable to collect checks drawn on many nonmember banks except at heavy expense. An effort was made, in the interest of some member and nonmember banks to amend the act by providing for a standardized exchange charge not to exceed one-tenth of 1 per cent, to be made by member banks against Federal Reserve Banks for checks sent for collection. It was not successful, and the act as finally amended provides that a member or nonmember bank may make "reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per hundred dollars or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks." The Attorney General has been requested to give his opinion as to whether this proviso applies to nonmember banks. An affirmative opinion will make possible the establishment of an universal par clearing system, but if, on the contrary, it should be held that the proviso applies to member banks only, the further development of the collection system will necessarily be slow, and in the absence of further legislation will depend upon the voluntary action of many small banks.

In order to enlarge the facilities of the clearing and collection system, and to render greater service to the banks and to their customers, the Board authorized the Federal Reserve Banks on July 1 to receive for collection for account of member banks maturing notes and bills and miscellaneous drafts, subject to a moderate collection charge. Consequently, member banks which were obliged to rely upon other banks for service of this sort can now obtain it from the Federal Reserve Banks. There has also been put into operation by all Federal Reserve Banks a system of transfer drafts, which enables any member bank to have its draft drawn upon the Federal Reserve

Bank of its own district paid immediately without time allowance or deduction at any other Federal Reserve Bank, adjustments between the respective Federal Reserve Banks being made through the gold-settlement fund. In this way any member bank has, under the proper and necessary restrictions provided, the same exchange facilities it would have by carrying accounts in each of the 12 Federal Reserve cities.

GOLD-SETTLEMENT FUND.

The operation of this fund has been described in former reports of the Board and no extended comments upon it seem necessary at this time. Under the act as amended additional safeguards have been thrown around the fund by permitting the Treasurer of the United States to carry a special account upon his books to the credit of the Federal Reserve Board as agent for the respective Federal Reserve Banks and Federal Reserve agents. Payments are now made by checks signed by officials of the Board. The practice of issuing gold-order certificates in denominations of $10,000, representing gold deposited with the Treasurer by Federal Reserve Banks, which were held in the custody of the Federal Reserve Board pending transfers between the banks and the Treasury, is no longer necessary and has been discontinued.

The operation of this fund, which is in effect a clearing house for the 12 Federal Reserve Banks, has been particularly useful during the past year by reason of the continuous transfers of very large amounts which have grown out of the sale of Government bonds and Treasury certificates and the redistribution and disbursement of the funds realized. The total volume of clearings and transfers through the gold-settlement fund during the year amounted to $26,962,946,500, as compared with $5,757,836,000 during 1916. The net balances, representing the change of ownership between the Federal Reserve Banks, of gold held in the fund were $272,033,000. Without such an arrangement actual settlements between Federal Reserve Banks would have been accompanied with great expense and loss of time, but by its aid these enormous transfers have been automatic and instantaneous and have been made without the inconvenience and expense which would have been unavoidable had physical transfers or shipments of money been necessary.

BRANCHES OF FEDERAL RESERVE BANKS.

Questions relating to the establishment and operation of branch banks have been simplified by the amendment to section 3 of the Federal Reserve Act. As originally enacted, this section provided that each Federal Reserve Bank "shall establish branch banks" to be "operated by a board of directors under rules and regulations approved by the Federal Reserve Board," and provided also that there be seven directors having the same qualifications as directors of Federal Reserve Banks. The section as now amended provides that the Federal Reserve Board may permit or require any Federal Reserve Bank to establish branches within its district, and that such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven or less than three directors, of whom a majority of one shall be appointed by the Federal Reserve Bank of the district and the remaining directors by the Federal Reserve Board.

During the year branches have been established at Omaha by the Federal Reserve Bank of Kansas City, at Louisville by the Federal Reserve Bank of St. Louis, and at Portland, Seattle, and Spokane, by the Federal Reserve Bank of San Francisco, and are now in operation. The Board has, in addition, authorized the establishment of branches at Pittsburgh and Cincinnati by the Federal Reserve Bank of Cleveland, at Detroit by the Federal Reserve Bank of Chicago, at Baltimore by the Federal Reserve Bank of Richmond, and at Denver by the Federal Reserve Bank of Kansas City. It is expected that all of these branches will begin business at an early date.

The policy of the Board in the establishment of these new branches has been to recognize the unity and paramount responsibility of the Federal Reserve Bank, while extending full facilities to the banks in the territory served by the branch. By avoiding duplications in bookkeeping, and by a consolidated control of accounts at the Federal Reserve Bank, it is expected that branches can be operated at a comparatively small expense.

INTERLOCKING DIRECTORATES.

In its report for the year 1916 the Board gave full details of its work in the application of the provisions of section 8 of the Clayton Act and the Kern amendment thereto. Under authority of the Kern amendment 186 officers or directors of member banks applied to the Board during the year 1917 for its permission to serve at the same time as officers or directors of not more than two other banks or trust companies, coming within the prohibitions of the Clayton Act. In one case the permission applied for was refused on the ground that the banks involved were deemed to be in substantial competition. In three cases, where the applying member-bank director desired the permission of the Federal Reserve Board to serve as a director of two other institutions, the Board determined that substantial competition existed between the member bank and one of the other institutions. As a result it gave its consent to the applying director to serve on only one of those other institutions. In the remaining 182 cases the consent applied for was granted by the Board. In its annual report for 1916 the Board noted that "in a large number of other cases the directors affected recognized that substantial competition did unquestionably exist, and so withdrew voluntarily from one or more directorates, thereby bringing themselves into compliance with the act." This was doubtless true in 1917, as in the preceding year.

FIDUCIARY POWERS.

On June 11, 1917, the Supreme Court of the United States handed down its decision in the case of Bank *v.* Fellows,[1] appealed from the Supreme Court of Michigan, which was referred to in the Board's last annual report to Congress. The lower court was reversed and the court sustained the constitutionality of section 11 (k) of the Federal Reserve Act, which authorizes the Federal Reserve Board "to grant by special permit to national banks applying therefor when not in contravention of State or local law the right to act as trustee, executor, administrator, and registrar of stocks and bonds under such rules and regulations as the said Board may prescribe." The decision in this case is of far-reaching and vital importance to the Federal Reserve system, in that it not only sustains the right of Congress to vest in national banks the powers enumerated in section 11 (k), but fully recognizes the right of Congress to grant to such banks any and all powers that are necessary to enable them to meet the competition of corporations organized under State law.

Prior to this decision the Federal Reserve Board had granted permits to applicant banks except in those cases where the laws of the State in which the bank was located expressly or by necessary implication prohibited such banks from exercising these powers. The language of the court, in the decision handed down on June 11, seemed to be susceptible of the interpretation that these permits might be granted in any case in which the State laws permitted competing banks to exercise such powers. In view of its importance the matter was referred to the Attorney General, who reached the conclusion that while Congress is fully empowered to authorize the Board to grant permits under such circumstances, the act as it now stands does not vest this authority in the Board. There are some States which authorize banks or trust companies created and organized under their own laws to exercise such powers but which expressly prohibit any other corporations from doing so. In order to coordinate the powers

[1] First National Bank of Bay City *v.* Grant Fellows, attorney general, and others.

of National with State banks it is recommended that section 11 (k) be amended so as to permit the granting of these powers to national banks in any case in which competing corporations organized under State laws are permitted to exercise such powers.

By direction of the Board its counsel, with the consent of the court, took part in the proceedings both in the Supreme Court of Michigan and on appeal before the Supreme Court of the United States. The Board has granted during the year 1917, 112 permits for the exercise of fiduciary powers, making a total to date of 481.

EARNINGS AND EXPENSES.

The rediscount demands which have been made upon the Federal Reserve Banks during the past year, and the greater employment of their funds, have been reflected in very greatly increased earnings. The combined net earnings of the 12 banks for the year were $11,202,993, or at the rate of 18.9 per cent on an average aggregate capital for the year of $59,260,000.

Section 7 of the Act provides that "after all necessary expenses of a Federal Reserve Bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per cent on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, all the net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to 40 per cent of the paid-in capital stock of such bank."

The Board construes the foregoing as meaning that no contingent fund may be set up against future expenditures or as a reserve for unforeseen losses, but that the surplus fund, which under the law can accumulate until it reaches 40 per cent of the capital of the Federal Reserve Bank, is intended to take care of all such contingencies as ordinarily would be provided for by a profit-and-loss account. The Board has advised the banks that in computing earnings available for dividends and surplus market values of securities held should be taken into account. It has also permitted banks to charge off furniture and fixtures accounts in full, and a reasonable proportion of the cost of vaults. It has authorized the writing off of the amounts actually paid for the printing of Federal Reserve notes, whether the notes have been put in circulation by the bank or held by the Federal Reserve Agent. It has also authorized those banks which own their premises to write off 5 per cent of the total cost per annum as a depreciation allowance. The gross and net earnings of all the banks for the calendar year 1917, and the divi-

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dends declared by them during 1917, are shown in the following table:

Federal reserve bank.	Gross earnings.	Net earnings.	Amount of dividends.	Fully paid to—
Boston	$1,198,009	$912,294	$597,829	Dec. 31, 1917
New York	4,848,291	3,718,955	1,941,641	Do.
Philadelphia	1,015,958	753,874	622,150	June 30, 1917
Cleveland	1,297,244	963,152	715,615	Do.
Richmond	770,009	512,223	240,945	Dec. 31, 1917
Atlanta	541,823	327,313	215,972	Do.
Chicago	2,022,278	1,509,871	860,057	Do.
St. Louis	736,774	502,156	284,566	Dec. 31, 1916
Minneapolis	628,338	418,137	363,876	Dec. 31, 1917
Kansas City	955,950	684,499	360,236	June 30, 1917
Dallas	569,430	353,475	187,744	Do.
San Francisco	854,755	547,044	394,490	Dec. 31, 1916
Total	15,838,859	11,202,993	[1] 6,785,121	

[1] Exclusive of $16,603, representing dividends paid on surrendered stock and miscellaneous adjustments in dividend account.

It will be seen from the foregoing that the Federal Reserve Banks of St. Louis and San Francisco have paid their accumulated dividends up to December 31, 1916, that four others—the Federal Reserve Banks of Philadelphia, Kansas City, Cleveland, and Dallas—have paid their accumulated dividends up to June 30, 1917, and that six banks, viz, those of Boston, New York, Richmond, Atlanta, Chicago, and Minneapolis, have paid all accumulated dividends to the end of 1917. These six banks, after charging off their expenses and making the depreciation allowances, which have been previously described, have set aside surplus funds and have paid equal amounts to the Government as a franchise tax, making the total payment to the Government $1,134,234.

The Board wishes to repeat the statements made in previous reports that the banks are not operated primarily for profit, but in meeting the demands which are expected to be made upon them during the coming year their earnings will undoubtedly continue to be large. It is hoped that all accumulated dividends will be paid during the year, and that the excess to be paid to the Government as a franchise tax in future will be greater than the payment which has just been made.

ADMINISTRATIVE POLICIES.

During the period of organization and of development which extended over the first two years of the operation of the system, the Board deemed it advantageous to obtain frequent suggestions from the officials of the Federal Reserve Banks, and to have them confer with each other in order that definite understandings might be reached and uniform methods of operation determined upon. Many of the problems which had to be worked out were entirely new, and because of widely different conditions in the various districts frequent consultations seemed necessary to insure a better knowledge of administrative details. Thus periodical conferences with the Federal Reserve agents and with the governors of the banks were deemed advisable in order to secure more speedily an effective organization. The banks had, however, by the end of the year 1916 become well established and, having had two years of actual experience to guide them in the future conduct of their business, frequent conferences were found to be no longer necessary. Moreover, the activities of the year have been so great as to require the constant presence of the executive officers at their banks. There have in consequence been no meetings of the Federal Reserve agents during the year, and but two meetings of the Board with the governors of the banks. The events of the past year have done much to bring into their proper relationship as parts of a working whole the several component elements of the Federal Reserve system. Experience has demonstrated that in all vital matters of general policy calling for prompt and decisive action concentration of responsibility without division of authority is indispensable. The position of the Federal Reserve Board, as the coordinating agency for all of the 12 banks and as the governing body of the Federal Reserve system, is now well defined and the line of distinction between the local management of each one of the 12 banks as a district bank, and the operation of all of the 12 banks as a system, has become more marked.

The Board has, from time to time, advised purchases of acceptances by Federal Reserve Banks from each other, and on two occasions during the year has exercised its powers of requiring Federal Reserve Banks to make rediscounts for other Federal Reserve Banks as provided in section 11 of the act.

It is the policy of the Board to maintain an approximately uniform reserve position for all of the Federal Reserve Banks and to correct wherever necessary, by means of interbank rediscounts, the inequalities which result from seasonal movements of trade, or, more particularly, from the operations of Government financing.

FEDERAL ADVISORY COUNCIL.

The Federal Advisory Council, composed of 12 members, chosen by and representative of the Federal Reserve Banks, has held, in conformity with the requirements of section 4 of the Act, four meetings during the year, thus giving the Board, at frequent intervals, the benefit of its views as to the trend of the money market and the proper adjustment of discount rates. Members of the council have reported also upon the general financial, agricultural, commercial, and industrial conditions in their respective districts.

RESERVE CITIES.

The Federal Reserve Act confers authority upon the Federal Reserve Board to add to the number of cities classified as reserve and central reserve cities, or to reclassify existing reserve and central reserve cities, or to terminate their designation as such. As the reserves of member banks are now carried exclusively with the Federal Reserve Banks, the designation of any city as a reserve city relates only to the percentage of reserve which must be carried by the member banks located therein. The Board has retained the old classification of central reserve and reserve cities and has also designated as reserve cities, making the banks therein subject to increased reserve requirements, the cities of Buffalo, N. Y.; Grand Rapids, Mich.; Memphis, Tenn.; Oakland, Cal.; Ogden, Utah; Peoria, Ill.; Toledo, Ohio; and Tulsa, Okla. Without this classification the banks in those cities would have continued to carry the reserve prescribed for country banks—7 per cent—and the Board deemed it equitable to bring their reserves up to the requirements of other cities of their class. The three central reserve cities under the old national banking laws—New York, Chicago, and St. Louis—have been continued in that classification, and the member banks of those cities are required to carry the maximum reserve of 13 per cent. Philadelphia and Boston, although important banking centers, each having a greater population than the city of St. Louis, continue to be classified as reserve cities, and reserves of 10 per cent only are required of the banks located therein. It is difficult to make an equitable and uniform adjustment of reserves under the present law, and the Board is making a careful study of the subject, with the view of considering a recommendation to Congress at a later date of a change in the law which would provide for a differential in reserves to be carried in all towns and cities alike upon certain classes of deposits, with a minimum for time deposits, a maximum for bank deposits, and an intermediate percentage for individual or commercial deposits subject to check. This is a matter, however, which will require careful study and analysis, and the Board is not prepared at the moment to make a recommendation for a change of the law in this respect.

The Board desires, however, to call attention to the situation of many banks located in outlying districts of larger cities, or in boroughs, formerly independent municipalities, which are now parts of a greater city. The business of these banks is often local, and it is suggested that Congress authorize the Board to classify banks in outlying districts of large cities as though they were located in independent municipalities.

OTHER AMENDMENTS SUGGESTED.

The Board sees no occasion at this time to recommend any material changes in the act. It would suggest, however, the following for the consideration of Congress:

(1) An amendment of section 4 relating to the election of directors. The law provides that the member banks shall be classified into three general groups or divisions, each group to contain as nearly as may be one-third of the aggregate number of member banks of the district and to consist as nearly as possible of banks of similar capitalization, and that each member bank shall elect by ballot a district reserve elector, and it provides also that each director shall signify his first, second, and third choice, the second and third choice votes being counted in cases where no candidate has received a majority of first-choice votes.

This system, which is designed to secure a representative board of directors, is complicated and has resulted in many cases in the choice of directors by a very small minority of the banks. Most of the banks since 1914 have neglected to choose district electors, and there seems to be no reason why the directors of each bank should not be permitted to authorize the president or cashier to cast the vote of the bank. The Board has ruled that electors once chosen may continue to serve until their successors are elected, but since the first year the banks have not as a rule participated fully in these elections. In the election held in December, 1917, by the various groups in the respective districts in nearly every case less than one-half of the banks participated. In the New York district 84 votes were cast out of a total of 224 in the group; in the Richmond district, 72 out of 172; in the Atlanta district, 66 out of 140; in the Chicago district, 86 out of 360; in the St. Louis district 35 out of 162; in the Minneapolis district, 45 out of 283; in the Dallas district, 15 out of 201; in the San Francisco district, 71 out of 178; and in one instance the successful candidate was chosen by 15 votes out of a possible total of 201, and in another by 26 votes out of 162.

The Board would suggest, in order to simplify elections, that this section be amended by permitting each member bank, through its president or cashier, to cast a vote for director, and that there be no requirement that the groups be as nearly equal numerically as may be, but that the grouping be left to the discretion of the Federal Reserve Board. The average capitalization of the banks differs so greatly in the various districts that it is impossible to carry out the evident intent of Congress to give the large banks, the medium-size banks, and the small banks equal representation unless the banks can be grouped more strictly with reference to their capitalization than is possible under the law as it now stands.

(2) An amendment of section 16, which now permits Federal Reserve notes to be issued in denominations of $5, $10, $20, $50, and $100 only, so as to permit their issue in the larger denominations of $500, $1,000, $5,000, and $10,000. It is thought that such an amendment would tend to increase the gold holdings of the Federal Reserve Banks, particularly those in the larger financial centers. The Federal Reserve Banks receive gold at the present time chiefly from two sources—by registered mail or express from National or State banks, and over the counter in cases where new currency in convenient denominations is required for pay rolls or for other purposes. All avenues for loss of gold are now under control, except direct withdrawals over the counter, and an analysis of counter transactions at some of the Federal Reserve Banks discloses the fact that from $100,000 to $1,000,000 of gold certificates are paid out every business day mainly because many member banks prefer to keep as part of their vault money notes of large denominations, which can now be furnished only in the form of gold certificates.

(3) An amendment of section 22. This is a penal section, not altogether definite in its terms, and the Board is constantly receiving requests for an authoritative construction. It has, however, uniformly adhered to the position that a section of this character can be construed only by the courts, and has declined in all cases to express any opinion as to the liability which might be incurred by any bank which acted upon an incorrect interpretation. As amended on June 21 this section permits transactions relating to the discount of notes, drafts, or bills of exchange by a director with his own bank, upon the affirmative vote or written consent of at least a majority of the board of directors of the bank; but there are other transactions, such as the purchase by directors of goods or property taken by the bank for debt, which might in some circumstances be permitted by affirmative vote of not less than three-fourths of its directors. There may be times when a bank can best save itself from loss by being permitted to have a transaction of this kind with one of its own directors.

(4) An amendment of section 25 to provide for the Federal incorporation of banking associations whose stock is owned by national banks which operate under the control of the Federal Reserve Banks and which are engaged solely in international and foreign banking. The present law permits any national bank to invest an amount not exceeding in the aggregate 10 per cent of its paid in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the

United States. This language appears to indicate an intention by Congress to permit incorporation under the laws of the United States, and several national banks have become stockholders in banks which have been organized under State laws for the purpose of carrying on a foreign banking business in accordance with the terms of this section. The arguments in favor of Federal incorporation are:

(*a*) The time will probably come when the conflict of the dual control exercised by the Federal Reserve Board and by the banking department of a State may be a matter of embarrassment or operate to restrict the activities of the banking corporation.

(*b*) Such a banking corporation, being essentially a national enterprise, whose stock ownership by national banks was authorized by an act of Congress, would appear to be entitled to the benefits and protection of a Federal charter, which would be of great value in competing for business in foreign countries.

(5) An amendment of sections 5208 and 5209 of the Revised Statutes. These are penal sections relating to the overcertification of checks, to embezzlement, abstraction or willful misapplication of moneys, funds, or credits of national banks by officers, directors, agents, or employees of national banks, and to false entries in books, reports, or statements of national banks with intent to injure or defraud on the part of any officer, director, agent, or employee of a national bank. It is suggested that these sections be amended so as to apply to similar acts committed by officers, directors, agents, or employees of Federal Reserve Banks.

(6) An amendment of section 25 to provide that any national bank located in a city or incorporated town of more than 100,000 inhabitants, and possessing a capital and surplus of $1,000,000 or more, may, under such rules and regulations as the Federal Reserve Board may prescribe, establish branches, not to exceed 10 in number, within the corporate limits of the city or town in which it is located, provided that no such branch shall be established in any State in which neither State banks nor trust companies may lawfully establish branches.

State banks which become members of the Federal Reserve system are allowed by law to retain any branches which may already be in existence and, with the approval of the Board, to establish new branches. National banks which have taken over State banks having branches are permitted to continue the operation of these branches. There seems to be no reason for such discrimination between members of the Federal Reserve system, and with the view of placing them more nearly upon terms of equality, besides affording in many cases better service to the public, it is recommended that provision be made for the establishment of branches by national banks, under proper limitations.

ORGANIZATION, STAFF, AND EXPENDITURES.

There have been no changes in the organization of the Board during the past year. The growth of the system and the expansion of the work of the Board have required some additions to its clerical and examining force. There have been some minor changes due mainly to the fact that several of the Board's staff have engaged in military service, but the Board has thus far been able to fill their places satisfactorily. There are now 76 persons on the staff of the Board. The total cost of conducting its work during the year 1917, including printing of the Bulletin and salaries of members, was $249,302,220. Two assessments totaling $237,776.82 were levied upon the Federal Reserve Banks for the year 1917. This amounts to 0.4 per cent of their average paid-in capital for the year. The cost of operating the gold-settlement fund for the year 1917 was $3,539.79, as compared with $1,343.37 in 1916, the net cost being 0.013 cents per $1,000, as against 0.025 cents the previous year.

Further details relating to the operation of the Federal Reserve Board and of the system will appear as exhibits in the appendix of this report, as will the annual reports of the Federal Reserve agents.

CONCLUSION.

The Federal Reserve system is to-day the ultimate resource of the business and financial community, and its position as such is unquestioned. It is the Nation's banking reserve and through its control of discount rates its influence in the money market is paramount. The Federal Reserve Board, as the governing body of the system, is charged with the responsibility of so administering it as most effectively to aid the Government in its financial operations, while at the same time assuring beyond peradventure the maintenance of sound and solvent banking conditions. Every step taken and every policy decided upon must be with the view not only of maintaining and strengthening the financial position of the country in these critical times but also of providing for the readjustments which must follow the war.

The Board has a profound appreciation of the serious nature of its responsibilities, and its purpose is to exercise its powers and direct the policies of the Federal Reserve system so that, while always rendering the fullest measure of patriotic service, the system shall never fail to arouse the confidence and sense of security which it now inspires as the country's great financial bulwark.

By direction of the Federal Reserve Board.

W. P. G. Harding,
Governor.

The Speaker of the House of Representatives.

PART I.

REPORT OF THE FEDERAL RESERVE BOARD, WITH EXHIBITS.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD.

FEDERAL RESERVE BOARD,
Washington, January 31, 1919.

SIR: In compliance with the requirements of section 10 of the Federal Reserve Act, the Federal Reserve Board submits herewith its fifth annual report covering operations for the calendar year ended December 31, 1918.

FISCAL AGENCY OPERATIONS.

War financing has been the dominant feature of the year. Government requirements have been larger than ever, and the vast operations of the Treasury have been reflected in the work and activities of the Federal Reserve Banks. These banks have handled all details connected with the sales and allotments of Treasury certificates of indebtedness among member and nonmember banks of their respective districts, have received subscriptions to Liberty bond issues, collected all bond and certificate payments and redeposited the funds with depositary banks, withdrawing them as required by the Treasury, and have made deliveries of Government bonds and Treasury certificates to subscribers. They have also attended to the exchange and conversion of bonds for member and nonmember banks and for the public.

The Secretary of the Treasury has continued the policy of using the Federal Reserve Banks as agencies for negotiating all Government loans, and the work of the banks in performing this function has been even heavier than before. Under the general direction of the Secretary of the Treasury the work of the Liberty loan committees in the selling campaigns throughout the various districts has been supervised by the governors and other officers of the Federal Reserve Banks.

By means of interdistrict settlements through the gold settlement fund, maintained at Washington by the Federal Reserve Board for the banks, it has been possible for the Treasury to leave funds with designated depositary banks throughout the country until actually required, transfers being made by telegraph to Federal Reserve Banks in cities where the Government's disbursements are made. These vast operations have been conducted without any strain upon or disturbance of the money market.

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A total of $11,117,936,400 of bonds of the third and fourth Liberty loans, and $10,660,743,000 of Treasury certificates of indebtedness issued in anticipation of these loans, of the forthcoming fifth loan, and of 1918 and 1919 tax receipts have been subscribed, allotted and collected through the 12 Federal Reserve Banks. A detailed statement of these operations is given in the subjoined table:

Allotments of Liberty bonds and Treasury certificates from Jan. 1 to Dec. 31, 1918.

	Liberty bonds.		
	Third loan.	Fourth loan.	Total allotments.
Boston	$354,537,250	$632,124,850	$986,662,100
New York	1,115,243,650	2,044,931,750	3,160,175,400
Philadelphia	361,963,500	598,763,650	960,727,150
Cleveland	405,051,150	701,909,800	1,106,960,950
Richmond	186,259,050	352,685,200	538,944,250
Atlanta	137,649,450	218,086,550	355,736,000
Chicago	608,878,600	969,209,000	1,578,087,600
St. Louis	199,835,900	295,298,800	495,134,700
Minneapolis	180,892,100	242,046,050	422,938,150
Kansas City	204,092,800	295,951,450	500,044,250
Dallas	116,220,650	146,080,200	262,300,850
San Francisco	287,975,000	462,250,000	750,225,000
Total	4,158,599,100	6,959,337,300	11,117,936,400

	Certificates of indebtedness.				
	In anticipation of—				Total Treasury certificate allotments.
	Third loan.	Fourth loan.	Fifth loan.	Tax payments.	
Boston	$214,417,000	$381,152,500	$92,911,500	$163,092,500	$851,573,500
New York	1,255,308,000	1,680,989,000	421,947,000	733,016,000	4,091,260,000
Philadelphia	196,500,000	316,020,000	84,537,500	123,852,000	720,909,500
Cleveland	238,033,500	440,569,000	102,700,000	312,690,500	1,093,993,000
Richmond	75,829,500	117,983,500	38,515,500	35,070,000	267,398,500
Atlanta	79,573,000	114,857,000	27,949,500	26,350,000	248,729,500
Chicago	325,355,000	663,204,000	180,425,000	258,625,500	1,427,609,500
St. Louis	133,584,500	186,963,000	45,551,000	40,691,500	406,790,000
Minneapolis	89,350,000	127,560,000	46,765,000	21,704,500	285,379,500
Kansas City	128,524,500	176,866,000	41,893,500	31,070,500	378,354,500
Dallas	90,925,000	83,320,000	16,196,500	39,838,000	230,279,500
San Francisco	172,790,500	305,020,000	82,400,000	[1] 98,255,500	658,466,000
Total	3,000,190,500	4,594,504,000	1,181,792,000	[2] 1,884,256,500	10,660,743,000

[1] Exclusive of $250,000 of the Nov. 30, 1917, issue allotted on Jan. 28, 1918.
[2] Includes 76 millions 4 per cent certificates of the Aug. 20 issue received in payment for the 4½ per cent issue of Nov. 7.

NOTE.—Above figures are exclusive of $104,707,000 of 2 per cent 1-year certificates sold to Federal Reserve Banks to secure bank-note circulation, and of special temporary certificates sold to Federal Reserve Banks, none of which are now outstanding.

Including operations in 1917, certificates of indebtedness and Liberty bonds subscribed for and collected through the Federal Reserve Banks have amounted to $31,457,310,400 composed of $14,530,708,000 of certificates and $16,926,602,400 of Liberty bonds.

The Treasury balances carried with the Federal Reserve Banks and the member banks in the various districts have been subject to wide fluctuations, owing mainly to the constantly changing requirements of the Treasury, and partly to the seasonal character of collections of internal-revenue taxes made for the Treasury's account. The average of the Friday night balances standing to the credit of the Treasury on the books of the 12 Federal Reserve Banks for the year were as follows:

Federal Reserve Bank:	
Boston	$13,431,000
New York	19,206,000
Philadelphia	10,570,000
Cleveland	17,324,000
Richmond	6,409,000
Atlanta	8,010,000
Chicago	16,034,000
St. Louis	10,532,000
Minneapolis	7,830,000
Kansas City	9,668,000
Dallas	7,060,000
San Francisco	12,100,000

REDISCOUNT OPERATIONS AND SALES BETWEEN FEDERAL RESERVE BANKS.

Section 11 of the Federal reserve act provides that the Federal Reserve Board may permit or, on the affirmative vote of at least five members of the Federal Reserve Board, require Federal Reserve Banks to rediscount the discounted paper of other Federal Reserve Banks at rates of interest to be fixed by the Federal Reserve Board.

Transactions of this character between the Federal Reserve Banks have been unusually heavy during the past year, due to three causes named in the order of their importance: First, transfers of Government funds; second, joint purchases of bankers' acceptances; and third, seasonal requirements incident to crop moving.

The Board's policy has been to equalize, in an approximate degree, the reserves of the 12 Federal Reserve Banks with the purpose of avoiding undue variations in their reserve position. Discount transactions between the banks have not, as a rule, been negotiated by the banks themselves, but through the medium of the Federal Reserve Board, instructions being given by telegraph, and transfers incident to the operations were effected in the same way.

Open-market purchases of bankers' acceptances have shown a very substantial growth. Investments in paper of this class reached a maximum of $388,383,000 on October 25. The principal market for acceptances is New York, although an open market for them has been established in Boston under the auspices of the Federal Reserve Bank there. The Federal Reserve Banks of other districts have found it more convenient to participate in the purchases of acceptances made by the Federal Reserve Bank of New York, and some of the banks have undertaken to take care of the acceptances originating in their own districts which are sold in the New York market. Voluntary transactions between the banks in acceptances have been permitted without the indorsement of the Federal Reserve Bank selling them, but in all cases where the Board has required rediscount operations the indorsement of the bank disposing of the paper has been given.

Rediscounting because of seasonal or crop-moving requirements has been confined to five banks—the Federal Reserve Banks of Kansas City, Minneapolis, Dallas, Atlanta, and Richmond—but it is probable that none of these banks would have had occasion to rediscount except for the fact that they were discounting heavily for member banks paper secured by Government obligations. Transactions in paper of this class have been so heavy and transfers of balances from one district to another so constant that the process of rediscounting between banks has been continuous through the greater part of the year.

All of the banks have disposed of paper except the Federal Reserve Banks of Cleveland and San Francisco. Rediscount operations between the Federal Reserve Banks, including voluntary purchases of bankers' acceptances, during the year, have aggregated $660,638,000, as shown in detail in the following table:

Interdistrict movement of bills discounted or purchased by Federal Reserve Banks during the period from Jan. 1 to Dec. 31, 1918.

[In thousands of dollars.]

Federal Reserve Bank.	Rediscounts and sales between Federal Reserve Banks.				Acceptances purchased for account of other Federal Reserve Banks.		Direct purchases of acceptances in other Federal Reserve districts.		Interdistrict movement of discounted and purchased paper.	
	Rediscounted or sold by—	Discounted or purchased by—	Excess of rediscounts and sales.	Excess of discounts and purchases.	Amount purchased by—	Amount purchased for account of—	Market in which purchased.	Purchasing bank.	Excess movement from—	Excess movement to—
Boston	120,297	19,898	100,399			1,907	2,057	8,503	92,046	
New York	180,901	67,681	113,220		174,860		41,411		329,491	
Philadelphia	50,149	66,365		16,216		18,949		21,397		56,562
Cleveland		137,115		137,115		65,628		4,791		207,534
Richmond	69,063	331	68,732						68,732	
Atlanta	80,293	2,514	77,779			57			77,722	
Chicago	9,984	200,398		190,414		1,093		3,685		195,192
St. Louis	12,500	9,051	3,449					2,770	679	
Minneapolis	24,996	99,462		74,466		6,384		2,057		82,907
Kansas City	8,530	25,047		16,517		11,047				27,564
Dallas	103,925	8,242	95,683			1,283		265	94,135	
San Francisco		24,534		24,534		68,512				93,046
Total	660,638	660,638	459,262	459,262	174,860	174,860	43,468	43,468	662,805	662,805

DISCOUNT POLICY.

The discount policy of the Board has necessarily been coordinated throughout the year with Treasury requirements and policies, which in turn have been governed by demands made upon the Treasury for war purposes. All lines of business activity have been subordinated to war necessities; more than two million men have been under arms in France, another million at stations and training camps in this country, half a million more were in the Navy, making more than three and a half million men actually under arms; and it is estimated that the labor of fifteen million more has been devoted to the production, manufacture, and distribution of commodities and material required in the conduct of the war. The Government has been the principal purchaser and consumer of goods, as well as the chief employer of labor, and the financing of the Government therefore has been of paramount importance from a commercial as well as a patriotic point of view.

The rates of interest borne by the Treasury certificates of indebtedness and by the Liberty loan bonds have been determined by the Secretary of the Treasury within the limits fixed by Congress, and the Board has felt it to be its duty to adjust its discount rates in such manner as to assist the distribution of the various Treasury issues.

The Board has therefore continued the policy, as explained in the last annual report, of giving a preferential rate of discount to notes made or offered by member banks secured by the Government's war obligations, and has continued to permit the Federal Reserve Banks to discount for nonmember banks, upon the indorsement of a member bank, notes secured in this manner.

The coupon rate of the Liberty loan bonds of the third and fourth issues is 4¼ per cent, against 3½ per cent for the first loan and 4 per cent for the second, and the interest rate on certificates of indebtedness was advanced during the year to 4½ per cent, against rates of 3 to 4 per cent during 1917.

The Board thereupon approved an appreciable increase in discount rates at all Federal Reserve Banks, the principal changes having been made on April 8, shortly before subscriptions closed to the third Liberty loan. While a preferential has been maintained in favor of paper secured by Government obligations, corresponding changes have been made in the rates for commercial paper of various maturities, all of which are shown in the following tables:

Changes in rates of discount for 15-day commercial paper, including collateral notes.

Federal Reserve Bank.	Effective—								
	Jan. 1, 1918.	Apr. 3, 1918.	Apr. 8, 1918.	May 20, 1918.	Aug. 29, 1918.	Sept. 3, 1918.	Sept. 5, 1918.	Sept. 10, 1918.	Dec. 30, 1918.
Boston	4								
New York	3½	4							
Philadelphia	4								
Cleveland	4		4¼						
Richmond	4		4¼	4¾					4½
Atlanta	4					4¼			
Chicago	4								
St. Louis	4								
Minneapolis	4							4½	
Kansas City	4			4½					
Dallas	4						4½		
San Francisco	4				4¼				

Changes in rates of discount on 15-day paper, secured by United States war obligations, including collateral notes.

Federal Reserve Bank.	Effective—					
	Jan. 1, 1918.	Apr. 3, 1918.	Apr. 8, 1918.	Apr. 15, 1918.	May 20, 1918.	Aug. 29, 1918.
Boston	3½		4			
New York	3½	4				
Philadelphia	3½		4			
Cleveland	3½		4			
Richmond	3½		4		[1] 4¼	
Atlanta	3½		4			
Chicago	3½		4			
St. Louis	3½		4			
Minneapolis	3½		4			
Kansas City	3½		4		[1] 4¼	
Dallas	3½			4		
San Francisco	3½		4			4¼

[1] Four per cent rate on paper secured by fourth Liberty bonds when taken by rediscounting bank at rate not exceeding coupon rate.

Changes in discount rates on paper maturing within 16 to 90 days, secured by United States war obligations.

Federal Reserve Bank.	Effective—				Federal Reserve Bank.	Effective—			
	Jan. 1, 1918.	Apr. 3, 1918.	Apr. 8, 1918.	Apr. 15, 1918.		Jan. 1, 1918.	Apr. 3, 1918.	Apr. 8, 1918.	Apr. 15, 1918.
Boston	4		4¼		Chicago	4		4¼	
New York	4	4¼			St. Louis	4		4¼	
Philadelphia	4		4¼		Minneapolis	4		4¼	
Cleveland	4		4¼		Kansas City	4		4¼	
Richmond	4		4¼		Dallas	4			4¼
Atlanta	4		4¼		San Francisco	4		4¼	

Rates on paper secured by fourth Liberty bonds when taken by rediscounting bank at rate not exceeding coupon rate: 4 per cent, Boston, effective Oct. 1; Kansas City, Oct. 1; Chicago, Oct. 2; Atlanta, Oct. 7; St. Louis, Oct. 8; Richmond, Oct. 19.

Changes in discount rates on commercial paper maturing within 16 to 60 days.

Federal Reserve Bank.	Effective—							
	Jan. 1, 1918.	Apr. 3, 1918.	Apr 8, 1918.	Apr. 15, 1918.	May 20, 1918.	Aug. 29, 1918.	Sept. 20, 1918.	Dec. 30, 1918.
Boston	5		4¾					
New York	4½	4¾						
Philadelphia	4½		4¾					
Cleveland	4½		4¾					
Richmond	4½		4¾		5			4¾
Atlanta	4½		4¾					
Chicago	4½		4¾					
St. Louis	4½		4¾					
Minneapolis	4½		4¾					
Kansas City	4½		4¾		5¼		5	
Dallas	4½			4¾				
San Francisco	4½		4¾			5		

Changes in discount rates on commercial paper maturing within 61 to 90 days.

Federal Reserve Bank.	Effective—								
	Jan. 1, 1918.	Apr. 3, 1918.	Apr. 8, 1918.	Apr. 15, 1918.	May 20, 1918.	July 15, 1918.	Aug. 29, 1918.	Sept. 20, 1918.	Dec. 30, 1918.
Boston	5		4¾						
New York	4½	4¾							
Philadelphia	4½		4¾						
Cleveland	4½		4¾						
Richmond	4½		4¾		5				4¾
Atlanta	4½		4¾						
Chicago	5					4¾			
St. Louis	4½		4¾						
Minneapolis	5								
Kansas City	4½		4¾		5¼			5	
Dallas	4½			5					
San Francisco	4½		4¾				5		

Changes in discount rates on agricultural and live-stock paper maturing within 91 to 180 days.

Federal Reserve Bank.	Effective—				
	Jan. 1, 1918.	Apr. 8, 1918.	Apr. 15, 1918.	May 20, 1918.	Dec. 30, 1918.
Boston	5				
New York	5				
Philadelphia	5				
Cleveland	5	5¼			
Richmond	4½	5		5¼	5
Atlanta	5				
Chicago	5½				
St. Louis	5½				
Minneapolis	5½				
Kansas City	5			5½	
Dallas	5		5¼		
San Francisco	5½				

Changes in discount rates in trade acceptances maturing within 1 to 60 days.

Federal Reserve Bank.	Jan. 1, 1918.	Effective—					
		Apr. 3, 1918.	Apr. 8, 1918.	Apr. 15, 1918.	May 20, 1918.	Aug. 29, 1918.	Dec. 30, 1918.
Boston	4		4½				
New York	4	4½					
Philadelphia	4		4½				
Cleveland	4		4½				
Richmond	4		4½		[1] 4¾		4½
Atlanta	4		4½				
Chicago	3½		4½				
St. Louis	4		4½				
Minneapolis	3½		4½				
Kansas City	4		4½		4¾		
Dallas	3½			4½			
San Francisco	4		4½			4¾	

[1] 4½ per cent for trade acceptances maturing within 15 days.

NOTE.—In case the 60-day trade acceptance rate is higher than the 15-day discount rate, trade acceptances maturing within 15 days will be taken at the lower rate.

Changes in discount rates on trade acceptances maturing within 61 to 90 days.

Federal Reserve Bank.	Effective—						
	Jan. 1, 1918.	Apr. 3, 1918.	Apr. 8, 1918.	Apr. 15, 1918.	May 20, 1918.	Aug. 29, 1918.	Dec. 30, 1918.
Boston	4		4½				
New York	4	4½					
Philadelphia	4		4½				
Cleveland	4		4½				
Richmond	4		4½		4¾		4½
Atlanta	4		4½				
Chicago	4		4½				
St. Louis	4		4½				
Minneapolis	4		4½				
Kansas City	4		4½		4¾		
Dallas	4			4½			
San Francisco	4		4½			4¾	

Changes in open-market rates on bankers' acceptances maturing within 3 months.

Federal Reserve Bank.	Effective—			
	Jan. 1, 1918.	Apr. 3, 1918.[1]	Apr. 8, 1918.[1]	Apr. 15, 1918.[1]
Boston	3-5		4	
New York[2]	3-4½	4		
Philadelphia	3-4½		4	
Cleveland	3-4½		4	
Richmond	3-4½		4	
Atlanta	3-4½		4	
Chicago	3-5		4	
St. Louis	3-4½		4	
Minneapolis	3-5		4	
Kansas City	3-4½		4	
Dallas	3-4½			4
San Francisco	3-4½		4	

[1] Minimum rate.

[2] Rates for discounted bankers' acceptances maturing within 15 days, 4 per cent; within 16 to 60 days, 4¼ per cent; and within 61 to 90 days, 4½ per cent.

MOVEMENT OF PRINCIPAL ASSETS AND LIABILITIES OF FEDERAL RESERVE BANKS DURING THE CALENDAR YEAR 1918.

Owing to the issue during the year of Government obligations greatly in excess of the estimated normal annual savings of the country, there has been a marked increase in the loans and deposits of member and nonmember banks, which is reflected in the net total of bills discounted and bought by the Federal Reserve Banks, in their net deposits, and in their outstanding issues of Federal Reserve notes; and as a result of the Board's policy of giving a preferential rate of discount on paper secured by United States bonds and Treasury certificates, the Federal Reserve Banks' holdings of paper secured by war obligations of the Government have increased out of all proportion to their commercial paper holdings. The whole situation is depicted in the following table, which shows the changes, week by week, throughout the year of loans, reserves, note issues and deposits:

Movement of principal assets and liabilities of all Federal Reserve Banks during the calendar year 1918.

[In thousands of dollars.]

	1	2	3	4	5	6	7	8	9	10
	Discounted paper, secured by Government war obligations.	Other discounted paper.	Bills bought in open market.	Total bills discounted and bought.	Per cent (1 to 4).	Total cash reserves.	Net deposits.	Federal Reserve notes in actual circulation.	Ratio of cash reserves to net deposit and Federal Reserve note liabilities combined.	Federal Reserve Bank notes in circulation, net liability.
1918.										
Jan 4	285,919	339,894	271,338	897,151	31.9	1,733,030	1,446,228	1,251,205	64.2	8,000
11	277,014	293,651	258,710	829,375	33.4	1,748,031	1,444,904	1,242,199	65.1	8,000
18	300,268	303,220	257,804	861,292	34.9	1,784,307	1,496,386	1,238,797	65.2	8,000
25	312,520	315,142	273,912	901,574	34.7	1,782,759	1,492,878	1,234,934	65.4	8,000
Feb. 1	305,664	301,114	289,805	896,583	34.1	1,775,457	1,488,036	1,236,101	65.2	8,000
8	269,302	255,819	280,705	805,826	33.4	1,813,094	1,502,853	1,261,219	65.6	8,000
15	249,603	252,313	287,263	789,179	31.6	1,818,736	1,403,634	1,281,045	67.7	7,999
21	263,905	245,629	296,170	805,704	32.8	1,832,524	1,462,627	1,314,581	66.0	7,999
Mar. 1	249,195	253,330	299,213	801,738	31.1	1,837,773	1,439,887	1,351,091	65.8	7,999
8	264,501	255,839	317,952	838,292	31.6	1,847,883	1,472,439	1,383,990	64.7	8,000
15	257,621	259,863	323,248	840,732	30.6	1,852,193	1,464,519	1,406,228	64.5	8,000
22	282,962	260,157	328,880	871,999	32.4	1,862,372	1,505,774	1,429,509	63.4	7,978
28–29	301,451	281,777	304,065	887,293	34.0	1,874,063	1,535,367	1,452,838	62.7	7,978
Apr. 5	304,075	269,808	326,503	900,386	33.8	1,877,433	1,529,364	1,479,920	62.4	7,860
12	465,625	247,182	318,857	1,031,664	45.1	1,894,995	1,533,827	1,499,377	62.5	8,000
19	564,724	243,321	308,277	1,116,322	50.6	1,898,307	1,502,246	1,514,287	62.9	7,895
26	642,429	259,314	302,844	1,204,587	53.3	1,890,945	1,556,303	1,526,232	61.3	7,895
May 3	606,630	266,812	297,029	1,170,471	51.8	1,919,983	1,520,957	1,556,660	62.4	7,980
10	612,324	326,717	286,036	1,225,077	50.0	1,942,500	1,651,324	1,569,618	60.3	7,878
17	526,163	316,102	279,886	1,122,151	46.9	1,952,712	1,524,453	1,569,445	63.1	7,878
24	600,499	322,800	278,221	1,201,520	50.0	1,956,056	1,557,618	1,578,621	62.4	7,864
31	562,993	334,364	256,373	1,153,730	48.8	1,975,709	1,586,608	1,600,968	62.0	8,324
June 7	627,025	357,467	248,542	1,233,034	50.9	1,977,724	1,576,364	1,639,579	61.5	19,580
14	653,863	362,168	242,923	1,258,954	51.9	2,005,263	1,588,771	1,651,500	61.9	0,001
21	544,193	387,077	232,472	1,163,742	46.8	1,981,111	1,445,403	1,677,951	63.4	9,945
28	434,509	434,666	216,848	1,086,023	40.0	2,006,199	1,529,819	1,722,216	61.7	10,390
July 5	563,496	513,286	211,947	1,288,729	43.7	2,015,163	1,473,927	1,791,569	61.7	10,335
12	606,599	553,283	218,464	1,378,346	44.0	2,015,984	1,553,664	1,813,425	59.9	10,600
19	601,403	601,943	205,932	1,409,278	42.7	2,031,095	1,566,680	1,829,045	59.8	11,000
26	673,231	628,920	205,274	1,507,425	44.7	2,029,329	1,622,870	1,870,835	58.1	11,084

Movement of principal assets and liabilities of all Federal Reserve Banks during the calendar year 1918—Continued.

[In thousands of dollars.]

	1 Discounted paper, secured by Government war obligations.	2 Other discounted paper.	3 Bills bought in open market.	4 Total bills discounted and bought.	5 Per cent (1 to 4).	6 Total cash reserves.	7 Net deposits.	8 Federal Reserve notes in actual circulation.	9 Ratio of cash reserves to net deposit and Federal Reserve note liabilities combined.	10 Federal Reserve Bank notes in circulation, net liability.
1918.										
Aug. 2	685,921	584,998	209,185	1,480,104	46.3	2,034,918	1,558,839	1,906,465	58.7	11,479
9	761,576	570,897	208,557	1,541,030	49.4	2,044,523	1,576,322	1,955,276	57.9	13,716
16	752,115	533,253	212,204	1,497,572	50.2	2,045,523	1,512,507	1,985,419	58.5	15,167
23	853,508	540,247	236,566	1,630,321	52.4	2,055,266	1,594,068	2,032,837	56.7	16,864
30	896,228	531,967	232,603	1,660,798	54.0	2,066,962	1,572,898	2,092,708	56.4	20,687
Sept. 6	1,007,366	534,608	233,766	1,775,740	56.7	2,070,494	1,601,650	2,180,679	54.7	23,964
13	1,071,304	541,943	239,750	1,852,997	57.8	2,077,732	1,622,165	2,245,429	53.7	27,672
20	1,146,357	513,789	250,032	1,910,178	60.0	2,076,039	1,629,264	2,295,031	52.9	33,208
27	1,221,533	491,897	288,391	2,001,821	61.0	2,072,176	1,667,109	2,349,326	51.6	35,819
Oct. 4	1,251,787	454,419	310,817	2,017,023	62.1	2,077,371	1,606,262	2,431,004	51.5	40,305
10	1,304,383	450,086	338,620	2,093,089	62.3	2,083,358	1,638,159	2,478,378	50.6	52,031
18	1,262,757	425,799	370,136	2,058,692	61.3	2,087,685	1,580,802	2,502,488	51.1	55,666
25	1,092,417	453,747	398,623	1,944,787	56.2	2,098,169	1,723,902	2,507,912	49.6	58,859
Nov. 1	1,252,904	493,049	377,072	2,123,025	59.0	2,105,685	1,663,377	2,515,504	50.4	63,338
8	1,316,967	480,271	374,522	2,171,760	60.6	2,100,839	1,661,521	2,558,196	49.8	68,864
15	1,358,416	439,392	377,877	2,175,685	62.4	2,109,816	1,665,677	2,562,517	49.9	72,930
22	1,281,245	428,190	368,784	2,078,219	61.7	2,116,257	1,632,772	2,555,215	50.5	80,504
29	1,412,511	402,684	375,341	2,190,536	64.5	2,120,371	1,668,283	2,568,676	50.0	86,003
Dec. 6	1,467,322	396,462	371,406	2,235,190	65.6	2,121,367	1,704,351	2,584,523	49.5	92,799
13	1,483,849	365,614	366,594	2,216,057	67.0	2,134,263	1,672,726	2,604,580	49.9	102,202
20	1,299,524	306,778	340,765	1,947,067	66.7	2,133,624	1,549,750	2,663,701	50.6	111,906
27	1,400,371	302,567	303,673	2,006,611	69.8	2,146,219	1,552,892	2,685,244	50.6	117,122

It will be noted that of the total of $897,151,000 bills discounted and bought, as shown by the statement of January 4, 1918, $285,919,000, or 31.9 per cent, consisted of paper secured by Government war obligations, the balance being other notes and bills rediscounted for member banks $339,894,000, and bills and acceptances purchased in the open market $271,338,000. While the total of paper secured by Government war obligations shows occasional temporary reductions brought about by payments of Treasury certificates, the general trend has been steadily upward, the total of such paper held by the Federal Reserve Banks on December 27, being $1,400,371,000.

As to the proportion of paper held by the Federal Reserve Banks secured by Government war obligations, it will be noted that beginning with 31.9 per cent on January 4, 1918, there were unimportant variations until March 15, when the minimum for the year was reached, 30.6 per cent, after which there was an almost constant increase until on December 27, 69.8 per cent of the paper held by the Federal Reserve Banks was secured by Government obligations.

All other discounts carried at the close of the year amounted to $302,567,000, as compared with $339,894,000 on January 4. During the early part of the year these holdings declined to less than $250,000,000. During the summer months, owing, no doubt, to seasonal loan demands, there were considerable increases, the maximum holdings of $628,920,000 occurring about the end of July. Of these a reduced proportion was composed of member banks' collateral notes secured by eligible paper. Of this class of paper the banks carried a total of $21,616,000 on December 27, 1918, compared with $61,110,000 at the beginning of the year. Agricultural paper of all maturities held on the last Friday in 1918 aggregated $29,384,000, as against $7,901,000 on the first Friday in the year. The amount of live-stock paper increased from $8,601,000 on January 4, 1918, to $27,334,000 on December 27, 1918. Maximum holdings of all three classes of paper were reported about the end of July. Holdings of agricultural and live-stock paper are concentrated mainly at the Kansas City, Dallas, and Minneapolis banks.

But little change is shown in the holdings of discounted trade acceptances, the end of the year figures, $15,986,000, exceeding only by about $1,217,000 the figures reported at the beginning of the year. These acceptances were based mainly on domestic trade transactions, while acceptances covering foreign trade operations figured somewhat more prominently among the open-market purchases of the banks.

Of these purchases, by far the larger part is made up of bankers' acceptances, the holdings of which show an increase for the year from creased during the year from $82,867,000 to $166,493,000, the amount of bankers' foreign acceptances decreased from $180,609,000 at the beginning of the year to $129,162,000 toward its close. Dollar exchange bills on hand aggregated $1,850,000 on January 4 as against $796,000 at the close of the year, holdings of purchased foreign trade acceptances show a decline from $5,516,000 to $3,843,000, while those of purchased domestic trade acceptances, all with bankers' indorsements, increased from $496,000 to $3,379,000. Aggregate holdings of purchased bills, including both bankers' and trade acceptances, because of the substantial increase in the amounts of bankers' domestic acceptances show an increase from $271,338,000 on January 4 to $303,673,000 at the end of the year.

Owing to the redemption by the Treasury of about $7,500,000 3 per cent bonds held by the banks, and through the disposal of Liberty bonds held temporarily for the accommodation of member and nonmember banks, the Federal Reserve Bank holdings of Government long-term securities show a decline from $51,167,000 to $28,869,000. An increase from $92,058,000 to $282,677,000 in the holdings of Government short-term securities is mainly accounted for by Treasury certificates held by the Federal Reserve Bank of New York to cover temporary advances to the Government, and to a slighter degree by investments in one-year 2 per cent Treasury certificates to secure Federal Reserve bank notes. Other earning assets, composed of bill of lading drafts and municipal warrants which at the beginning of the year amounted to $5,167,000 have declined to $13,000, due to the inclusion of the drafts with the other discounts and to the practical suspension of purchases of warrants.

In the following table are shown changes in the several classes of earning assets held by the Federal Reserve Banks on the first and last Fridays of the past year:

[In thousands of dollars.]

	Jan. 4, 1918.	Dec. 27, 1918.	Increase.
Bills discounted:			
Secured by Government war obligations—			
Customers' paper	145,208	363,025	217,817
Member banks' collateral notes	140,711	1,037,346	896,635
Total	285,919	1,400,371	1,114,452
Otherwise secured and unsecured—			
Agricultural paper	7,901	29,384	21,483
Live-stock paper	8,601	27,334	18,733
Member banks' collateral notes	61,110	21,616	[1] 39,494
Trade acceptances—			
In the foreign trade	14,769	27	1,217
In the domestic trade		15,959	
All other, n. s	247,513	208,247	[1] 39,266
Total	339,894	302,567	[1] 37,327
Total discounted bills	625,813	1,702,938	1,077,125

[1] Decrease.

[In thousands of dollars.]

	Jan. 4, 1918.	Dec. 27, 1918.	Increase.
Bills bought in open market:			
Bankers' acceptances—			
In the foreign trade	180,609	129,162	[1] 51,447
In the domestic trade	82,867	166,493	83,626
Dollar exchange bills	1,850	796	[1] 1,054
Total	265,326	296,451	31,125
Trade acceptances—			
In the foreign trade	5,516	3,843	[1] 1,673
In the domestic trade	496	3,379	2,883
Total	6,012	7,222	1,210
Total bills bought in open market	271,338	303,673	32,335
United States Government long-term securities	51,167	28,869	[1] 22,298
United States Government short-term securities	92,058	282,677	190,619
All other earning assets	5,167	13	[1] 5,154
Total earning assets	1,045,543	2,318,170	1,272,627

[1] Decrease.

RESERVE POSITION OF THE FEDERAL RESERVE BANKS.

The general expansion which has taken place during the year is reflected to a limited extent in the increase in member banks' reserve deposits of $138,088,000 from $1,449,230,000 on January 4 to $1,587,-318,000 on December 27, but in a much greater degree in the volume of Federal Reserve notes in circulation, the amount of these notes in circulation on January 4 having been $1,251,205,000, against $2,685,-244,000 on December 27, an increase of $1,434,039,000. Other deposits, including those of the United States and of foreign governments, increased between these dates $18,759,000, while the increase in net deposit and note liabilities during the year has been $1,540,703,000, as against an increase of gold reserves of $402,554,000.

In its report for the year 1917 the Board called attention to the changes in the reserve position of the Federal Reserve Banks during the year and pointed out the effect upon their reserves of the flotation of the two Liberty loans. After payments for subscriptions to the first Liberty loan were made there was a notable strengthening of the reserve position, but, as stated in the report, a similar recovery subsequent to the close of the second Liberty loan had not taken place up to December 31, 1917, which was commented upon as indicating that the process of distributing the second Liberty loan was still uncompleted. On January 4, 1918, the combined reserves of all the banks stood at 64.2 per cent. There was a gradual improvement in the reserve position until February 15 when the combined percentage was 67.7 per cent, which proved to be the highest for the year 1918.

Treasury certificates of indebtedness were sold in anticipation of the two Liberty loan issues of 1918, and also in anticipation of tax payments, and since February the tendency of reserve percentages has been steadily downward, recoveries being slight and temporary. The combined reserves of the banks on December 27 were 50.6 per cent, and excepting seasonal recoveries anticipated in January and February, 1919, further declines may be expected until the financial program of the Treasury has been finally completed.

Due to accessions to membership of State banks and to the following up by the Federal Reserve Banks of the Board's policy of concentrating gold and gold certificates in the vaults of the Federal Reserve Banks, the total gold reserves of the banks have shown an increase during the year of $402,554,000, having increased from $1,687,720,000 on January 4, 1918, to $2,090,274,000 on December 27. Of this increase approximately $200,000,000 is due to exchanges made with the Treasury of Federal Reserve notes for gold.

EFFECT OF WAR FINANCING UPON THE FEDERAL RESERVE BANKS.

The effect of two years of war financing upon the Federal Reserve System can best be shown by the following table, from which it will be seen that the enormous needs of the country, both for military and commercial purposes, have been provided for and that our surplus over minimum reserves required by law has been lowered only by $17,400,000:

[In millions of dollars.]

	Apr. 5-6, 1917.	Dec. 27, 1918.	Increase.
Total cash reserve	962.7	2,146.2	1,183.5
Total net deposit and Federal Reserve note liabilities	1,136.8	4,238.1	3,101.3
Total required reserve	416.7	1,617.6	1,200.9
Reserve percentage	84.7	50.6	−34.1
Total earning assets	225.6	2,318.2	2,092.6
Free gold	546.0	528.6	−17.4
Federal Reserve notes outstanding	400.7	2,855.6	2,454.9
Collateral:			
Required paper	[1] 22.3	[2] 1,567.3	1,545.0
Gold	[3] 378.4	[4] 1,288.3	849.9
Note issue power	1,365.0	1,321.5	−43.5

[1] 6 per cent. [2] 55 per cent. [3] 94 per cent. [4] 45 per cent.

The table next subjoined, showing the combined resources and liabilities of the 12 Federal Reserve Banks, indicates the changes in the various items of resources and liabilities of the Federal Reserve System during the years 1917 and 1918. The figures of March 30, 1917, show the situation immediately before the entry of the United States into the war, and those of December 27 show the condition at the close of the year, while the figures for the intermediate dates show the changes directly attributable to the Liberty loan flotations.

Combined resources and liabilities of the Federal Reserve System.

[In thousands of dollars.]

	Mar. 30, 1917.	June 22, 1917.	Nov. 30, 1917.	Dec. 28, 1917.	May 10, 1918.	Nov. 8, 1918.	Dec. 27, 1918.
RESOURCES.							
Gold in vault and in transit	374,903	492,842	499,887	499,917	480,580	386,437	337,365
Gold settlement fund, Federal Reserve Board	200,061	267,910	395,236	317,520	437,444	435,452	374,758
Gold with foreign agencies		52,500	52,500	52,500	52,500	5,829	5,829
Total gold held by banks	574,964	813,252	947,623	869,937	970,524	827,718	717,952
Gold with Federal Reserve agents	360,668	390,765	661,824	781,851	885,027	1,145,640	1,288,309
Gold redemption fund	2,414	8,001	12,278	19,345	27,584	73,233	84,013
Total gold reserves	938,046	1,212,018	1,621,725	1,671,133	1,883,135	2,046,591	2,090,274
Legal tender notes, silver, etc	9,282	35,680	54,486	49,635	59,365	54,248	55,945
Total reserves	947,328	1,247,698	1,676,211	1,720,768	1,942,500	2,100,839	2,146,219
Bills discounted:							
Secured by Government war obligations		83,185	405,608	283,421	612,324	1,316,967	1,400,371
All other	20,106	157,799	350,790	397,285	326,717	480,271	302,567
Bills bought in open market	84,473	194,303	205,454	275,366	286,036	374,522	303,673
Total bills on hand	104,579	435,287	961,852	956,072	1,225,077	2,171,760	2,006,611
United States Government long-term securities	29,275	36,427	47,304	48,350	40,116	29,479	28,869
United States Government short-term securities	18,425	78,491	41,792	58,883	106,762	91,956	282,677
All other earning assets	15,715	2,585	1,429	4,990	1,844	28	13
Total earning assets	167,994	552,790	1,052,377	1,068,295	1,373,799	2,293,223	2,318,170
Uncollected items (deduct from gross deposits)	135,034	198,387	373,160	313,043	455,726	687,468	759,608
5 per cent redemption fund against Federal Reserve bank notes	400	500	537	537	404	3,924	5,988
All other resources	5,393	267	2,499	46	66	18,790	22,005
Total resources	1,256,149	1,999,642	3,104,784	3,102,689	3,772,495	5,104,244	5,251,990
LIABILITIES.							
Capital paid in	56,075	57,171	68,500	70,442	75,118	79,824	80,681
Surplus					1,134	1,134	1,134
Government deposits	20,567	495,807	220,962	108,213	138,529	160,256	63,367
Due to members, reserve account	720,411	806,209	1,489,370	1,453,166	1,548,137	1,545,996	1,587,318
Collection items	100,961	137,581	238,867	191,689	309,773	527,796	554,823
All other deposits, including foreign Government credits		1,000	19,473	17,969	110,611	114,941	106,992

Combined resources and liabilities of the Federal Reserve System—Continued.

[In thousands of dollars.]

	Mar. 30, 1917.	June 22, 1917.	Nov. 30, 1917.	Dec. 28, 1917.	May 10, 1918.	Nov. 8, 1918.	Dec. 27, 1918.
LIABILITIES—continued.							
Total gross deposits	841,939	1,440,597	1,968,672	1,771,037	2,107,050	2,348,989	2,312,500
Net deposits	706,905	1,242,210	1,595,512	1,457,994	1,651,324	1,661,521	1,552,892
Federal Reserve notes in actual circulation	357,610	499,721	1,056,983	1,246,483	1,569,618	2,558,196	2,685,244
Federal Reserve bank notes in circulation, net liability	....	776	8,000	8,000	7,878	68,864	117,122
All other liabilities	525	1,377	2,629	6,722	11,697	47,237	55,309
Total liabilities	1,256,149	1,999,642	3,104,784	3,102,689	3,772,495	5,104,244	5,251,990
Ratio of total reserves to net deposit and Federal Reserve note liabilities combined (per cent)	89.0	71.6	63.2	61.8	60.3	49.8	50.6
Ratio of bills secured by Government war obligations to total bills on hand (per cent)	....	19.1	42.2	29.6	50.0	60.6	69.8

The material changes in the items comprising resources and liabilities of the Federal Reserve Banks from March 30, 1917 (which date was prior to the declaration of war and also before the act was amended on June 21, 1917, which changed reserve requirements by providing that all reserves of member banks be carried with the Federal Reserve Banks), to December 27, 1918, have been as follows:

[In millions of dollars.]

RESOURCES.		*Increase.*
1. Cash:		
Gold	1,152	
Legals and silver	47	
		1,199
2. Bill holdings:		
Discounts—		
War paper	1,400	
Other discounts	283	
Acceptances	219	
		1,902
3. Government securities:		
Long term		
Short term		264
4. Warrants		*a* 16
5. Float		171
6. 5 per cent redemption fund against Federal Reserve bank notes		6
7. All other resources, net		17
Total		3,543

LIABILITIES.		*Increase.*
Capital		25
Surplus		1
Deposits:		
Government	43	
Member bank	867	
Foreign Government and other credits	107	
		1,017
Federal Reserve notes		2,328
Federal Reserve bank notes		117
All other liabilities, net, including 1918 net earnings		55
Total		3,543

a Decrease.

In connection with the loans and discounts, it should be noted that the increase of Government secured paper held by the banks has been about $1,400,000,000 as against an increase of commercial discounts and purchases of acceptances combined of $502,000,000.

The increase in Federal Reserve notes outstanding since March 30, 1917, has been $2,328,000,000, from which it will be seen that after making allowances for the notes which have been exchanged for gold the net expansion in note issues has been due largely to the discount by the banks of paper secured by war obligations of the Government. About two-thirds of the profits made by the banks during the year 1918 have been due to the expansion of this class of loans.

The increase in capital of $25,000,000 has been due in part to the increase in capital and surplus of member banks, but principally to payments to capital account by State banks and trust companies which have become members of the system.

The increase in Government deposits noted for part of the year has been due to the larger activities of the Treasury in connection with war financing.

The increase in member bank deposits is accounted for by changes in reserve requirements made by the act of June 21, 1917, the growth of deposits of national banks, and by the reserves carried by the State bank and trust company members, most of which have joined the system since June 21, 1917.

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The increase in Federal Reserve bank notes of $117,000,000 does not represent any material addition to the circulating medium, as most of these notes have been issued in substitution for silver certificates by virtue of the act of April 23, 1918, which authorizes the issue of $1 and $2 Federal Reserve bank notes, upon the retirement of silver certificates in equal amounts, to be secured by Treasury certificates of indebtedness deposited with the Treasurer of the United States. A more extended discussion of these bank notes appears further on in this report.

ACCEPTANCES.

The acceptance is a comparatively new development in American finance. A few of the States, just prior to the passage of the Federal Reserve Act, authorized banks and trust companies operating under State charters to accept bills of exchange drawn upon them, and the Federal Reserve Act authorized such transactions on the part of member banks where the drafts or bills have not more than six months to run and where they grow out of transactions involving the importation or exportation of goods, the total volume of such acceptances outstanding at any one time not to exceed in the aggregate one-half of the paid-up capital and surplus of the accepting bank. The act of March 3, 1915, authorized the Federal Reserve Board to permit member banks to accept and Federal Reserve Banks to discount acceptances in a total amount not exceeding the capital and surplus of the accepting bank, and the act of September 7, 1916, authorized member banks to accept drafts and bills growing out of transactions involving domestic shipments of goods, provided shipping documents conveying or securing title are attached at the time of acceptance, or which are secured at time of acceptance by warehouse receipts or other similar documents conveying or securing title, covering readily marketable staples. The total amount of domestic bills which may be accepted by a member bank may not exceed at any one time in the aggregate one-half of its paid-up and unimpaired capital stock and surplus.

The Board had on December 31, 1918, authorized 161 member banks to accept up to 100 per cent of their capital and surplus. Purchases of acceptances constituted the greater part of the open-market transactions of the Federal Reserve Banks. Acceptances bought are mainly bankers' acceptances, although trade acceptances, which are drafts drawn by the seller upon the purchaser of goods and which may be either foreign or domestic in their character, are now being acquired in increasing volume, in some districts the aggregate

Trade acceptances are discounted more freely upon the indorsement of member banks, and a differential of one-fourth of 1 per cent is usually given in favor of these acceptances as against promissory notes.

The following tabular statement of acceptances bought in the open market by the Federal Reserve Banks during the past four years shows the large increase in the volume of the acceptance business:

Acceptances bought in open market by Federal Reserve Banks.

[In thousands of dollars; i. e., 000 omitted.]

	Bought in open market—				Purchased from other Federal reserve banks.	
	1915	1916	1917	1918	1917	1918
Boston	14,105	52,377	86,481	194,158	5,047	6,709
New York	25,834	123,406	445,307	945,498	19,659	50,182
Philadelphia	7,565	53,122	70,710	77,686	15,204	42,321
Cleveland	2,963	27,542	51,007	122,800	40,102	54,199
Richmond	250	11,313	54,759	70,766	3,357	331
Atlanta	72	12,544	25,388	45,477	1,005	2,514
Chicago	5,782	27,061	61,142	122,787	5,572	100,077
St. Louis	1,801	20,681	22,788	26,096	6,944	4,551
Minneapolis	1,455	13,539	16,397	13,903	16,675	25,911
Kansas City	1,788	8,191	17,561	14,691	9,264	19,047
Dallas	....	3,543	9,743	25,024	25,333	8,242
San Francisco	3,230	32,776	48,018	150,653	20,249	22,506
Total	64,845	386,095	909,301	1,809,539	168,411	336,590

Bankers' acceptances are regarded as the most liquid of all investments, and it has always been the policy of the Board to permit a substantial differential in their favor. The rates on acceptances are subject to fluctuations, reflecting accurately the varying conditions of the money market, and consequently the Board has never fixed a definite rate for them but has prescribed maximum and minimum rates within the limitations of which the Federal Reserve Banks are permitted to purchase bills.

In 1915 Federal Reserve Bank acceptance rates ranged between 2 and 3 per cent, and at the present time the minimum rate is 4 per cent.

The private rate in London has for the past nine months been about 3½ per cent against average current rates in New York of 4¼ per cent. While this difference may have diverted some business to the English banks, the Board has not as yet deemed it advisable for the Federal Reserve Banks to meet the British rate, because of the large financial operations of the Treasury, and for other reasons which are stated below. It was thought that a lower rate for any class of paper than that borne by member banks' 15-day collateral notes secured by Government obligations might have an unfavorable effect upon the Treasury's operations.

The British rate of 3½ per cent, however, has been maintained for nearly a year, despite the fact that London banks have been paying

3 per cent interest on domestic balances and 4½ per cent interest on foreign balances, while the British Government is paying 5 per cent on loans made to it by the United States Government. The report of the British Committee on Currency and Foreign Exchanges, dated August 18, 1918, however, indicates the possibility of an advance in the British discount rate on acceptances. As no reduction in the rate for paper secured by Government obligations is contemplated by the Board, a lower acceptance rate at Federal Reserve Banks would have a tendency to reduce the proportion of bond-secured paper held by them, and to bring about a corresponding increase in their proportion of commercial paper holdings.

In considering rates of discount for bankers' acceptances in the United States, certain fundamental differences between the London and the New York money markets must be kept in mind. In London there is an official rate fixed by the Bank of England, known as the bank rate, and there is also an open-market or private rate. The bank rate is the rate at which the Bank of England will buy approved bills of exchange in the London market. The bank will not buy the acceptances of foreign banks domiciled in London nor of foreign agencies established in London.

The London market can avail itself of the rate established by the Bank of England, which is prepared at all times to absorb bills at its prevailing discount rate. The bank itself, whenever it seems desirable, operates in the market, absorbing funds when it wishes to maintain or advance the rate, and whenever it wishes to ease the market the bank takes an active instead of a passive part in the purchase of bills of exchange. The Bank of England rate is usually higher than the private rate, which is governed by the demand for and supply of bills of exchange. The supply is represented largely by bills drawn for the purpose of carrying on international commerce in the form of 60 and 90 days' sight acceptances drawn upon English banks and acceptance houses. The demand in the open market comes mainly from the joint-stock banks, private banks, and discount companies, and represents accumulated funds whose use in other channels is not expected to develop for some time—say, 30, 60, or 90 days and sometimes for longer periods. Bills of exchange available for discount with the Bank of England are purchased by these institutions with the knowledge that they can always be disposed of at the bank rate on the day of sale, and this knowledge gives such elasticity to investments in bills of exchange that purchases are made freely from moneys temporarily idle, and a large portion of the resources of the purchasing institutions is carried in the shape of bills purchased at the open-market rate which are discountable at the Bank of England. Should a feeling arise in the course of market operations that the Bank of England is likely to raise its rate, which is usually done in gradations of one-half of 1 per cent to 1 per cent, the open-market rate, or private rate, will rise in anticipation of the change, above the official bank rate. During a period when the bank rate seems to have been established at a definite figure and when no changes are anticipated, the tendency of the private rate is to drop below the bank rate and to continue there. Bankers and discount houses purchasing bills of exchange at the private rate know that in any event they can sell their bills at the bank rate, and if this rate holds fairly steady they have an opportunity to earn the full interest obtainable on bills purchased for such time as they may be held. Furthermore, purchasers know that if the bills are carried for a considerable portion of the time they have to run and then must be sold at the bank rate, there will be a profit on the investment for the time the bills are carried even though sold at the higher bank rate.

The accumulation of funds in London from all parts of the world has been invested to a large extent in bills of exchange for many years. Experience, demonstrating the safety of these investments, has given great elasticity to the operations and has made the open discount market in London for bills of exchange so broad that large transactions are carried on without noticeable effect upon the money market. It is therefore natural that during periods of steady money rates the private rate should rule below the bank rate.

Before the war, time bills of exchange were drawn upon London covering exports and imports between England and other countries and between foreign countries, all of which created a vast turnover, which the English money market was able to absorb because of the accumulation of funds in London available for such investments. During the war, owing to several causes, sterling bills of exchange were not created in nearly so large a volume. One reason for this is that the United States Government was making loans in dollars to Great Britain, France, and Italy to provide for purchases by these nations in the United States, and another is that purchases made by these nations in the United States include raw materials which have been imported into the United States to be used in the manufacture of goods for the allied powers which otherwise might have been imported direct by those nations. This applies particularly to food, clothing, and munitions. As a result, the British money market is, or has been until recently, rather bare of bills of exchange. Funds available in London for use in the open market are probably greater now than in normal times, as there has been an accumulation due to the fact that foreign exchanges have generally ruled against Great Britain, which has made the withdrawal of sterling balances by foreign nations difficult and expensive. Even though the bank rate has been maintained at 5 per cent, the private rate has naturally fallen below this figure and has ruled around 3½ per cent. The cost of converting sterling balances into balances in other countries where a higher interest rate might be obtained, added to the increased risks of such conversion due to the war, has operated to prevent transfers from the London market which otherwise might have been made.

At the beginning of the war in 1914 the creation of sterling bills of exchange in all parts of the world was stopped for the time being, and as a result there was a very large amount of unloanable funds in the London open-money market. The London joint-stock banks were obliged to lower the rate of interest which they paid upon balance to a point below the normal difference of 1½ per cent off the bank rate. After the third moratorium proclamation, which reestablished the credit of British institutions all over the world, the drawing of time sterling bills was resumed on a large scale, and as a result London money rates went above 6 per cent. After the United States came into the war the creation of sterling bills fell off rapidly for reasons already stated, which resulted in bringing the British money market into the position outlined.

In New York, which at the present time is the only city in the United States which has anything like a broad acceptance market, the rate established by the Federal Reserve Bank is followed closely by the outside market, because there are not ordinarily sufficient funds available in the New York open market to absorb acceptances offered, and consequently there is no tendency for the outside rate to go below the Federal Reserve Bank rate. Should there be a period of very easy money, it is probable that the outside rate in New York would fall somewhat below the Federal Reserve Bank rate. This will transpire whenever bankers feel that they can hold bills until maturity without being obliged to transfer them to the Federal Reserve Bank during the life of the bills.

With the present restrictions upon foreign trade and without free shipments of gold between Great Britain and the United States, the New York and London money markets stand each upon its own bottom and are not subject to the ordinary leveling process usual in normal times. This being true, the Federal Reserve Board has felt justified in basing the rates of the Federal Reserve Banks upon our own money-market conditions instead of considering them in the light of market conditions abroad, as may become necessary upon the restoration of normal conditions. The problem of establishing discount rates for acceptances through the Federal Reserve Bank in New York since the United States entered the war has, consequently, been entirely free from any consideration of the English rate. It should be borne in mind also that our acceptance rate is applied to bills of exchange drawn upon banking institutions authorized by law to accept time bills under certain restrictions. Our law provides for domestic acceptances only to a limited extent (50 per cent of the capital and surplus of the accepting bank) and was framed especially to promote our foreign trade.

During the war we were obliged to import on balance a very large volume from many countries, and it was necessary to afford every possible facility to aid in the financing of such imports. Too high an acceptance rate would naturally have caused more or less uneasiness in the countries called upon to make advances against their exports to us, as the impression might have prevailed that we were pressed for funds. Prevailing rates of from 4 to $4\frac{1}{2}$ per cent, therefore, have seemed to be entirely natural. When a normal basis of trade is again established between the principal countries of the world, the ability of this country to uphold the dollar in foreign markets will lie partly in the judgment displayed in adjusting our acceptance and bank rates. By that time, however, the English money market, as well as our own, will have resumed a more normal condition, so that the tendency in world currents of trade will be more clearly marked. The flow of money will be more noticeable and rates will have a greater tendency to establish themselves more automatically outside of the Federal Reserve System, thereby furnishing a surer basis for rate movement in the system.

In the development of the American acceptance market it is necessary to provide not only an outlet for acceptances but means of securing acceptances of bills in adequate volume, and in order to enable American banks and bankers to compete with British banking houses in financing the world's trade the combined power of American institutions whose acceptances can be made available in foreign markets to accept time bills must be large enough to meet all requirements, for otherwise should importers find that it is only occasionally that they can obtain dollar acceptance credits from American banks, due to the fact that these banks have reached the limit of acceptance liabilities provided by law, the importers will naturally return to the sterling acceptances which are available at all times in sufficient amounts to meet the demand.

On a recent date American banks whose acceptances, under the most liberal estimate, might be regarded as available in foreign markets were found to have acceptances outstanding to the amount of $477,500,000, and under existing limitations on this basis their acceptance liability can be increased by $630,000,000, provided every bank included in the list should be called upon to accept to the full extent of its ability. Many of these banks, however, are located in inland cities, and their acceptances are undoubtedly largely against domestic transactions. When they do accept on foreign transactions, it is usually in connection with some credit in which they have been invited to participate.

In the three cities of Boston, New York, and Philadelphia the acceptance line (on the basis of recent totals) still available for use by the accepting institutions is only a little over $275,000,000. The cities of Baltimore, Wilmington, and Charleston on the eastern seaboard can accept for about $15,000,000 more, making a total available for the promotion of the foreign trade of cities on the Atlantic slope of about $290,000,000, while the foreign trade naturally financed in these cities would require a much larger line if any considerable proportion were covered by dollar acceptances.

In order to provide additional facilities for engaging in foreign transactions, it has been suggested to the Board that it may become advisable to amend section 13 of the act so as to permit the Federal Reserve Board to authorize any member bank having a combined capital and surplus of not less than $1,000,000 to accept drafts or bills of exchange drawn upon it having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods, to an amount not exceeding 200 per cent of its capital and surplus, provided that no bank shall be permitted to accept for domestic transactions in an amount greater than 50 per cent of its capital and surplus or more than 50 per cent of its capital and surplus for the purpose of furnishing dollar exchange, but that any part of the aggregate amount which a bank may be authorized to accept may be used in accepting drafts or bills of exchange growing out of transactions involving the importation or exportation of goods.

By limiting the authority to accept in the larger amount proposed, to foreign transactions, there would be no possibility of the added acceptance privilege being used for the expansion of domestic credits, and the aggregate amount of acceptances outstanding would be controlled by our foreign trade requirements.

MEMBERSHIP OF STATE INSTITUTIONS.

The amendments to section 9 of the Federal Reserve Act approved June 21, 1917, prescribe definite terms and conditions as to the admission and status of State banks as members of the Federal Reserve System, and provide also for their withdrawal upon six months' written notice. The Board had already adopted a liberal policy in dealing with State banks and trust companies, but the action of Congress has confirmed and strengthened what the Board sought to accomplish by regulation.

Section 9 of the Federal Reserve Act as amended provides that any bank becoming a member of the Federal Reserve System shall retain its full charter or statutory rights as a State bank or trust company, which has been interpreted by the Attorney General of the United States as going so far as to release them from the restrictions of section 8 of the Clayton Act, which relate to joint directorships. Only 53 State banks and trust companies had become members of the system up to June 21, 1917, but the legislation to which reference has just been made removed the principal obstacles in the way of State bank membership, and this, together with the patriotic desire on the part of many of the banks to assist the Government in its war financing, has resulted in a rapid increase in the State bank membership. The movement of the State banks into the system still continues, for the fact is appreciated that the war is not yet over in a financial sense and the State bank members, almost without exception, as the result of their experience in the system, have come to appreciate the value of membership.

At the close of the calendar year 1917, 250 State institutions were members, with an aggregate capital and surplus of $520,765,000 and aggregate resources of about $5,000,000,000. On December 31, 1918, the total membership of State banks and trust companies had increased to 936, having an aggregate capital and surplus of $750,618,000 and aggregate resources of about $7,339,000,000. The total number of State banks and trust companies eligible for membership, including those now members, is estimated to be approximately 8,500 with total resources of about $13,500,000,000. The present State bank and trust company membership, therefore, represents about 54 per cent of the total banking assets of all State banking institutions eligible for membership in the Federal Reserve system.

Tables showing the titles, dates of admission, capital and surplus, and aggregate resources of State banks and trust companies appear in the appendix.

The Board wishes to express its appreciation of the cooperation which has been given it by nearly all of the State bank commissioners, and as an illustration of the influence which has been exerted by many of them the following is quoted from the annual report of the superintendent of banks of the State of Ohio for 1918:

> The flotation of the different Liberty loans clearly demonstrates the value of the Federal Reserve System of the National Government in this great war crisis. Time will continue to prove the soundness of the system, and as the bankers come to a fuller realization of the benefits to be derived by membership, and what the system has accomplished for the protection of business, it is believed that more will seek membership therein.
>
> The reserve of the Federal Reserve Bank is the basis of its loaning power, and every State bank joining the system will, through its deposit of reserve with the Federal Reserve Bank, increase the credit facilities thereof. It is manifestly of great importance therefore that all qualified State banks and trust companies identify themselves with the system in order that the demands of legitimate business and the requirements of the Government may have sufficient credit.

reserves held by State banks, it seemed to be insufficient to meet all the demands that would no doubt come upon these institutions. Consequently, I immediately used all the argument and influence at my command to induce eligible State banks to join the Federal Reserve System, so they could not only contribute their share to the mobilized reserves of the country, but have available direct to them, as a right, the rediscount facilities of the Federal Reserve System.

In my opinion the record of the State banks in Ohio in supporting the Federal Reserve System is a creditable one. The assets of those banks which are members at the date of this report aggregate $275,000,000. Pending applications when accepted by the Federal Reserve Board will increase the total aggregate thereof to $317,000,000, or 34 per cent of the entire State banking resources.

A word of appreciation is due also to the American Bankers' Association, which has continued its campaign committee on Federal Reserve membership. This committee is doing a great deal of effective work in calling the attention of State banks to the advantages to be derived from membership in the system.

The growth of State bank membership during the year 1918 is shown in the following tables:

TABLE 1.—*Number and total resources of State banks and trust companies, members of Federal Reserve System, by districts.*

[Resources in thousands of dollars.]

Federal Reserve district.	Dec. 31, 1917.		May 10, 1918.		June 29, 1918.		Sept. 1, 1918.	
	Number.	Resources.	Number.	Resources.	Number.	Resources.	Number.	Resources.
Boston	14	339,722	23	528,584	24	533,264	25	539,451
New York	44	2,707,541	63	3,009,215	66	3,026,540	82	3,084,551
Philadelphia	8	228,440	16	244,336	16	244,034	20	273,443
Cleveland	13	369,147	26	442,848	30	452,907	48	494,140
Richmond	14	43,804	20	60,405	20	60,313	26	81,695
Atlanta	20	150,656	30	180,700	38	177,031	42	200,461
Chicago	71	792,425	114	878,542	128	944,596	206	1,212,651
St. Louis	13	209,694	23	266,436	24	273,186	36	299,537
Minneapolis	16	27,527	35	46,899	40	47,127	53	60,180
Kansas City	9	68,099	16	79,695	16	78,632	23	83,967
Dallas	11	11,133	43	26,694	58	31,271	86	46,704
San Francisco	17	65,697	40	84,392	53	125,923	66	139,020
Total	250	5,013,885	449	5,938,746	513	5,994,824	713	6,575,800

Federal Reserve district.	Oct. 1, 1918.		Nov. 1, 1918.		Dec. 1, 1918.		Jan. 1, 1919.	
	Number.	Resources.	Number.	Resources.	Number.	Resources.	Number.	Resources.
Boston	28	564,301	28	598,677	29	599,747	31	628,462
New York	89	3,104,110	95	3,302,338	96	3,306,056	101	3,366,785
Philadelphia	22	277,845	23	316,343	28	335,928	30	339,571
Cleveland	57	508,512	58	553,664	63	557,074	67	585,591
Richmond	31	91,263	33	106,309	34	107,099	37	108,984
Atlanta	45	201,672	48	236,063	50	237,845	54	238,500
Chicago	237	1,237,411	267	1,311,447	278	1,321,887	288	1,330,062
St. Louis	36	299,537	43	341,169	44	341,615	44	341,615
Minneapolis	59	62,948	62	72,988	68	76,103	70	77,116
Kansas City	24	85,162	25	96,943	27	103,244	27	103,244
Dallas	89	47,382	88	52,631	99	57,098	100	57,303
San Francisco	68	139,499	77	155,504	79	156,494	87	161,580
Total	785	6,619,642	847	7,144,076	895	7,197,190	936	7,338,813

TABLE 2.—*Ratio of number and total resources of State banks and trust companies which have joined the Federal Reserve System to total State banks and trust companies reported as eligible for membership on the basis of capital requirements.*

Federal Reserve district.	Dec. 31, 1917.		May 10, 1918.		June 29, 1918.		Sept. 1, 1918.	
	Number.	Resources.	Number.	Resources.	Number.	Resources.	Number.	Resources.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Boston	7.1	35.0	11.7	54.5	12.2	55.0	12.7	55.6
New York	12.4	62.1	17.7	71.1	18.5	69.4	23.0	70.7
Philadelphia	3.1	30.7	6.2	32.8	6.2	32.8	7.8	36.8
Cleveland	2.1	29.7	4.3	35.7	4.9	36.5	7.9	39.8
Richmond	2.7	9.8	3.9	13.5	3.9	13.4	5.0	18.2
Atlanta	2.7	33.8	4.0	40.5	5.0	39.7	5.6	44.9
Chicago	3.4	32.7	5.4	36.3	6.1	39.0	9.8	50.0
St. Louis	1.3	28.7	2.3	36.4	2.4	37.4	3.7	41.0
Minneapolis	2.5	7.8	5.5	13.2	6.3	13.3	8.3	17.0
Kansas City	1.0	13.1	1.8	15.3	1.8	15.1	2.5	16.1
Dallas	2.3	5.4	9.0	12.8	12.2	15.0	18.1	22.4
San Francisco	2.3	6.5	5.4	8.4	7.1	12.5	9.0	13.8
Total	2.9	37.3	5.3	44.1	6.0	44.6	8.4	48.4

Federal Reserve district.	Oct. 1, 1918.		Nov. 1, 1918.		Dec. 1, 1918.		Jan. 1, 1919.	
	Number.	Resources.	Number.	Resources.	Number.	Resources.	Number.	Resources.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
Boston	14.2	58.2	14.2	61.7	14.7	61.8	15.7	64.8
New York	25.0	71.2	26.7	75.7	27.0	75.8	28.4	77.2
Philadelphia	8.6	37.3	8.9	42.5	10.9	45.2	11.7	45.6
Cleveland	9.3	41.0	9.5	44.6	10.3	44.9	11.0	47.2
Richmond	6.0	20.3	6.4	23.7	6.6	23.9	7.2	24.3
Atlanta	6.0	45.2	6.4	52.9	6.6	53.3	7.2	53.5
Chicago	11.3	51.1	12.7	54.1	13.2	54.6	13.7	54.9
St. Louis	3.7	41.0	4.4	46.7	4.5	46.7	4.5	46.7
Minneapolis	9.3	17.8	9.8	20.6	10.7	21.5	11.0	21.8
Kansas City	2.6	16.2	2.8	18.6	3.0	19.9	3.0	19.9
Dallas	18.6	22.7	18.5	25.3	20.8	27.5	21.0	27.5
San Francisco	9.2	13.8	10.4	15.4	10.6	15.5	11.7	16.0
Total	9.2	49.2	9.9	53.1	10.5	53.5	11.0	54.5

RATES OF EARNINGS FROM INVESTMENTS OF THE FEDERAL RESERVE BANKS.

The subjoined table shows the advancing tendency of rates at Federal Reserve Banks during the year. These rates are based upon actual discount and interest earnings and corresponding holdings of each class of productive assets. The apparent decrease in the average rate since July is due to the increased holdings of short-time paper secured by Government obligations on which the rate at most of the banks has been 4 per cent. The apparent decline in the rate of earnings on United States securities is due to the fact that during the early part of the year advances on United States bonds and Treasury certificates were reported in the statements of the banks as temporary investments in these securities, while since May transactions based upon these securities have been included in bills discounted.

Rates of earnings from investments of the Federal Reserve Banks.

	Bills discounted.	Bills bought in open market.	United States securities.	Total investments.
January	3.94	3.64	3.27	3.75
February	4.02	3.79	3.25	3.81
March	3.94	3.92	3.59	3.86
April	4.14	4.18	3.56	4.07
May	4.38	4.36	3.06	4.29
June	4.31	4.25	3.00	4.20
July	4.40	4.24	2.76	4.31
August	4.35	4.38	2.87	4.27
September	4.27	4.19	2.73	4.21
October	4.22	4.25	2.44	4.13
November	4.27	4.33	2.49	4.19
December	4.29	4.33	2.40	4.14
Average for year	4.24	4.14	2.99	4.12

EARNINGS AND EXPENSES OF THE FEDERAL RESERVE BANKS.

In its previous reports the Board has called attention to the fact that the Federal Reserve Banks are not operated primarily for profit, and it seems proper to reiterate this statement at this time, although it may seem incongruous in view of the fact that the combined gross earnings of the 12 banks for the year 1918 amounted to $67,584,417, the net earnings being $55,446,979, or just ten times the dividends paid. The net earnings were at the rate of 72.6 per cent on an average aggregate capital for the year of $76,342,000.

A year ago six of the banks had paid all accumulated dividends, while two were 12 months in arrears, and four were 6 months behind. All accumulated dividends were paid by all banks on June 30, 1918, and on December 31 out of net earnings, after dividend requirements had been met, the 12 banks carried to their surplus accounts the sum of $21,605,901, and set aside as a reserve for franchise tax to be paid to the United States, as provided in section 7 of the Federal Reserve Act, the sum of $26,728,440. The law provides that after all expenses and dividend claims have been paid, all net earnings shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until that fund shall amount to 40 per cent of the paid-in capital stock of the bank.

The Federal Reserve Bank of New York has now accumulated the maximum surplus permitted by law—40 per cent—while the percentage of surplus to capital of the other 11 banks is as follows:

	Per cent.
Boston	22.9
Philadelphia	17.2
Cleveland	19.6
Richmond	28.5
Atlanta	24.3
Chicago	29.6

	Per cent.
St. Louis	21.1
Minneapolis	24.8
Kansas City	33.1
Dallas	18.8
San Francisco	26.4

The gross and net earnings and dividends paid by all the Federal Reserve Banks for the calendar year 1918, and the amount set aside in each case for franchise tax are shown in the following table:

Gross and net earnings and dividend payments of the Federal Reserve Banks during 1918; also amounts transferred to surplus fund and reserved for Government franchise tax.

Federal Reserve Bank.	Gross earnings.	Net earnings.	Dividend payments.	Transferred to surplus fund.	Reserved for Government franchise tax.
Boston	$4,475,195	$3,505,180	$384,180	$1,460,500	$1,460,500
New York	25,314,736	22,634,033	1,195,026	7,672,676	12,795,215
Philadelphia	4,357,740	3,270,824	583,983	1,304,172	1,304,172
Cleveland	5,226,864	4,234,679	716,107	1,776,000	1,776,000
Richmond	2,979,048	2,335,228	232,432	1,039,799	1,039,799
Atlanta	2,293,058	1,665,585	182,473	735,000	735,000
Chicago	8,481,747	6,831,072	604,635	3,100,223	3,100,223
St. Louis	2,676,828	1,950,807	404,838	801,655	801,655
Minneapolis	2,049,954	1,585,546	168,103	688,872	688,872
Kansas City	3,451,936	2,762,708	309,729	1,210,713	1,210,713
Dallas	2,089,526	1,554,102	261,503	592,204	592,204
San Francisco	4,187,785	3,117,215	497,675	1,224,087	1,224,087
Total	67,584,417	55,446,979	5,540,684	21,605,901	26,728,440

The great expansion in the business of the banks, which has been reflected in their earnings, has made it necessary for them to make large additions to their working forces. The number of officers and employees in all departments at each of the Federal Reserve Banks at the close of the year was as follows:

Boston	585
New York	2,657
Philadelphia	422
Cleveland	589
Richmond	254
Atlanta	317
Chicago	815
St. Louis	385
Minneapolis	267
Kansas City	480
Dallas	403
San Francisco	531
Total	7,705

It is evident that the Federal Reserve Banks, in order to insure the proper conduct of their business and to protect the interests of the Government, the member banks, and the public, must employ men of exceptional experience and ability. Experience has shown that the larger member banks are disposed to draw upon the Federal Reserve Banks for men to fill high official positions, and in order to retain the services of officers who are constantly being tempted with outside offers at high salaries, it has become necessary to recognize this competition. While the Board has in no case approved salaries for Federal Reserve Bank officers as high as those paid officers of similar rank by the larger member banks in the various Federal Reserve cities, it has approved salaries approximating the average salaries paid by the larger local banks. In the case of junior officers, heads of divisions, and clerks, the Board has recognized from the outset that the compensation paid them must be in line with that paid by the larger member banks.

The Board does not believe that the Federal Reserve Banks should become training schools for future officers of member banks; it feels, on the contrary, that sufficient inducements should be offered by the Federal Reserve Banks to make service with them attractive as a career.

BANKING QUARTERS.

All of the banks have found their quarters inadequate for housing their employees, and most of them have been obliged to rent space in other buildings. The vault facilities also have been found insufficient, and the banks have been obliged to have recourse to safe-deposit vaults owned by other institutions.

In the circumstances the banks have naturally directed their attention to the acquisition and ownership of permanent quarters. It has been found necessary in each case to secure a location near the financial center, convenient not only to the local member banks but to the post office and Subtreasury; but in the opinion of the Board all purchases have been made at reasonable figures, and in no case have maximum prices for the highest grade central property been paid.

The Federal Reserve Bank of Boston has purchased a conveniently located building at a cost of $1,000,000. The building is old and may be demolished to make way for a new one specially designed for the bank, but in the opinion of the Board the price paid represents a fair value of the lot alone.

The Federal Reserve Bank of New York has acquired a property close to the financial district at a cost of about $3,100,000, and will utilize the old buildings until it has completed its plans for a modern building to take their places.

The Federal Reserve Bank of Philadelphia has purchased the Penn Mutual Life Building on Chestnut Street at a cost of $600,000 and is now occupying it, having remodeled it to meet requirements.

The Federal Reserve Bank of Richmond purchased a lot two years ago which it has not yet improved, because of high cost of building during the war, and it has also purchased for the use of its branch in Baltimore, at a cost of $200,000, a building formerly occupied by one of the local banks, which is entirely adequate for the purposes of the branch bank.

The Federal Reserve Bank of Atlanta is occupying a new building which was completed in August, the cost of the building and lot having been about $230,000.

The Federal Reserve Bank of Chicago has purchased for $2,936,000 a property in the financial district most suitably located. The building is not regarded as being of any value and will be torn down to make room for a new structure.

The Board has approved plans of the Federal Reserve Bank of St. Louis for the purchase of a building, to be remodeled for its occupancy.

The Federal Reserve Bank of Kansas City has purchased a lot for $500,000. The Federal Reserve Bank of Dallas, which purchased a building three years ago, has found its present quarters to be inadequate and has purchased a larger lot for the sum of $145,000, upon which it proposes to erect a suitable building, and it will dispose of the building and lot now owned and occupied by it.

The Federal Reserve Bank of San Francisco has acquired property near the financial center of the city at a cost of $405,000, and is now occupying a building to which additions will be made later on.

The Federal Reserve Banks of Cleveland and Minneapolis have not as yet purchased lots.

On December 14 the Board sent the following instructions to all Federal Reserve Banks, relating to the treatment of depreciation and extraordinary charges in closing the books at the end of the year.

In order that there may be uniformity of practice, the Federal Reserve Board has approved for Federal Reserve Banks the adoption of the following rules for the treatment of depreciation and extraordinary charges against earnings and profit and loss account at the closing of books December 31, 1918:

1. *Cost of Federal Reserve and Federal Reserve bank notes.*—Balance of account, as shown by books on December 31, to be charged to current expense account.

2. *Furniture and equipment account.*—Balance of account, as shown by books on December 31, to be charged to current expense account.

3. *Cost of vaults.*—(a) All expenditures made during the year 1918 for vaults and vault equipment to be charged to current expense account; (b) balance of account, as shown by books on December 31, 1917, to be charged to profit and loss account.

4. *Alterations and improvements.*—Charge against current expense account all expenditures made during the year 1918 in repairing, altering, or remodeling bank premises.

5. *Bank premises.*—(*a*) Where properties have been purchased with the intention of erecting new bank buildings, banks to be permitted to charge against profit and loss account an amount sufficient to cover the estimated value of buildings which will have to be razed, such estimated valuation of buildings to be submitted to the Federal Reserve Board for approval before depreciation allowance is determined.

(*b*) Where properties have been remodeled and are now used as permanent banking quarters by a Federal Reserve Bank, a reasonable depreciation charge will be permitted, but in no case shall it exceed 10 per cent of the estimated value of buildings on December 31, 1918.

(*c*) Where a Federal Reserve Bank has purchased, or may purchase, a site for a new building, it will be permitted to charge down the book value of premises now owned and occupied to a fair selling price, such price to be submitted to the Federal Reserve Board for approval before depreciation allowance is determined.

6. *Apparent depreciation of Government securities.*—Full provision to be made for apparent depreciation (based on market value) in Government securities before any sum is transferred to surplus account, and provision made for Government franchise tax.

No change should be made in book value of securities but depreciation allowance should be charged to profit and loss account and credited to account "Reserve for depreciation." Depreciation should be figured on the following basis:

2 per cent bonds 1930–1938	98
4 per cent bonds 1925	106
3 per cent conversion 1946–47	85
3 per cent one-year notes	100
$3\frac{1}{2}$ per cent Liberty loan 1947	98
4 per cent Liberty loan 1942–1947	93
$4\frac{1}{4}$ per cent Liberty loan 1928–1947	96

7. *Surplus and franchise tax.*—After dividends and all allowable charge-offs have been made, one-half the remainder, up to 40 per cent of capital paid in, to be credited to surplus account and the balance credited to an account to be opened under the title "Reserve for franchise tax," to remain in such account until demand therefor is made by the Government, of which due notice will be given you by the Federal Reserve Board.

GOLD SETTLEMENT FUND.

The general plan of operation of this fund has been described in previous reports and it is therefore unnecessary to make any further explanation of it. Owing to the great increase in the volume of business between the Federal Reserve Banks, caused partly by Government war financing (including large transfers of funds received from the sale of certificates of indebtedness and Liberty bonds and subsequent redistribution of these funds among various centers in payment for munitions and supplies for the account of the United States and the allied Governments) and partly by larger use of the collection and clearing facilities of the system, particularly in the matter of wire transfers from one Federal Reserve Bank to another, it was deemed expedient to install a system of daily settlements between the Federal Reserve Banks in place of the weekly clearings which had been in operation since the establishment of the fund in May, 1915. The first clearing under the daily settlement plan was made July 1, 1918. The new system has worked with facility, rapidity, and smoothness, and has eliminated much clerical work at the Federal Reserve Banks. In order to expedite the daily settlements and to improve the collection and clearing service, a leased telegraph wire system, connecting all the Federal Reserve Banks and branches with the Board's office at Washington, was installed July 1, 1918. Under the daily settlement plan each Federal Reserve Bank telegraphs the

Board by 10 a. m., eastern time, the respective amounts credited to other Federal Reserve Banks on the previous day. Upon receipt of the telegrams by the Board, clearing is made by book entries, and within one hour each Federal Reserve Bank is advised of the amount of credits for its account from the other Federal Reserve Banks and also of the net debit or credit to its gold settlement account on the books of the Board.

In order to eliminate unnecessary work between the San Francisco bank, its branches, and other Federal Reserve Banks, and delays in reconciling differences due to the distances between the parent bank and branches, beginning with December 2 the four branches of the San Francisco bank, located at Seattle, Spokane, Portland, and Salt Lake City, were authorized to make settlements through the fund in the same manner as the Federal Reserve Banks, except that the net debit or credit balance in the settlement of each branch is adjusted through the gold settlement fund account of the head office, as the branches do not maintain accounts with the fund.

Since the installation of the leased-wire system, practically all transfers between the Federal Reserve Banks for account of the Treasury are made directly through the fund. Settlements on account of rediscount operations between the Federal Reserve Banks are also made by direct transfer through the fund, and on account of the instant contact afforded by the leased-wire system, transactions are completed within 20 minutes to 2 hours, the major portion of the time being consumed in the arrangement of details between the respective banks. Transfers through the gold settlement fund are of great value in these operations.

The transactions through the fund have a very important bearing upon the reserve position of the banks, and as all entries affecting the fund are made on the books of the Board and at the banks simultaneously, the Board is at once informed as to the effect of the day's transactions upon the reserves of each bank.

Combined clearings and transfers through the fund during the year 1918 aggregated $50,242,592,000, as compared with $27,154,704,000 in 1917, $5,533,966,000 in 1916, and $1,052,649,000 in 1915, making a grand total of $83,983,911,000 since the operation of the fund was begun May 20, 1915. A comparison of the amounts of the average weekly settlements shows clearly the growth of the volume of transactions.

Average weekly volume of clearings and transfers:

918, July 1 to Dec. 31	$1,064,596,000
1918, Jan. 1 to June 30	966,203,000
1917	522,206,000
1916	106,422,000
1915	31,898,000

Analysis of the principal transactions growing out of the Government's financial program, and of the transactions through the gold settlement fund since the declaration of war, April 6, 1917, shows the important part the fund has played in fiscal agency operations, for through it the Treasury has been enabled to transfer, without the actual handling of cash, vast sums from districts where they had accumulated to other districts where funds were needed to meet disbursements, the time consumed in transfers being measured in minutes instead of days.

The settlement of April 12, 1917, for the week following the declaration of war showed totals liquidated of $293,506,000, while transfers between Federal Reserve Banks during the week amounted to only $1,622,000, making a combined total of $295,128,000. Total clearings of the settlement of May 17, 1917, amounted to $412,103,000, and constituted the largest settlement up to that date. This volume was occasioned by large transfers on account of the sale of certificates of indebtedness by the Treasury issued in anticipation of the first Liberty loan. Transfers, during the same week, between Federal Reserve Banks, largely to New York, of Government funds for account of the Treasurer of the United States amounted to $108,740,000, making a record total of combined clearings and transfers of $520,843,000. The volume of clearings and transfers through the fund increased steadily after this time, mainly on account of the movement of funds in connection with the Treasury's large fiscal operations. A new record total of $1,092,920,000 for combined clearings and transfers was made in the week ended November 22, which immediately followed the first payment of 18 per cent on the second Liberty loan November 15, 1917.

There was a large increase in the volume of business during May and June, 1918, on account of the movement of funds accruing from payments on subscriptions of the third Liberty loan. Combined clearings and transfers for the week ended June 20 aggregated $1,140,250,000, and were the heaviest since the establishment of the fund. During the past four months the volume of combined clearings and transfers has averaged well over a billion dollars a week as the result of increased business due to movements of funds in connection with the fourth Liberty loan.

During the past year the Federal Reserve Banks and the Federal Reserve agents have found it desirable to make payments for credit to their gold redemption funds against Federal Reserve notes, and to the banks' redemption funds against Federal Reserve bank notes, by transfers from their balances with the Federal Reserve Board to the Treasurer of the United States. Several of the Federal Reserve Banks also make payments to the Treasurer of the United States for the credit of national banks in the 5 per cent redemption fund against national bank currency by transfers from their balances in gold settlement fund account.

Total balances to the credit of the Federal Reserve Banks and agents amounted to $1,330,423,000 on December 31, 1918, divided as follows: Federal Reserve Banks $401,926,000 and Federal Reserve agents $928,497,000. Total increase in the combined funds during 1918 amounted to $522,176,000, as compared with $535,927,000 during 1917.

PROPOSED INTERNATIONAL GOLD FUND.

The successful operation of the gold settlement fund has suggested the possibility of avoiding shipments of gold from one country to another in settlement of balances arising out of ordinary commercial transactions, and the Board is ready, if authorized to do so, to undertake negotiations looking to the establishment of an international gold exchange fund, or to assist in any way in its power in negotiations which may be begun by a Government department looking to that end. The Board realizes that the successful operation of a plan of this kind is dependent upon the stability of the governments concerned, and believes that definite plans can not perhaps be worked out until a stable peace has been assured. The Board would point out the importance of excluding all transactions arising from the adjustment of war obligations and of limiting the work of the fund to current commercial and exchange transactions. The gold deposited in a government bank or banks should be in the nature of a special or trust fund, and all nations participating should deposit their proper proportions of gold. Assuming that the leading nations of the world will be at peace for a long period of years, there seems to be no reason why an international arrangement of this kind should not operate as efficiently as our own gold settlement fund, which has cleared enormous transactions between distant sections of a country of vast area. The saving of loss and expense incident to abrasion and transportation charges and interest on gold transferred will be enormous, and the advantage to the commerce of the world will be incalculable. It will probably be necessary in the beginning to limit participation in the fund to the United States and the entente allies, and to a few of the leading neutral nations, but it is conceivable that all civilized countries may eventually be participants.

EXPORT OF GOLD COIN, BULLION, AND CURRENCY.

As the country's activities in connection with the war gained momentum and Government financing assumed large proportions, resulting in constantly expanding issues of Federal Reserve notes, it became apparent that in the national interest every effort should be directed toward the conservation of our gold supply. Under the power delegated to the Board by the Secretary of the Treasury under the Executive orders of September 7, 1917, October 12, 1917, and January 26, 1918, a committee of the Board meets daily to consider and pass upon all applications for permission to export coin, bullion, and currency; and the closest scrutiny has been given to all applications, each being treated upon its own merits. Until the signing of the armistice, first consideration was compatibility with the national interest, due regard being given to proposed exports of coin, bullion, and currency necessary to obtain certain essential commodities—such as nitrate for use in powder making; copper, lead, antimony, tungsten, and platinum for use in the manufacture of munitions; petroleum for shipping, motor trucks, aeroplanes, and other motor-driven apparatus; hides for the manufacture of leather, and other miscellaneous commodities.

During the month of May some minor modifications were deemed necessary in the regulations which had been issued by the Board governing the exportation of coin, bullion, and currency, particularly in that section relating to funds carried by travelers leaving the country. Under the original regulations issued travelers leaving the country were permitted to carry on their persons or in their baggage United States notes, national bank notes, and Federal Reserve notes to the amount of $5,000; American silver dollars, subsidiary silver coins, and silver certificates to the amount of $200; and gold coin or gold certificates to the amount of $200. This rule was modified so that travelers were permitted to take with them United States paper currency, other than gold or silver certificates, to the extent of $1,000 for each adult, with the further provision that subsidiary silver coins not to exceed $100 for each adult might be taken in lieu of a like amount of notes. With few exceptions travelers do not carry large sums of money for personal expenses, as their needs are better served by the use of foreign drafts or travelers' checks; nor was the permission to carry gold certificates of more than slight value to the traveler. While the amount was small in individual cases, in the aggregate it was considerable and meant the loss of so much gold. Another and far more important reason for the modification of the regulations was the belief that United States currency taken into foreign countries by travelers was being absorbed by enemy agents for propaganda purposes. To further curtail the activities of enemy propagandists it also became necessary, in granting permission for the exportation of foreign paper currencies, to restrict such exportations to the country of origin.

In order that persons, firms, or corporations located near the Canadian border, who in the usual course of business receive Canadian currency, might be subjected to as little inconvenience as possible, the Federal Reserve Banks were instructed to grant, whenever they felt justified in so doing, blanket licenses for such exportations, the licensee to make report of each shipment. From September 7, 1917, to December 31, 1918, the amount of Canadian currency exported under general authority granted by Federal Reserve Banks amounted to about $15,000,000.

For some time exportations of silver to China were freely permitted in order to aid financing of importations to the United States. However, the silver situation in India becoming acute at a time when war conditions on the western front and in Mesopotamia made it imperative that a crisis in India should be avoided at all hazards, it was found necessary to restrict the private exportation of silver to the financing of importations of products which had been contracted for by departments of the Government. The extent of assistance rendered by the United States in meeting the demand for silver in India is shown as follows:

Licensed for export Sept. 7, 1917 to Dec. 31, 1917:	
To India	$20,932,565.20
To the United Kingdom	5,403,639.99
Total	26,336,205.19
Jan. 1, 1918, to Dec. 31, 1918	
To India	212,310,188.15
To the United Kingdom	39,035,375.00
Total	251,345,563.15

The total amounts involved in licenses granted for the export of coin, bullion, and currency from September 7, 1917, to December 31, 1918, are: Gold, $128,688,515; silver, $351,316,000; currency, $105,056,568; an aggregate of $585,061,083. Details, showing countries to which these exports went, appear in the appendix.

The Board was confronted with a difficult problem in passing upon applications to export gold to Mexico, for it was evident in view of the gold premium in Mexico that our own stock of gold would be subjected to a heavy drain unless protective measures were adopted which would serve to curtail what appeared to be an insatiable demand. At the same time it was clear that if the exportation of gold to Mexico should be prohibited entirely, our nationals conducting large mining, oil, and other operations in Mexico, being forced to pay exorbitant prices for Mexican gold in order to comply with the reimportation requirements and decrees of the Mexican Government, that taxes, export duties, and import duties be paid in gold, would be forced to stop production which would prevent the importation of material and commodities necessary for the prosecution of the war.

The Board therefore adopted the policy of permitting exportations of gold to Mexico by mining companies to cover the reimportation requirements of the Mexican Government against new product of mine gold or silver exported to the United States, to the extent of 100 per cent of the value of gold and 25 per cent of the value of silver coming into the United States.

By the return of this gold to Mexico the mine operators were able to use it for the payment of taxes, export and import duties, and to some extent wages. The Board also decided, with respect to American oil interests in Mexico, that it would permit the exportation of a sufficient amount of gold to allow producers to pay their taxes and bar dues on oil exported to the United States, import duties on commodities necessary in their operations imported from the United States, and one-half of their pay rolls. Later on large amounts of gold having gone to Mexico on account of mine operators' reimportation requirements, exchange rates fell to such an extent as to enable producers to purchase in Mexico, at a moderate premium, the gold necessary for their requirements. The Board let it be known that while it preferred that the producers obtain in Mexico gold for their requirements, it stood ready to permit exportations of American gold whenever an excessive premium was demanded. With an abundance of American gold in Mexico, and with increased exports of various commodities from the United States to that country, there is no reason for United States currency to be at a discount in Mexico at a rate exceeding the cost of shipping gold, and for several months our currency has been circulating there with greater facility and in larger volume.

For some time, in order to meet the wishes of the Food Administration and other governmental agencies, licenses were granted for the exportation of gold, to enable shippers of sisal, hides, cattle, bones, ixtle, garbanzos, and other miscellaneous commodities from Mexico to the United States, to pay Mexican export duties in gold as demanded by the Mexican Government, but conditions later became so changed, that, after consultation with the governmental departments and agencies interested, applicants were notified that exports of gold would not be permitted for paying export duties on miscellaneous commodities shipped to the United States, but that the Board would give favorable consideration to applications for permission to export United States paper currency other than gold or silver certificates for use in that connection.

In the execution of its policies, the Board has been mindful of both the national and the individual interest, but at the same time it has endeavored to retain in the United States gold which otherwise would have been exported. For the period September 7, 1917, December 31, 1917, licenses were granted permitting gold exportations to Mexico of $14,151,000, an average of $3,538,000 monthly. From January 1 to June 30, 1918, licenses permitting the exportation of $17,690,000 were granted, an average of $2,948,000 monthly; and for the period July 1 to December 1, 1918, licenses were granted aggregating $11,444,000, an average of $1,907,000 monthly, and during December the exports authorized amounted to $2,229,000.

The Board has recently allowed considerable amounts of gold to go to Colombia, from which country we import during normal times between $6,000,000 and $7,000,000 worth of gold per annum, upon an engagement by the licensees that gold in the amounts exported will be reimported within 12 months. The Board has in all meritorious cases granted licenses for the exportation of United States currency other than gold and silver certificates, and it is interesting to note the extent to which our currency is being used in Canada, Mexico, Central America, and the West Indies. Permits for shipments to these countries and dependencies of more than $86,000,000 currency have been granted. Since the signing of the armistice the demand for gold has been far less urgent and a larger use of our currency in neighboring countries is evident.

REGULATION AND CONTROL OF FOREIGN EXCHANGE.

EXECUTIVE ORDER.

Executive order prescribing rules and regulations under section 5 of the trading-with-the-enemy act and supplementing rules and regulations heretofore prescribed under title 7 of the espionage act.

Whereas, by virtue of the authority vested in me by the act approved June 15, 1917, known as the Espionage Act, I directed by Executive order, dated September 7, 1917, that the regulations, orders, limitations, and exceptions prescribed by me in relation to the export of coin, bullion, and currency should be administered by the Secretary of the Treasury, and upon his recommendation prescribed certain regulations in relation thereto; and

Whereas, by Executive order, dated October 12, 1917, made under authority of the act aforesaid and of the act approved October 6, 1917, known as the Trading-with-the-Enemy Act, I vested in the Secretary of the Treasury the executive administration of any investigation, regulation, or prohibition of any transactions in foreign exchange, export, or earmarking of gold or silver coin or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States) and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country or between residents of one or more foreign countries by any person within the United States, and I further vested in the Secretary of the Treasury the authority and power to require any person engaged in any such transaction to furnish, under oath, complete information relative thereto, including the production of any books of account, contracts, letters, or other papers in connection therewith in the

Whereas, by said Executive order, dated October 12, 1917, I authorized and directed the Secretary of the Treasury for the purpose of such executive administration to take such measures, adopt such administrative procedure, and use such agency or agencies as he may from time to time deem necessary and proper for that purpose; and

Whereas, the Secretary of the Treasury, with the approval of the President, by order dated November 23, 1917, adopted certain administrative procedure for the executive administration, authority and power vested in the Secretary of the Treasury by said Executive order, dated October 12, 1917, and designated the Federal Reserve Board to act as the agency of the Secretary of the Treasury, subject to the approval of the Secretary of the Treasury, to carry out such executive administration, authority and power vested in the Secretary of the Treasury as hereinbefore recited:

Now, therefore, upon the recommendation of the Secretary of the Treasury, and in order to vest all necessary authority in the Federal Reserve Board to act as the agency of the Secretary of the Treasury, in the performance of the duties hereby imposed upon it, I hereby prescribe the following orders, rules, and regulations in respect of such executive administration, authority and power, and I hereby amend the regulations heretofore prescribed by said Executive order dated September 7, 1917, as herein provided.

DEFINITIONS.

Person.—The term *person* as used herein shall be deemed to mean an individual, partnership, association, company or other unincorporated body of individuals, or corporation or body politic.

Dealer.—The term *dealer* as used herein shall be deemed to mean any person engaged primarily or incidentally in the business (1) of buying, selling, or dealing in foreign exchange, or (2) of buying, selling, or dealing in securities *for* or *through* foreign correspondents, or (3) any person who carries accounts or securities *with* or *for* foreign correspondents.

Dealers of Class A.—Dealers who engage in the business of buying, selling, or dealing in foreign exchange, or of buying, selling, or dealing in securities *for* or *through* foreign correspondents, and who may or may not carry accounts or securities *with* or *for* foreign correspondents shall be known as dealers of *Class A.*

Dealers of Class B.—Dealers who carry accounts or securities *with* foreign correspondents or who buy, sell or deal in securties *through* such correspondents but who do not carry accounts or securities *for* foreign correspondents and who do not engage in the business of buying, selling, or dealing in foreign exchange or of buying, selling, or dealing in securties *for* foreign correspondents shall be known as dealers of *Class B.*

Dealers of Class C.—Dealers who carry accounts or securities *for* foreign correspondents or who buy, sell, or deal in securities *for* such correspondents but who do not carry accounts or securties *with* foreign correspondents and who do not engage in the business of buying, selling, or dealing in foreign exchange or of buying, selling, or dealing in securities *through* foreign correspondents shall be known as dealers of *Class C.*

Foreign Exchange.—The term *foreign exchange* as used herein shall be deemed to mean checks, drafts, bills of exchange, cable transfers, or any form of negotiable or assignable instrument, or order used (a) to transfer credit or to order the payment of funds in any foreign country, or (b) to transfer credit or to order the payment of funds within the United States for foreign account.

Securities.—The term *securities* as used herein shall be deemed to mean all evidences of ownership of property not included in the foregoing definition of foreign exchange.

Correspondent.—The term *correspondent* as used herein shall be deemed to mean any person who acts as the agent of, or for, or on behalf of, or as the depositary of, another person, or any person who is the principal for, or on behalf of, whom another person acts as agent.

Customer.—The term *customer* as used herein shall be deemed to mean any person other than a dealer who buys foreign exchange from a dealer or sells foreign exchange to a dealer.

TRANSACTIONS IN FOREIGN EXCHANGE AND CERTAIN OTHER TRANSACTIONS PROHIBITED EXCEPT AS HEREIN AUTHORIZED.

All transactions in foreign exchange, export or earmarking of gold or silver coin or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States) and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country, whether enemy, ally of enemy, or otherwise, or between residents of one or more foreign countries, by any person within the United States, except any such transactions or transfers conducted in conformity herewith, are hereby prohibited.

TRANSACTIONS IN FOREIGN EXCHANGE OR IN SECURITIES FOR OR THROUGH FOREIGN ACCOUNT.

Certain persons required to obtain registration certificates.—No person, other than a customer, shall, after February 10,[1] 1918, engage in any transaction or make any transfer described in the next preceding subdivision hereof who shall not have obtained, on or before that date, a registration certificate, as hereinafter provided.

Every person who is a dealer upon the date hereof, as promptly as possible and in any event on or before January 31,[2] 1918, shall file, with the Federal Reserve Board, through the Federal Reserve Bank of his district, an application for a registration certificate. Such application shall be in form approved by the Federal Reserve Board and shall show the character of business engaged in and whether or not an enemy or ally of enemy of the United States or any subject or citizen of an enemy or ally of enemy, wherever resident or domiciled, has any interest directly or indirectly in such business. Such application shall embody an agreement on the part of the applicant to comply with the regulations of the Federal Reserve Board, and to permit the inspection at any time of his books and accounts and to make reports as and when required on forms to be approved by the Federal Reserve Board.

The Federal Reserve Board may issue to such applicant the appropriate registration certificate in form approved by it, entitling the holder to engage in the class or classes of foreign exchange or other transactions specified in such certificate, subject to all applicable provisions of law and to such Executive orders of the President and administrative regulations as shall have been issued or may from time to time be issued by the Federal Reserve Board.

Any person who is not a dealer at the date hereof but who hereafter desires to become a dealer must first obtain a registration certificate.

Any person, other than a customer, who does not desire to become a dealer but who nevertheless desires to engage in one or several transactions or to

[1] Under power of Federal Reserve Board to waive requirements, time extended to Feb. 15, 1918.

[2] Id., time extended to Feb. 5, 1918.

make one or several transfers described in the next preceding subdivision hereof, may be permitted by the Federal Reserve Board, in its discretion, to engage in any such transaction or to make any such transfer without first obtaining a registration certificate, and the Federal Reserve Board may likewise waive any requirement hereof, other than any which relates to trading with an enemy or ally of enemy, whenever it is satisfied that such waiver is not incompatible with the best interests of the United States.

Nothing herein shall be construed to abrogate or modify any existing requirement that licenses shall be obtained from the War Trade Board in respect of any transaction with, or for account of, an enemy or ally of enemy, or any person acting for, or on behalf of, or for the benefit of, an enemy or ally of enemy.

Revocation of registration certificates.—Any or all such registration certificates may be revoked at any time by direction of the Secretary of the Treasury or of the Federal Reserve Board.

Books and accounts.—Each Federal Reserve Bank through which any such registration certificate shall be issued shall furnish, to the applicant, copies of all forms of reports required and the books and records of such applicant shall thereafter be kept in a manner which will make it possible to furnish information called for in such reports without delay.

General reports.—After obtaining a registration certificate, each holder thereof shall file with the Federal Reserve Bank through which such certificate shall be issued a report, on forms to be furnished by the Federal Reserve Board, showing all accounts or securities carried *with* or *for* foreign correspondents as of the close of business on January 30, 1918, or on such other date as the Federal Reserve Board may require, and such other information as may be called for on such forms and shall thereafter file with the Federal Reserve Board, through such Federal Reserve Bank, on dates specified by the Federal Reserve Board, reports showing all changes in such accounts and all purchases, sales, and other transactions in foreign exchange or securities *for* or *through* foreign correspondents.

Customers' statements.—A dealer shall require every customer purchasing foreign exchange from him or selling foreign exchange to him to file a statement showing the purpose of such purchase or sale with such details as the Federal Reserve Board may require, including a declaration to the effect that no enemy or ally of enemy of the United States has any interest directly or indirectly in such purchase or sale. The Federal Reserve Board shall prescribe the form of such declaration. Copies of such statements shall be furnished by such dealer upon request to the Federal Reserve Board, through the several Federal Reserve Banks.

Reports made through domestic correspondents.—Dealers to whom registration certificates have been issued, and who buy, sell, or deal in foreign exchange through domestic correspondents (for example banking or other institutions located in the United States), unless otherwise directed by the Federal Reserve Board, shall arrange with such correspondents to include such transactions in the reports of such correspondents.

Such dealers will be required to report to the Federal Reserve Board only those foreign exchange transactions which are not included in the reports of such correspondents but may be called upon for any information in regard thereto desired by the Federal Reserve Board, and shall keep all books and records in a manner which will make it possible to furnish such information.

Special reports.—Whenever any holder of a registration certificate shall have reason to believe that any transaction within his knowledge involves or may involve directly or indirectly the payment of funds or delivery of securities to or the transfer of credit or securities for the benefit of an enemy or ally of enemy, or which may involve any other transaction with an enemy or ally of enemy, he shall immediately report the facts and circumstances to the Federal Reserve Board through a Federal Reserve Bank.

Filing and verification of reports.—All reports, statements, and declarations herein required, unless otherwise specified, shall be filed with the Federal Reserve Board through the Federal Reserve Banks.

Any or all such reports, statements, or declarations shall, in the discretion of the Federal Reserve Board, be verified by oath of the person making same.

Examinations.—The books and records of all dealers must at all times be open to inspection by examiners designated by the Federal Reserve Board.

DECLARATION OF FOREIGN CORRESPONDENT TO BE OBTAINED BY HOLDERS OF REGISTRATION CERTIFICATES.

After dates to be fixed by the Federal Reserve Board in respect of each foreign country, respectively, no holder of a registration certificate shall engage in transactions *with, through,* or *for* any foreign correspondent in such foreign country unless he shall have obtained from such correspondent a declaration to the following effect:

Having arranged with__________________________________to act as the agent or
[Holder of registration certificate]
correspondent in the United States for, or on behalf of, the undersigned, under regulations issued by the appropriate authorities of the United States Government and/or the undersigned having agreed to act as the foreign correspondent of the said______________________________I/we do hereby declare that I/we will not deal or attempt to deal, directly or indirectly, with said agent or correspondent in any transaction for or on account of, or for the benefit of, an enemy or ally of enemy of the United States, and will not make available for the use of an enemy or ally of enemy of the United States any funds or property received or credits established as a result of any transaction engaged in with or through said agent or correspondent, and will not transmit to said agent or correspondent for collection or credit any negotiable instrument bearing the signature or indorsement of an enemy or ally of enemy of the United States.

The words " enemy " and " ally of enemy " are used herein as now or hereafter defined by laws of the United States or by Proclamation of the President of the United States.

NOTE.—If foreign correspondent is incorporated this certificate must be executed by a duly authorized officer of such corporation.

SUSPENSION OF RELATIONS WITH FOREIGN CORRESPONDENTS.

If any foreign correspondent of a dealer in the United States or any person proposing to become the foreign correspondent of a dealer in the United States, shall refuse or fail to make the foregoing declaration as herein required, or if the Federal Reserve Board shall have reason to believe that any such foreign correspondent or any such person is dealing or trading with an enemy or ally of enemy of the United States, contrary to the provisions of the declaration of noninterest of enemies, herein required, or if in the judgment of the Federal Reserve Board the best interest of the United States requires such action, it may prohibit any dealer or dealers in the United States from engaging in any transaction *with, through, for,* on *on behalf of* such correspondent or such person.

SUSPENSION OF TRANSACTIONS.

Whenever the Federal Reserve Board shall have reason to believe that any transaction in foreign exchange or any transfer of securities carried *with* or *for* a foreign correspondent involves or may involve trading with an enemy, or ally of enemy, or in its judgment is incompatible with the best interest of the United States, it may cause notice to be served on the parties in interest to postpone the consummation of such transaction for a period of ninety days pending investigation of the facts, and upon investigation if the Federal Reserve Board is of the opinion that the best interests of the United States require such action it may prohibit the consummation of such transaction.

The Secretary of the Treasury may likewise prohibit the consummation of any such transaction by notice served on the parties in interest (either directly or through the Federal Reserve Board) in any case in which in his judgment the best interests of the United States require such action.

SPECIAL PROVISIONS AS TO COLLECTION OF DIVIDENDS, INTEREST OR MATURING OBLIGATIONS FOR FOREIGN ACCOUNT.

Every person presenting for collection maturing obligations, or coupons, checks or drafts issued for dividends or interest, for account of any foreign Government or person resident in any foreign country, shall make a declaration in form approved by the Federal Reserve Board, to the effect that such collections are not made for, or on behalf of, or for the benefit of, any enemy or ally of enemy; that the proceeds of such collections will not be made available for any enemy or ally of enemy; and that the maturing obligations, or the obligations and stocks upon which dividends or interest are to be paid, are not the property of any enemy or ally of enemy; have not been owned by, or held for the account of, any enemy or ally of enemy, since January 26, 1918, and were not purchased by the present owner from any enemy or ally of enemy or from any person acting for or on behalf of or for the benefit of an enemy or ally of enemy since February 3, 1917.

Provided, however, that any holder of a Class A or Class C registration certificate may collect maturing obligations and coupons, checks, or drafts issued for dividends or interest for account of a person resident in a foreign country, without making such declaration, if such holder has filed with the Federal Reserve Board a similar declaration executed by the person for whom collection is made.

Interest or dividend checks payable for foreign account.—Every person issuing checks or drafts for interest or dividends after January 26, 1918, payable to any foreign Government or to any person resident in a foreign country shall attach to or shall print on the back of such check or draft the following statement:

This check or draft will not be paid unless the following declaration is executed by the person to whom it is sent for collection by the payee, or his agent, or by the person who acts as the agent in the United States for the payee.

From actual personal knowledge, or in reliance upon declarations or affidavits furnished the undersigned by the parties in interest, I/we do hereby expressly declare that no enemy or ally of enemy of the United States is directly or indirectly interested in the proceeds of this check or draft and that such proceeds will not be made available for the use of an enemy or ally of enemy of the United States; that the stock upon which this dividend is paid (or the obligation upon which this interest is paid) is not and has not been owned by or held for account of an enemy or ally of enemy of the United States since January 26, 1918, and has not been purchased by the present owner from an enemy or ally of enemy or from a person acting for or on behalf of or for the benefit of an enemy or ally of enemy since February 3, 1917.

DEALINGS IN SECURITIES FOR OR THROUGH FOREIGN ACCOUNT.

No person shall purchase, sell, or deliver any securities for account of any foreign Government, or for account of any person resident in a foreign country, unless such Government or such person, as the case may be, shall have made a declaration, in form approved by the Federal Reserve Board, similar in effect to that required in the case of the collection of maturing obligations, for account of a foreign Government or person resident in a foreign country.

PROCEDURE WHERE DECLARATION OF NONINTEREST OF ENEMY OR ALLY OF ENEMY CAN NOT BE MADE.

Any person who is unable to make a declaration of noninterest of enemy or ally of enemy required hereunder may apply to the Federal Reserve Board for a waiver of such declaration, submitting to such board all facts and circumstances relating to the transaction involved which are in the possession of the applicant. If upon investigation the Federal Reserve Board shall determine that there is no reason to believe that any enemy or ally of enemy is directly or indirectly interested in the transaction involved, and that its consummation will not be incompatible with the best interests of the United States, it may permit the transaction to be consummated without the declaration herein required. If the Federal Reserve Board shall have reason to believe that an enemy or ally of enemy is or may be directly or indirectly interested in the transaction, it shall transmit to the War Trade Board all records in the case for such action as that board may determine to be necessary.

EXPORT AND EARMARKING OF COIN, BULLION, OR CURRENCY.

The following regulations prescribed by Executive order, dated September 7, 1917, shall continue in force as herein amended.

Any person desiring to export from the United States or any of its territorial possessions to any foreign country named in the proclamation dated September 7, 1917, any coin, bullion, or currency, shall first file an application in triplicate with the Federal Reserve Bank of the district in which such person is located for a special or general license. Applications filed must contain statements under oath and showing in detail the nature of the transaction, the amount involved, the parties directly and indirectly interested, and such other information as may be of assistance to the proper authorities in determining whether the exportation for which a license is desired will be compatible with the public interest. All such applications should be made on the standard form prescribed by the Federal Reserve Board.

Each Federal Reserve Bank shall keep a record copy of each application filed with it under the provisions of this regulation and shall forward the original application and a duplicate to the Federal Reserve Board at Washington, together with such information or suggestions as it may believe proper in the circumstances, and shall in addition make a formal recommendation as to whether or not, in its opinion, the exportation should be permitted.

The Federal Reserve Board, subject to the approval of the Secretary of the Treasury, is hereby authorized and empowered, upon receipt of such application and the recommendation of the Federal Reserve Bank, to make such ruling as it may deem proper in the circumstances; and if, in its opinion, the exportation in question be compatible with the public interest, to permit said exportation to be made; otherwise to refuse it.

No gold or silver coin, or bullion, or currency shall be set aside and earmarked for safekeeping for any person without the written approval of the Federal Reserve Board.

LICENSES FROM WAR TRADE BOARD IN TRANSACTIONS INVOLVING TRADING WITH AN ENEMY OR ALLY OF ENEMY.

Applications to the Federal Reserve Board for permission to export or earmark gold or silver coin or bullion or currency shall be accompanied by a certified copy of a license issued by the War Trade Board, whenever any such transactions involve or may involve trading directly or indirectly with an enemy or ally of enemy or with any person acting for, or on behalf of, or for the benefit of, an enemy or ally of enemy.

APPLICATIONS FOR REGISTRATION CERTIFICATES AND EXPORT LICENSES, PROVIDED FOR HEREUNDER, BY PERSONS RESIDING IN ANY DEPENDENCY OF THE UNITED STATES.

Applications to the Federal Reserve Board either for registration certificates or for licenses to export coin, bullion, or currency may be made by persons residing in any dependency of the United States (including the Philippine Islands, Alaska, Guam, Hawaii, Porto Rico, Virgin Islands, and Canal Zone) through such agency located in any such dependency as may be hereafter designated by the Federal Reserve Board, instead of through a Federal Reserve Bank; but until an agency has been so designated in any such dependency, persons residing therein may make such applications through any Federal Reserve Bank. The Federal Reserve Board may from time to time postpone, in respect of any one or more of such dependencies, the date on and after which persons residing therein shall be prohibited from engaging in any of the transactions or making any transfer hereinbefore prohibited without having obtained registration certificates, in case such registration certificates can not be obtained on or before the date hereinbefore specified.

(Signed) WOODROW WILSON.

THE WHITE HOUSE, *26 January, 1918.*

The supervision and control of foreign exchange transactions is closely related to the conservation of gold, and the Division of Foreign Exchange of the Federal Reserve Board was organized to enable the Board to carry out the provisions of the Executive order of January 26, 1918, and to cooperate with the Treasury Department in meeting the unusual problems in foreign exchange created by the war.

The work has been carried on under three divisions—administrative, research, and statistical. There are 91 employees in the division, exclusive of the director and assistant director, whose services have been given without compensation.

ADMINISTRATIVE DEPARTMENT.

In order to transact a foreign exchange business all "dealers" in foreign exchange, including bankers, brokers, exporters, and importers who maintain accounts in foreign countries or carry accounts for foreign correspondents, are required, under the terms of the Executive order, to register their names with the Division of Foreign Exchange of the Federal Reserve Board, through the Federal Reserve Banks of their respective districts. Under the system of reports required, together with the close relationship which has been developed with the cable censorship and the postal censorship in connection with communications covering financial transactions, it has been possible to exercise a control over the consummation of all foreign financial operations, while leaving the necessary freedom of action to "dealers."

Headquarters of the division were established in the Treasury Building in Washington, but the main office for the conduct of the work was located in New York City. This was necessary in order to enable the division to act promptly upon applications of "dealers" for permission to carry out certain operations required under the Executive order and the regulations issued in connection with it, as probably 95 per cent of the applications are made by New York "dealers." This arrangement has necessitated weekly trips by the director between Washington and New York, but the expeditious service required, because of the nature of the financial operations involved, could not have been rendered otherwise.

Upon receipt of their registration certificates, "dealers," with a few exceptions, were authorized to carry on their foreign exchange transactions without reference to the Division of Foreign Exchange, provided reports were made on the prescribed forms. As the war progressed, however, it became necessary to require the approval of the director before a number of operations could be carried out, such as transactions in certain exchanges, the issuance of letters of credit, or the making of transfers of funds to cover the shipment of goods from one foreign country to another, the issuance of travelers' letters of credit in excess of $5,000, the issuance of credits to cover goods to be warehoused, which could not be exported or imported because licenses were unobtainable from the War Trade Board, the investment of American funds in foreign countries, action upon confirmations of cablegrams where the cables themselves had never been received, and arbitrage transactions.

At the outset, rulings under the Executive order were required in great number, in cases which called for immediate decisions in order to allow the continuance of legitimate business without interruption. As these requests also came largely from New York institutions, the establishment of the main office in New York City was found to be fully warranted.

"Dealers" desiring to consummate transactions where approval is required beforehand, make application by letter, in duplicate, through the Federal Reserve Banks of their districts, or direct to the Division of Foreign Exchange. Where approval can be given, it is stamped upon the duplicate letter, which is returned by the messenger from the "dealer" presenting the application. As such a large percentage of applications are made in New York, and practically all of such applications come from "dealers" situated in cities where there are Federal Reserve Banks which can communicate with the director by telephone or telegraph, this system has enabled transactions to be consummated without delay, wherever approval could be given without extended investigations made necessary by the national interest. When enemies or allies of enemies have been involved, delays have been unavoidable, but even in such cases, where the interests of the United States were not jeopardized, nor the enemy benefited through the carrying out of the transactions applied for, and when it has been of value to our nationals to have them consummated, authority to operate has been extended after receipt of license from the War Trade Board or proper release from any other department of the Government which might be concerned.

RESEARCH BUREAU.

A research bureau has been established and developed as an aid to all bankers and other "dealers" who have been desirous of following the letter and spirit of the Executive order of the President and of the trading with the enemy act, and who otherwise would have been unable, in many cases, to determine with certainty whether or not it was in order for them to transact business with many foreign and American houses which had approached them, or where transactions for unknown persons were going through them. To protect such "dealers," and also the interests of the country, the research bureau has been developed as a sort of clearing house for all other governmental research bureaus, in so far as the work of these agencies concerned persons or institutions attempting to carry out financial transactions. Frequently, reports in the files of different Government bureaus, when compared, have been found to be contradictory. In all such cases efforts were made to ascertain the facts, and the bureau having incorrect information has been notified.

The research bureau has access to all source books published by the allied Governments, and is also in direct touch with all United States Government departments of information and research.

Direct private telephone and telegraph wires connect the bureau with several of the Government agencies and bureaus, and personal representatives of the Division of Foreign Exchange are stationed with others. The division also has personal representatives in all of the cable censorship offices in the country. The representative of the division in the New York office of the cable censor is also the head of the financial division of the censorship, and he is called into conference in the Division of Foreign Exchange daily.

In addition to these regular connections, consultation has been had, when necessary, with the Shipping Board, the War Industries Board, the War Trade Board, and the Departments of State and Treasury; also with representatives of foreign governments.

With these connections the research bureau has been in position at all times to obtain immediately the latest information bearing on persons or institutions in all parts of the world whose transactions have been brought before it. The administrative department has thus been enabled to make prompt decisions on important financial transactions in all cases except where further research was necessary before suspected parties could be cleared or proved to have enemy connections or interest.

The information received from all other governmental departments is brought together in the research bureau of the Division of Foreign Exchange and filed. Under this system it has been possible to stop many transactions which might have been of value to the enemy and to afford constant protection to bankers and other "dealers" in the United States who might otherwise have inadvertently carried out transactions for enemy account. It has also been possible to turn over many cases to the Alien Property Custodian.

When cablegrams are suppressed, it is essential, if such suppression is to be effective, that their confirmations also be suppressed, and all confirmations of cablegrams from "dealers" in the United States have been censored through the research department. Such confirmations have averaged about 2,000 a day. Under the regulations "dealers" in the United States are obliged to apply to the director of the Division of Foreign Exchange for approval before they can act upon any confirmations of cablegrams which are received by them and which refer to cablegrams that have never reached them.

Copies of all suppressed cablegrams concerning financial matters are delivered to the head of the research bureau each day, and all names of senders, receivers, beneficiaries, or others mentioned in the cablegram are investigated at once. Application is made to the proper department for release of cablegrams before receipt of the confirmations, if it is found that the transactions themselves can not be harmful to the national interest, even though some of those connected with the transfers may have been of doubtful standing, and the work of obtaining proof in doubtful cases is well under way long before "dealers" receive their confirmations and apply for permission to act under them. Through this system it has been found possible to release great numbers of cables covering important transactions, whose temporary suppression might have been fully justified, but where later investigations showed that their delivery was not incompatible with the interests of the country.

The concentration in the research bureau of intercepted letters received from the postal censorship, and intercepted cables from the cable censorship, together with information from the other sources outlined, has been of great value in determining the status of many persons and institutions whose names have come up because of their participation in foreign financial transactions.

In cases where those concerned in a cablegram can not be cleared 90-day postponement notices are served on "dealers" applying for permission to consummate the transactions, and if when the time has elapsed it is still impossible to clear all names, a prohibition notice is issued by the Federal Reserve Board.

The activities of the administrative and research departments are indicated by the fact that an average of 400 pieces of mail are handled in the filing room each day, and that more than 40,000 letters of correspondence and 12,000 letters concerning credits or remittances are on file.

Under the Executive order, all foreign correspondents of American "dealers" are obliged to sign a declaration agreeing not to carry on any business through or for their American correspondents for account or benefit of an enemy or ally of enemy. Such declarations, when received by American "dealers," have been filed with the Division of Foreign Exchange, and all names have been researched for the purpose of checking up the standing of the foreign correspondents of American "dealers" in connection with their attitude toward transactions for account of enemies or allies of enemies. More than 150,000 of such declarations have been received, checked, and filed for ready reference in addition to more than 50,000 declarations of nonenemy interest in securities.

A large number of foreign correspondents did not forward declarations. From intercepted correspondence and reports received from "dealers," it was found that in a large percentage of cases the declarations were not signed because the foreign correspondents were allies themselves, and seemed to look upon the matter as one not concerning them, apparently not understanding that this requirement has been written into the law of the United States. Steps have been taken to correct this misunderstanding, in order that no injustice may be done to anyone who may have ignored the request of "dealers" for declarations in good faith, based on the thought that they were not concerned.

Another form of declaration has been required from foreign holders of American securities desiring to collect dividends, interest or maturing principal, or to sell their securities in the United States. In addition to covering the usual statement regarding noninterest of enemies or allies of enemies, this form included the statement that foreign-held securities had not been enemy owned since February, 1917. These declarations are also filed with the Division of Foreign Exchange, and the names of the signers of the declarations are researched in the same manner as those of the foreign correspondents of American "dealers." This requirement has unquestionably deterred many enemy nationals owning American securities from endeavoring to sell them or collect income upon them.

Another regulation which required careful checking in the research department covered deposits made with American banks in dollars for account of foreign correspondents. Transfers of funds for enemy account could be accomplished so easily through the deposit of money to the credit of foreign correspondents with American banks or other "dealers," for account of some neutral cloak in a foreign country, that all such deposits are required to be accompanied with information as to the name of the original party requesting the deposit, the purpose of the deposit, the name of the foreign beneficiary, and the party for whose account it is to be received in the foreign country. This information has been filed with the Division of Foreign Exchange daily by American "dealers," and the names of all persons concerned are researched for the purpose of uncovering enemy connections or interest, in case of their existence.

While there is no doubt that, through the use of cover names and other means, enemy transfers have been constantly made, yet there is every reason to believe that the regulations of the Division of Foreign Exchange have resulted in their being reduced to a minimum, and that any extended operations for enemy account have been made impossible.

Through its ambassadors and ministers the State Department has been constantly informed of the operations of American "dealers" with foreign institutions, where enemies or allies of enemies have been involved. All such operations have been investigated through the research department, after which proper action has been taken by the administrative department. It speaks well for bankers and other "dealers" in the United States to be able to report that investigation has shown conclusively, with few exceptions, that since the United States entered the war there has been no intent or purpose on the part of Americans involved to act contrary to the letter and spirit of the law, nor to carry out transactions which might be of benefit to the enemy.

STATISTICAL DEPARTMENT.

"Dealers" holding registration certificates authorizing them to do a foreign exchange business are required to make weekly reports at the close of business each Wednesday of all their foreign operations, giving balances due them from each country of the world and balances held by them for account of each country of the world.

Records of "dealers" registrations are made in the statistical department. On December 1, 1918, 13,653 banks, bankers, exporters and importers, and others had applied for and received registration certificates. Of this total 10,208 are "dealers" of class A, who are authorized to do a regular foreign exchange business with the public, 2,087 are "dealers" of class B, under which authority is extended to carry accounts with foreign correspondents, but not to sell, exchange, or deal with the public, and 1,358 are "dealers" of class C, who are authorized to carry accounts in the United States for foreign correspondents, but are not authorized to trade with the public.

Registered " dealers " divided as to Federal Reserve districts are as follows:

District.	Class A.	Class B.	Class C.	Total.
Boston	740	711	376	1,827
New York	984	820	812	2,616
Philadelphia	473	37	20	530
Cleveland	710	23	1	734
Richmond	247	4	2	253
Atlanta	211	8	6	225
Chicago	2,091	315	127	2,533
St. Louis	262	....	2	264
Minneapolis	2,491	161	....	2,652
Kansas City	742	1	1	744
Dallas	190	3	2	195
San Francisco	1,067	4	9	1,080
Total	10,208	2,087	1,358	13,653

It will be noted in the foregoing table that in the Minneapolis, Chicago, and San Francisco districts there are more " dealers " of Class A than in the New York district. This is due to the large number of bankers in small towns who have arranged with their metropolitan correspondents to draw drafts against their foreign accounts over their own names. About 9,500 of the 10,208 Class A " dealers " operate in this manner. This system enables bankers in country districts throughout the United States, as well as in towns and cities, to extend a foreign exchange service to their customers when there is any demand in their localities. Of the Class A " dealers " 708 do a direct foreign exchange business, while 160 of the 708 Class A " dealers " have such an active foreign exchange business that they are required to make reports every week. Of this number the foreign business of 65 is confined to Canada and Mexico, while the other 95 do more or less of a world business.

All of these " dealers " are required to make reports to the Division of Foreign Exchange covering their financial foreign exchange operations. " Dealers " of the different classes are supplied with forms prepared especially for their business and from which are assembled in the Division of Foreign Exchange such statistics as are desirable. Banks which transact foreign exchange business through metropolitan correspondents make their reports through these correspondents.

The reports divide the operations into different classes, designed to place before the administrative department a clear statement of developing conditions. The classes of particular interest are those covering exports and imports and arbitrage. While reports of the purchase and sale of demand and cable transfers between " dealers " are interesting in showing the volume, yet as one " dealer " buys and another " dealer " sells, the relationship between the United States and other countries of the world is not changed, as is true when exports, imports, and arbitrage transactions are recorded.

A number of subclassifications are made, where the amounts involved are smaller, such as dealings in securities, coupon and dividend checks, gold and silver shipments, remittances to cover freights and insurance, income taxes, etc., and purchases of exchange for the use of travelers.

The causes for the change in balances between the United States and each country of the world as they occur from week to week are clearly defined, and the trend of conditions is readily followed. Balances for and against the United States with the other countries of the world have never been made public for reasons which are self-evident. There are certain interesting figures, however, to which reference may be properly made.

The total purchases and sales of demand and cable exchange between "dealers" in the United States from February 20, 1918 (when the Executive order went into effect), to December 31, 1918, were $5,158,943,148, and of this total $3,737,754,469, or 72.45 per cent, were for exchange on Great Britain. Trading in demand and cable exchange between American "dealers" in such large totals shows the free competition which exists in this country in the foreign exchange business, and is most interesting on that account. The total exchange from all sources on all countries of the world purchased by American "dealers" for the same period was $6,603,811,628 and the total sales $6,639,103,540, of which 55 per cent represented dealings in sterling.

No other figures would seem to be required to show the relative world financial position which Great Britain holds, but the statement of arbitrage operations is also illuminating in this respect. Exchange on Great Britain was sold to the United States by foreign countries to the equivalent of $554,108,000 and exchange on Great Britain was purchased from American "dealers" by foreign countries to the total of $480,239,000. Of these amounts British banks supplied the United States with the equivalent of $297,849,000 in pounds sterling against dollars credited to them, which were undoubtedly largely used to pay for imports from the United States to Great Britain, whereas British institutions bought from American banks sterling with dollars to the equivalent of only $109,969,000. Some of these transactions were undoubtedly carried out at the instance of foreign banks in other countries which operated through Great Britain, but proof of this is available only from British records. On balances of sterling exchange bought from and sold to the United States by the whole world, excepting through Great Britain itself, the sale of sterling exchange by the United States exceeded the purchase of sterling exchange by the United States by $114,011,000. The principal countries which purchased more sterling exchange from the United States than they sold were France, Greece, Holland, Italy, Spain, East Indies, Straits Settlements, Chile, Colombia, Ecuador, Uruguay, Canada, Central America, and the West Indies. The principal countries selling the United States the greatest amount of sterling exchange on balance were Norway, Portugal, Sweden, Switzerland, China, India, Japan, Argentina, Brazil, Peru, Africa, and Australasia.

While no figures are available prior to the formation of the gold-export committee of the Federal Reserve Board, there is reason to believe, from reports received, that sterling exchange was sold in this market by foreign countries in a large way. Since the embargo, as gold could not be obtained for sterling exchange sold in the United States, such operations have been confined to more natural channels, based on current trade rather than on previously accumulated balances. This situation is particularly noticeable in connection with the arbitrage of the exchange of the neutral countries of Europe, which have ruled at a high premium, and it is found that the United States has obtained a greater total in such exchanges from Great Britain than it has furnished. The relative figures for the period given are as follows:

	Purchased by United States from Great Britain.	Sold by United States to Great Britain.
Holland guilders	$6,721,000	$2,947,000
Norwegian kroner	4,392,000	1,738,000
Swedish kroner	5,379,000	1,349,000
Spanish pesetas	13,324,000	914,000
Swiss francs	4,806,000	2,374,000

Instead of our having furnished Great Britain with these high-priced exchanges, Great Britain has actually given us an excess on balance.

On the other hand, we have purchased from these countries exchange on Great Britain greatly in excess of our sales of sterling exchange to such countries. It is largely due to this fact that the exchange rates on the neutral countries mentioned ruled against the United States. For instance, during the first three-quarters of the year, Spain sold the United States $12,143,000 in sterling exchange, and purchased from this country $8,531,000 in sterling exchange, a difference of $3,612,000. This difference affected the rate for Spanish pesetas in the United States, even though, strange as it may seem, such difference was more than offset in the case of Spain by the purchase on balance from Great Britain of the equivalent of $6,593,000 in pesetas, which, of course, affected the rate in the opposite manner. This left an equivalent of $2,981,000 gained by the United States in arbitrage transactions with Spain and Great

Britain. In the last quarter of the year Spain sold the United States less sterling than she purchased and increased her purchases on balance from Great Britain, so that the total gain by the United States for the year was $14,146,000. The effect of these particular transactions as a whole, therefore, was favorable to the United States dollar. The two operations are distinct in this respect—in one case American "dealers" purchased from British banks neutral exchanges when they were required to a greater extent than the British banks bought the same exchanges from American banks, while in the other case the banks of neutral countries sold American banks more sterling exchange than they purchased from them. Such transactions were not based upon the attempt of any "dealers" concerned to advance or depress the exchange on any country, but were undertaken because of the relation of demand to supply, and both classes of operations affected the rate for the foreign exchanges in the United States, even though one was carried out in the moneys of the foreign countries and the other in American dollars.

By refusing to allow American "dealers" to purchase sterling exchange from other countries, this situation could have been positively controlled, but the harm that would have resulted would have been far greater than the good accomplished, and such prohibition would also have been most detrimental to our foreign financial position long after peace had been restored. It is most fortunate, therefore, that it proved possible to meet every emergency without the necessity of having to restrict the arbitrage of exchange.

As reports were not filed before the Executive order of the President of January 26, 1918, it is impossible to determine with certainty exactly what expansion has occurred in the foreign business of the United States, but from the consensus of opinion of many of the principal foreign bankers who have expressed themselves, it would appear as though arbitrage operations, as carried out by bankers and other "dealers" in the United States, before the beginning of the war, August 1, 1914, were practically confined to what were then the three principal commercial countries of Europe, with the occasional purchase, almost entirely through London, of other exchanges, when required for special purposes. Since the war American "dealers" have had arbitrage operations with practically every commercial country of the world, as shown by figures covering actual transactions between February 20 and December 31, 1918. The total of such transactions shows $876,240,000 in foreign exchanges purchased from other countries by the United States and $689,565,000 in foreign exchanges sold to other countries by the United States.

Another phase of our foreign financial transactions which has shown remarkable growth is represented in the activity of the dollar accounts of foreign banking institutions in the United States. During the period referred to, combined debits and credits to such accounts from European allied countries were $25,993,542,466 (these extraordinary figures were largely due to loans made by the United States Government), from European countries other than those of our allies $2,468,719,572, from Asia $2,802,093,807, South America $1,916,337,532, Central America and Mexico and the West Indies $2,344,246,605, Africa $7,580,068, Australasia $36,915,188. Many of these transactions represent the purchase and sale of securities in the United States for account of foreigners interested in our market. Other large transfers represent payments against shipping documents or warehouse receipts, as many foreign countries have been buying goods in the United States through the payment of dollars which have accumulated here, instead of through sterling, as before the war. The proceeds of exports to the United States from countries having balances with American "dealers" have also been credited to accounts in this country. Many of the neutral countries of Europe have used balances which have accumulated here for the purchase of British securities, and in large amounts.

Trading in securities in United States markets by foreign interests, both through dollars and foreign moneys, has been large, and for the period covered purchases were made for foreign account to the value of $442,396,000, and sales for foreign account to the value of $355,894,000. The excess in purchases was of American, British, and French securities.

Securities held in America for foreign account at the close of business December 31, 1918, amounted to $1,824,351,000 and securities held abroad for American account $97,478,000.

Commodities held in warehouse in the United States at the close of business September 26, 1918, which had been purchased and placed in warehouse for foreign account before July 1, 1918, in many cases extending back almost to the beginning of the war, amounted to $69,258,097, and commodities which had been imported to the United States for foreign account previous to July 1, 1918, but which were still held in warehouse undistributed, either in this country or through reexport, amounted to $31,078,841, or a total of $100,336,938.

After the report for the final quarter of the year is received, and the figures for the whole year can be compiled and compared with estimated averages for the first few weeks of the year before the Executive order went into effect, the foreign business of the United States can be analyzed as a whole very completely, and the trend of operations before and since the armistice can be shown, all of which should be of great value in determining whether we are to hold the world-wide financial development made possible by the war.

A further analysis of these reports for a few quarters following the signing of the peace treaty should give an even clearer idea of the part this country is to play in the world's finances during the period of world reconstruction, and possibly afterwards.

Before undertaking any operations in foreign exchange with persons in the United States other than "dealers," it is necessary for such "dealers" to require their customers to sign the following statement:

This transaction is made under representation by the undersigned that there is not involved in connection therewith any trading, directly or indirectly, with, to, from, for, or on account, behalf, or benefit of any enemy or ally of enemy, of the United States, or any transaction violative of the trading-with-the-enemy act of the United States.

All transactions covered in the reports of "dealers" to the statistical department of the Division of Foreign Exchange must have been consummated under the terms of these statements, when the operations have developed in this country, or under nonenemy declarations of foreign correspondents when they have originated outside of the United States. A statement of nonenemy interest, therefore, has had to stand before the creation and at the consummation of every transaction between the United States and every foreign country.

COOPERATION WITH THE TREASURY DEPARTMENT.

The administrative department has constantly cooperated with the Treasury Department in carrying on foreign-exchange operations, and in the supervision or regulation made necessary to protect the interests of the United States. Many such matters have been handled in conjunction with the Federal Reserve Bank of New York, which has acted, when necessary, for account of all of the Federal Reserve Banks.

COMMODITIES.

A careful study of the whole world exchange situation, made possible through the reports filed with the Division of Foreign Exchange, led to the belief that in view of the restricted shipping facilities, adjustments in our export trade could be made, which would be most beneficial.

As ships available to obtain needed imports could also be used on exports to the same countries from which imports were obtained, it was clear that if the average export cargo exceeded in value the average import cargo, the exchange would begin to turn toward the United States, and that an excess of foreign exchanges would be accumulated that could be made to make purchases for allied account.

With the view of developing this situation, an arrangement was made by the director of the Division of Foreign Exchange for meetings to be held with a representative of the War Industries Board, a representative of the War Trade Board and the Exports Control Committee of the National Foregin Trade Council. An intensive study was made of the weight and bulk values of such goods as were desired by foreign countries, those of South America being first considered. As a result, the War Industries Board agreed to consider requisitions which might be made by the Treasury Department for commodities for export, in the same light as requisitions made by the War Department and the Navy Department to cover their needs. The development of the whole plan was based entirely upon war requirements, and not upon the expansion of our foreign trade, as it was recognized that the business of the country at the time was to win the war rather than to develop commerce.

The cooperation of the committee of the National Foreign Trade Council in this connection was most valuable, and if the armistice had not intervened there is good reason to believe that in a short time the trend of exchange might have turned very materially in favor of the United States in the case of a number of countries where imports for war purposes were required. Even though an armistice has been declared, the work accomplished by this committee, together with the vast amount of data compiled by the War Trade Board, should be most valuable to the country, and should be particularly helpful after peace has been proclaimed and present restrictions upon the world's commerce are removed.

FEDERAL RESERVE BANKS.

The Federal Reserve Banks of the 12 districts have acted as local agents for the Division of Foreign Exchange in receiving applications for registration certificates by banks, bankers, and others who wished to do a foreign exchange business in collecting weekly reports of foreign exchange operations, in passing upon applications of " dealers " for permission to transact business requiring approval, in obtaining reports on institutions and individuals when occasion required, and in carrying out the many special duties growing out of the Executive order and its regulations. This work, which, in the case of many of the Federal Reserve Banks, was very exacting, has been performed most efficiently, and the cooperation of the Federal Reserve Banks has been effective in every particular.

Bankers and other " dealers " have at all times manifested a desire to abide by the regulations made by the Division of Foreign Exchange. While it is possible that some " dealers " may have been unwilling to undertake operations for enemy account, because of their knowledge that if they did so, and were discovered, they would be prohibited from continuing their foreign exchange business for the period of the war, and while this fact was one of the important safeguards provided the country by the Executive order, yet on the whole the voluntary and patriotic cooperation of "dealers" has been a constant source of satisfaction. The great banking institutions which transact the bulk of our foreign exchange business have cheerfully subordinated profits to the national interest.

BANKS ORGANIZED FOR TRANSACTING FOREIGN BUSINESS AND FOREIGN BRANCHES OF MEMBER BANKS.

The foreign trade of the United States, already large, is expected to assume far greater proportions upon the reestablishment of peace. Preparations have already been made for the proper financing of our foreign business. Member banks, by means of foreign branches, and American banking corporations, organized to conduct a foreign business, have reached out into other countries, mainly in Central and South America and the Orient, with a view of competing with British and continental banks which have long controlled the larger part of their international trade and banking.

Under section 25 of the Federal Reserve Act, the stock of American banking corporations, principally engaged in international or foreign banking, is made eligible for purchase by national banks having capital and surplus of $1,000,000 or more to an amount not exceeding 10 per cent of their capital and surplus, if such corporations enter into agreements with the Federal Reserve Board by means of which the Board can regulate their operations and keep generally informed as to their condition. Up to the present time five such institutions have filed agreements defining the operations to be engaged in and relating to the amount and character of their investments, deposits, acceptances, and reserves. The corporations with which agreements have been made are:

	Capital and surplus Dec. 31, 1918.	Resources (head office) Dec. 31, 1918.	Affiliated institutions.	Branches.	Agencies.
American Foreign Banking Corporation, New York City	$4,405,000	$22,345,000		4	
Mercantile Bank of the Americas, New York City	4,525,000	24,486,000	[1] 6	2	5
First National Corporation, Boston, Mass	2,250,000	15,039,000		[2] 1	
Asia Banking Corporation, New York City	2,500,000	3,780,000			
International Banking Corporation, New York City	6,500,000	[3] 57,957,000		24	

[1] With more than 20 offices.
[2] In New York City.
[3] June 30, 1918, figures, including branches, $102,322,000.

The branches and agencies located in foreign countries are subject to the laws of the country in which located, and in order to be able to compete with local banks, are permitted to follow in general the local banking practice.

The American Foreign Banking Corporation, the first to file an agreement with the Board, has acquired or established branches in the Canal Zone, Panama, and Haiti and the establishment of other branches has been authorized. These branches do a general banking business.

The Mercantile Bank of the Americas has expanded through the control of autonomous banks in several of the countries of South and Central America—Brazil, Peru, Venezuela, Nicaragua, and Colombia. Branches have been opened in Paris and Barcelona and agencies in five of the Latin American countries. In addition to receiving local deposits, making discounts, and dealing in foreign exchange, these affiliated institutions promote trade by bringing together buyers and sellers acting merely as intermediaries without assuming any market risks themselves. This bank was organized in 1915 by private banking firms in New York, but now numbers among its stockholders several of the large member banks of the Federal Reserve System.

The entire stock of the First National Corporation of Boston is owned by the First National Bank of that city. At the present time this corporation has no foreign branches, but intends to establish them as its business develops. An office, doing a purely discount business, is now maintained in New York City. During the past year this corporation has been of considerable assistance in facilitating import and export trade with South America, the Far East, and West Indies, and also with European countries.

The Asia Banking Corporation was organized only recently, but plans to engage in a general international and foreign banking business in China, in the insular dependencies of the United States, and, ultimately, in Siberia. It contemplates opening branches in Shanghai, Harbin, Hankow, Tientsin, Peking, and Vladivostok. The stock of this corporation is owned largely by member banks.

The International Banking Corporation is the oldest of the banking corporations which have filed agreements with the Board, having opened its first branch in Shanghai in 1902. Practically all of the capital stock of this corporation is owned by the National City Bank of New York. Its field of operation covers mainly the Orient—India, China, Japan, the Philippines, and the Malay Archipelago—Central America, and the West Indies, with a branch in London. It also has an office in San Francisco. It is engaged principally in financing the export and import trade centering at the places where its branches are located.

At the present time there are only two national banks having foreign branches—the National City Bank of New York and the First National Bank of Boston.

The National City Bank has 21 branches in South America, Cuba, Porto Rico, Russia, and Italy, and has also a representative in Copenhagen. The Board has recently authorized it to establish branches in Belgium, Switzerland, Portugal, and Spain. These banks, while branches of an American bank, perform the functions of local banks under authority of local law of the countries in which they are established, and transact a general banking business in their respective localities.

The First National Bank of Boston has one branch in Buenos Aires, opened in July, 1917. The facilities afforded by this branch have been devoted mainly to financing our trade in wool and hides with the Argentine.

Among the State member banks having foreign branches are the Guaranty Trust Co. of New York, the Equitable Trust Co. of New York, and the Farmers Loan and Trust Co. of New York, all of which have offices in both England and France, and agencies throughout the world.

The Board takes this occasion to renew the recommendation made in its last annual report that section 25 of the Federal Reserve Act be amended so as to provide for the Federal incorporation of banking associations engaged solely in international and foreign banking, stock of which is to be owned by national banks and which will operate under the control of the Federal Reserve Banks.

The language used in section 25 seems to indicate the intention of Congress to permit such banks to be organized under the laws of the United States. Many national banks have become stockholders in banks which have been organized under State laws for the purpose of carrying on a foreign banking business, in accordance with the terms of section 25.

The arguments in favor of Federal incorporation are—

(*a*) The dual control exercised by the Federal Reserve Board and by the State banking departments is liable at any time to cause embarrassment, or may operate to restrict the activities of the banking corporation.

(*b*) A banking corporation of this description being essentially a national enterprise whose stock is owned by national banks having been authorized by an act of Congress, would seem to be entitled to the benefits and protection of a Federal charter, which would undoubtedly be of great value in competing for business in foreign countries.

Attention is called also to the fact that other countries are now devoting particular attention to meeting their demands after the war, as regards financial facilities for trade, and the financing of large overseas contracts. A committee which was appointed sometime ago at the instance of the British Board of Trade, recently recommended the establishment of an institution having in view primary objects as follows:

(*a*) To afford advice and financial assistance to British commercial and industrial undertakings from their inception and generally to further the developments of British trade industry and commerce.

(*b*) To make advances for the enlargement of works and the extension of plant and for the amalgamation and coordination of works and business with a view to effecting economies in the cost of production.

(*c*) To render financial assistance in connection with transactions involving long periods of credit.

(*d*) To assist in obtaining orders from abroad for British manufacturers and traders and to grant financial facilities for the execution of such orders, especially when such orders are intended to be executed in the United Kingdom.

(*e*) To undertake credit operations and to draw and accept bills.

(*f*) To acquaint themselves with the conditions of trade and with the business requirements of all countries of the world and to enter into banking-agency arrangements in such countries with Colonial or British foreign banks or where necessary to open up branches and agencies in such countries.

(*g*) To establish, equip, and maintain information bureaus in close touch with the Department of Commercial Intelligence of the Board of Trade for furnishing British merchants and manufacturers and the business community generally with reliable data and information upon openings for trade, new contracts, State and other loans, and issue proposals, and generally upon all matters relating to foreign trade and business and to undertake the examination of industrial projects.

(*h*) To act as an agent for carrying through overseas commercial and financial transactions in which the British Government may be interested and to receive official recognition and assistance.

(*i*) To undertake trading operations and business on their own account or jointly with others either through the medium of syndicates or otherwise.

There does not seem to be anything to prevent American foreign banks from engaging in the operations above outlined with the possible exception of undertaking trading operations in business on their own account or jointly with others in such operations, through the medium of syndicates, but in the opinion of the Board all charters granted to banks engaging in such extensive operations should be uniform, and uniformity can best be assured through a Federal charter.

DIVISION OF ANALYSIS AND RESEARCH.

At the time of its organization, the Board created a Division of Reports and Statistics, which has collected and tabulated information from all available sources relating to economic and financial questions.

Due to the constantly increasing volume of business of the Federal Reserve Banks, this division has necessarily been more and more occupied in the compilation of figures which relate to the operations of the Federal Reserve Banks rather than to banking questions in general. For some time it has been evident that the work of the statistical division should be supplemented, and that the Board should have some agency to assist it in the work of scientific research. Accordingly, the Division of Analysis and Research was created on September 1, 1918.

While much of the work which would ordinarily fall to this division is now being handled in an administrative way by the Division of Foreign Exchange, the active operations of that division will cease when peace has been officially proclaimed.

The principal work which has been carried on by the Division of Analysis and Research since its inception is—

(*a*) Collection, classification, analysis, and interpretation of regular data relating to the condition of the Federal Reserve System, including both Federal Reserve Banks and member banks, and to business and other conditions affecting the banking and business situation, such work, however, not superseding or taking over that done by the Division of Reports and Statistics.

(*b*) Planning and outlining of inquiries into banking, financial, and other conditions, such inquiries being intended to throw light upon the general management and administration of the Federal Reserve System.

(*c*) Undertaking of special inquiries on topics referred by the Board to the division for special investigation and report.

(*d*) Preparation of data for the Federal Reserve Bulletin and making provision for collecting additional material from outside sources.

(*e*) Compilation of statistics showing changes in business conditions and in volume of production.

The headquarters of the division are at the offices of the Board at Washington, but a working office is maintained in New York. Its work is supervised by Dr. H. Parker Willis, formerly secretary of the Board, as director.

The director has been able to obtain the assistance of graduate students in economics and finance, to whom a nominal compensation is paid. The work at present is on a comparatively small scale, and may be regarded merely as a nucleus of what may eventually be undertaken by the division. The total cost of the division, including the Board's business index reporting system, is less than $1,300 per month.

The Board does not contemplate any rapid expansion of the work of the division, believing that it should be developed gradually as the results obtained appear to justify the effort and cost.

NEW BANKING STATISTICS.

Through its Division of Reports and Statistics, the Board has added to its statistical information by procuring, each week, figures showing the more important items on the balance sheets of member banks in leading centers throughout the country. It is also securing through various clearing house associations, figures which are published every week showing the total of checks paid by clearing house members. The Board believes that the balances as reported by the clearing house associations do not always furnish a true index of banking conditions, while the aggregate of checks paid, including a separate statement of customers' checks, and those drawn by banks and bankers, will, it is thought, portray more accurately the trend of business and will furnish a better basis for comparison month by month and year by year.

CAPITAL ISSUES COMMITTEE.

In his annual report to Congress for the year 1917, the Secretary of the Treasury referred to the importance of avoiding unnecessary capital expenditures in both public and private enterprises. While no specific authority had been conferred upon the Secretary or upon the Federal Reserve Board to approve or disapprove new undertakings, a number of corporation executives, bankers, and municipal officials submitted plans for new enterprises, and thereupon the Secretary of the Treasury requested that all persons contemplating offerings of securities for sale or subscription, first submit them for an expression of opinion as to the compatibility of the proposed issues with the national interest. Tentative offerings increased to such an extent that it became evident that an organization of some kind would be necessary to pass upon them, and in a letter dated January 11, 1918, Secretary McAdoo requested the Federal Reserve Board "as another patriotic service, to assume the responsibility of passing upon such proposals as may be submitted, both in respect to capital expenditures or issues of new securities."

The Board appointed Messrs. Paul M. Warburg, chairman, Frederick A. Delano, and Charles S. Hamlin a committee of its members to undertake the work. The committee enlisted the services of a voluntary advisory committee to assist in its work. This advisory committee consisted of the following: Allen B. Forbes, chairman, senior partner of Harris, Forbes & Co., New York; Frederick H. Goff, president Cleveland Trust Co., Cleveland, Ohio; Henry C.

Flower, president Fidelity Trust Co., Kansas City, Mo.; Stephen L. Selden, executive secretary; James Q. Newton, assistant executive secretary; Bradley W. Palmer, counsel. To complete its organization for nation-wide work, the committee appointed in each Federal Reserve district an auxiliary committee of five members, including the Federal Reserve agent acting as chairman, and the governor of the Federal Reserve Bank. Members of the advisory committee and all auxiliary committees served without compensation.

In beginning its work on February 1, 1918, the committee announced that, for the time being, it would undertake to pass upon industrial and public utility issues of not less than $500,000 and municipal issues of $250,000 and over. Subsequently, it reduced the minimum for both classes to $100,000, pointing out that the committee earnestly invited the cooperation of everyone in reducing and eliminating issues of even smaller amounts for purposes incompatible with the national interest.

The test applied to security issues was (1) whether the offer was timely with respect to the financial operations to be undertaken by the Government and (2) whether the objects for which the funds were to be raised by the sale of securities were compatible with the public interest. The committee in no instance undertook to pass upon the security or legality of issues.

Notwithstanding its purely voluntary nature and the absence of specific legal authority, the committee, by reason of the hearty cooperation of other governmental agencies and of bankers' associations, as well as of leading stock exchanges, was able, during its brief existence, to effect a considerable stoppage of nonessential security issues. The following is a record of issues actually considered:

	Municipal.	Public utilities.	Industrial.	Total.
Amount considered	$86,878,512	$172,069,605	$219,510,269	$478,458,386
Amount disapproved	19,791,665	6,000,000	39,900,000	65,691,665
Aggregate approved	67,086,847	166,069,605	179,610,269	412,766,721
Less "refunding"	21,392,312	125,860,284	111,411,900	258,664,496
Aggregate new issues	45,694,534	40,209,321	68,198,369	154,102,224
New issues last year, same period	108,952,865	107,504,075	287,754,684	504,211,624
Analysis of new issues approved:				
Amount original applications	65,486,199	46,209,321	108,098,369	219,793,889
Amount approved	45,694,534	40,209,321	68,198,369	154,102,224
Curtailment effected	19,791,665	6,000,000	39,900,000	65,691,665
Analysis of applications formally discouraged:				
Number	8	3	6	17
Amount	$8,915,000	$7,360,000	$3,590,000	$19,865,000

In addition to these tangible results, it is safe to assume that the committee's existence and the campaign of education conducted by it stopped at the source a great many commitments for capital expenditures, thereby conserving material, labor, and credit for essential industries and use of the Government.

Article II of the War Finance Corporation act of April 5, 1918, provided for the appointment of a Capital Issues Committee by the President, and the committee which was appointed in accordance with the terms of the act automatically superseded the voluntary committee of the Federal Reserve Board. The new committee adopted the general plan of organization which had been followed by the old committee, and appointed local committees in each Federal Reserve district to perform their functions through the Federal Reserve Bank's organization in each district.

LAW DIVISION.

In the exercise of its functions, the Board is called upon to consider many intricate legal problems which frequently involve the interpretation of State as well as Federal laws. Subject to the provisions of the Federal Reserve Act and the regulations of the Board, State banks and trust companies becoming members of the Federal Reserve System retain their full charter and statutory rights as such and continue to exercise all corporate powers granted to them by the States in which they are created. There is lack of uniformity both in the powers vested in State banking corporations and in the laws regulating the operations of such corporations. The law division of the Federal Reserve Board is therefore called upon to analyze carefully many of the laws of the 48 States which affect banking operations; to pass upon the legality of many banking operations under State and Federal law; to prepare legal papers, and in general, to render various legal services to the Federal Reserve Board and the several Federal Reserve Banks.

While each Federal Reserve Bank has its own counsel, it is, of course, important that rulings on legal questions should be uniform in all districts and the general counsel of the Board, therefore, acts in close cooperation with the counsel for the several Federal Reserve Banks.

In addition to the normal or routine work of the legal division every effort has been and is being made to cooperate with the several State authorities and with the various agencies interested in bringing about a standardization of banking laws and a coordination of banking powers, and this has involved much work in connection with both State and Federal legislation.

The activities of the law division may be briefly summarized as follows:

FEDERAL LEGISLATION.

The Federal Reserve Act, since its passage, has been amended in many particulars by the acts of August 4, 1914, August 15, 1914, March 3, 1915, September 7, 1916, June 21, 1917, and September 26, 1918. Most of these amendments were enacted by Congress upon the recommendation of the Federal Reserve Board, and the law division assisted in the preparation of the amendments.

In addition to the foregoing amendments, the Federal Reserve Act has been modified or amended by provisions incorporated in other acts.

Following the passage of these amendments there is compiled by the law division under direction of the Board, a new edition of the Federal Reserve Act with an appendix containing extracts from other acts of Congress which amend the Federal Reserve Act or affect the operation of Federal Reserve Banks or member banks, all fully indexed.

STATE LEGISLATION.

It is obviously important that there should be maintained in the office of general counsel a proper analysis of State laws affecting the operations of member banks and a record of all banking laws passed by the several States.

Member banks, other than national banks, are subject to the laws of the 48 States, and these laws have been made applicable to the operations of national banks in certain particulars; for example, in the exercise of fiduciary powers.

There has been prepared by this division and published in the Federal Reserve Bulletin, an analysis of the State laws relating to reserve requirements, an analysis of State laws relating to bank acceptances, and an analysis of State laws affecting the operations of foreign banking corporations. This information is of great importance at the present time since our member banks are now authorized to establish and maintain branches in foreign countries or to subscribe to stock in banks engaged principally in the business of international or foreign banking. As our foreign trade develops it may reasonably be expected that foreign banks will desire to increase their activities in this country. As many of the State laws impose restrictions on the operations of foreign banks, it is important that this subject should be given careful consideration by those interested in the standardization of such laws.

The law division is also engaged in the preparation of an analysis of State laws relating to capital and surplus requirements, which will be published at an early date, and an analysis of State laws relating to limitations on loans.

It endeavors, through the counsel for the several Federal Reserve Banks and through the superintendents of banks of the several States to keep on file copies of all acts passed by State legislatures which

In an effort to assist in bringing about a standardization of State banking laws and a coordination of Federal and State banking powers, certain Federal legislation to this end has been recommended and an analysis of the several State laws has been made to show what legislation is necessary on the part of the State legislatures to enable State banks which become members of the Federal Reserve System to conduct their operations on a basis of substantial equality with other member banks. This analysis, with a standard form of enabling act, was prepared at the request of the president of the American Bankers' Association, and with slight modifications has been adopted by that association in its program of legislation for the year 1919. As 44 State legislatures meet during the current year, it is hoped that many of the States will adopt the necessary legislation to remove any inequalities that may exist by reason of the conflict in State and Federal laws.

REGULATIONS.

The law division is called upon to assist in the preparation of all regulations of the Board in order that they shall in all cases conform legally to the letter and spirit of the Federal Reserve Act.

OPINIONS.

As previously stated, this division is required to pass upon questions involving the interpretation of the Federal Reserve Act, the national bank act, the negotiable instruments law, and the laws of the several States which affect the operation of national banks, State banks, or trust companies which are members of the Federal Reserve System.

INFORMAL RULINGS.

Rulings which involve the application of regulations of the Board or of provisions of the Federal Reserve Act, to concrete questions arising in the administration of the act, are usually referred to this division before being published or formally entered so that there may be no question of their legality.

CLAYTON ACT.

Under the Kern amendment to the Clayton Act, the Board is authorized under certain conditions to permit the same person to serve as an officer or director of two or more banking institutions which are not in substantial competition. Applications for this permission are filed on regular forms prepared by the Board, and in each case are referred to this division to ascertain whether the application is in proper form; whether it contains data sufficient to enable the Board to pass upon the question presented, and it is usually necessary for this division to conduct correspondence and to prepare various memoranda in connection with such application.

The national-bank examiners report all cases where the same person is serving with two or more banking institutions in apparent violation of the Clayton Act. Such cases are referred to this division which must determine—

(*a*) Whether a permit has been granted by the Board;

(*b*) If not, what is the capital and surplus of the banks involved;

(*c*) What is the population of the place in which the banks are located according to the 1910 census;

(*d*) Whether the banks involved are member banks.

A report is then made to the Board with a recommendation as to the action to be taken.

More than 2,000 cases have been passed upon by the counsel's office and a list of applications granted and refused comprises more than 143 pages of typewritten matter.

STATE BANK APPLICATIONS FOR MEMBERSHIP.

The Board has approved more than 650 applications of State banks for membership in the Federal Reserve System during the past year. Each of such applications is first submitted to this division and in each case it is necessary—

(1) To ascertain if the application and exhibits are executed in proper form;

(2) Whether all necessary exhibits accompany the application;

(3) To examine and make a certificate as to the legality of suggested conditions of membership;

(4) To examine State laws to ascertain (*a*) whether the bank has any unusual powers, and prepare memorandum on this subject, and (*b*) whether the bank has power to join the system;

(5) To ascertain whether the bank has the necessary capital stock;

(6) To examine the charter or articles of incorporation;

(7) To prepare memoranda regarding any unusual or doubtful cases and to call to the attention of the Board any irregularities;

(8) It is also necessary to prepare numerous letters in connection with these applications calling for additional information.

APPLICATIONS FOR TRUST POWERS.

Since the passage of the act of September 26, 1918, which amended section 11 (k) of the Federal Reserve Act, there has been a considerable increase in the number of applications filed by national banks for permission to exercise trust powers. In each case it is necessary for this division—

(1) To ascertain whether the application is executed in proper form;

(2) Whether the bank has the necessary capital and surplus required by the State law;

(3) Whether the State law gives competing institutions the powers applied for;

(4) To prepare a report in each case for the Federal Reserve Board.

The amendment referred to makes various State laws applicable to the operations of national banks exercising trust powers. It is therefore necessary for this division to maintain a careful analysis of all the laws of the State relating to the exercise of fiduciary powers by competing State corporations and to pass upon a very large number of questions arising in connection with the exercise of trust powers.

There is now in course of preparation a new series of regulations governing the exercise of these powers by national banks in accordance with the act as amended.

ACCEPTANCES.

A very large number of questions have arisen in connection with the use of bank credit in the form of acceptances. This being a new power vested in national banks by the Federal Reserve Act, it is necessary to carefully supervise its exercise to the end that a proper discount market may be developed along conservative lines, and in order that this power may not be used for the purpose of evading limitations or restrictions imposed upon the credit operations of national and member banks.

COMPTROLLER OF THE CURRENCY.

To avoid any possible conflict which may result in cases where the jurisdiction of the Comptroller of the Currency and the Federal Reserve Board is seemingly concurrent, the general counsel of the Federal Reserve Board acts in such cases as joint counsel for the Board and the Comptroller. The law division of the Board is therefore required to pass upon a number of questions arising in connection with the operations of national banks.

FOREIGN EXCHANGE TRANSACTIONS.

Under the trading with the enemy act, the President was authorized to use any agency or agencies that he might select to control foreign exchange transactions and to prevent the resources of this country from being used for enemy purposes. The Federal Reserve Board was designated by Executive order of January 26, 1918, as the agency of the Secretary of the Treasury to exercise proper supervision over all such transactions. All persons carrying accounts either with or for foreign correspondents or engaging in any manner in transactions in foreign exchange or transfers of credits as between the United States and any foreign country were required to obtain a registration certificate from the Federal Reserve Board and to make regular reports of all such transactions. In each case a certificate of nonenemy interests was required, and whenever it appeared that the consummation of the transaction would not be compatible with the best interests of the United States its consummation was ordered suspended by the Federal Reserve Board, pending investigation. The law division was accordingly called upon to prepare various regulations and rulings and to pass upon a number of intricate questions of Federal law and international law in connection with the exercise of these functions.

FIDUCIARY POWERS.

Section 11 (k) of the Federal Reserve Act authorizes the Federal Reserve Board "to grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, and register of stocks and bonds under such rules and regulations as the said Board may prescribe."

In its last annual report the Board called attention to the decision of the Supreme Court of the United States, in the case of Bank *v.* Fellows, which sustained the right of Congress to grant fiduciary powers to national banks and to vest in such banks any powers enjoyed by competing State corporations.

In the course of its opinion the court indicated that the purpose of Congress in providing that fiduciary powers might be granted to national banks "when not in contravention of State or local law" was to bring about a more thorough coordination of banking powers as between Federal and State institutions.

In order to remove any question of the power of the Board to accomplish this result by regulation an amendment to the act was recommended which was designed to make national banks exercising fiduciary powers subject to State laws in so far as those laws provided appropriate safeguards for the protection of beneficiaries of trust estates. The amendment suggested by the Board with some modifications was included in the act which was approved and became a law on September 26, 1918. Under the act as amended the fiduciary powers which may be granted by the Board have been enlarged so as to include authority to act as guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

The Board is authorized to grant permits to national banks, to exercise fiduciary powers in any case in which competing State corporations are permitted to exercise these powers, even though the laws of the State expressly or impliedly prohibit the exercise of such powers by a national bank. Indications are that a great many of the national banks will apply for and obtain these permits and will thus be enabled to afford additional facilities to their customers and to increase the scope of their operations.

During the year 1918, up to September 26, the Board had granted 89 original permits and 1 supplemental permit. It has granted since that time 49 original permits and 44 supplemental permits. Original permits issued during the year number 138, the total number of banks now holding original permits being 708.

A list of the banks to which permits have been granted appears in the appendix.

RESERVE AND CENTRAL RESERVE CITIES.

The Board is authorized and empowered by section 11 of the Federal Reserve Act to add to the number of cities classified as reserve and central reserve cities in which national banking associations are subject to special reserve requirements, and to reclassify existing reserve cities or to terminate their designation as such.

The law as amended by the act of June 21, 1917, requires all reserves of member banks to be carried with the Federal Reserve Banks of their respective districts. The requirement as to time deposits is the same with all classes of banks—3 per cent; while on demand deposits banks in central reserve cities are required to carry a reserve of 13 per cent, those in reserve cities 10 per cent, and banks in other towns and cities 7 per cent.

It has been the policy of the Board in permitting the establishment of branch banks to classify cities in which the branches are located as reserve cities, and in accordance with this policy the Board has designated Jacksonville, Fla., El Paso, Tex., and Little Rock, Ark., as reserve cities. The other branches established during the year are in cities which were already classified as reserve cities.

BRANCHES OF FEDERAL RESERVE BANKS.

There were in operation at the close of the year 1917 six branches of Federal Reserve Banks, as follows:

Location.	Established by—
New Orleans	Federal Reserve Bank of Atlanta.
Louisville	Federal Reserve Bank of St. Louis.
Omaha	Federal Reserve Bank of Kansas City.
Portland	Federal Reserve Bank of San Francisco.
Seattle	Do.
Spokane	Do.

During the year 1918, the following branches, which were authorized by the Board during the year 1917, were opened for business:

Location.	Established by—
Cincinnati	Federal Reserve Bank of Cleveland.
Pittsburgh	Do.
Detroit	Federal Reserve Bank of Chicago.
Baltimore	Federal Reserve Bank of Richmond.
Denver	Federal Reserve Bank of Kansas City.

During the year covered by this report the Board authorized branches as follows:

Location.	Established by—
Birmingham	Federal Reserve Bank of Atlanta.
Jacksonville	Do.
Memphis	Federal Reserve Bank of St. Louis.
Little Rock	Do.
El Paso	Federal Reserve Bank of Dallas.
Salt Lake City	Federal Reserve Bank of San Francisco.

These branches have all been in operation for several months, with the exception of that at Little Rock, which began business on January 6, 1919.

While section 3 of the Federal Reserve Act as amended June 21, 1917, authorizes the Federal Reserve Board to "permit or require" any Federal Reserve Bank to establish branch banks within its district, it is the policy of the Board to have negotiations for branch banks originate between the community applying and the Federal Reserve Bank, and to review only such cases as may be referred to it after consideration by the directors of the Federal Reserve Banks.

All of the branches have proved a great convenience to the communities served, and have tended to arouse a greater local interest in the Federal Reserve System. Many of them have justified their existence from the standpoint of earnings, while others recently established have not yet had an opportunity of demonstrating their ability to sustain themselves. In some cases the establishment of branches has been followed by accession to membership of a number of State banks in the localities served, and the usefulness of the branches has been greatly increased as a result.

The by-laws governing the branches are approved by the Federal Reserve Board, and are uniform as far as recognition of the control and responsibility of the Federal Reserve Banks is concerned, but differ in some districts as to matters of administrative detail. In some cases the branch is empowered to make rediscounts for the member banks assigned to it, while in others the actual rediscounting operation is performed at the head office, the member banks being given credit at the branch as of the date on which the paper is tendered to the branch. In one case the earnings growing out of rediscounts are shown on the books of the branch, while in the other they appear only on the books of the Federal Reserve Bank; consequently a comparative statement of the earnings of the various branches can not be given.

Clearing operations and the collection of country checks are engaged in by the branch banks, and the head offices are relieved of a corresponding amount of detail work.

It is apparent, however, that too great a number of branches in any one district involving a division of the funds of the Federal Reserve Bank will tend to impair the effective control of the bank over its resources, and this fact, together with the expense involved in the operation of branch banks, will make it impossible to gratify the civic pride of many cities desiring branches.

There are, unavoidably, some advantages enjoyed by member banks located in Federal Reserve or branch bank cities which are not shared by banks in other towns and cities, but the Board is endeavoring, as far as possible, to give equal facilities to all member banks, and has, therefore, authorized the Federal Reserve Banks to pay all charges on shipments of currency to or from member banks. A member bank, therefore, located at a distance from its Federal Reserve Bank, is thus put in as favorable a position with respect to currency transfers as a member bank located in the Federal Reserve city, with the exception of the time involved in transit.

CHECK CLEARING AND COLLECTION.

The member banks are availing themselves more and more of the clearing and collection facilities afforded by the Federal Reserve System. The daily average number of transit items handled by the reserve banks during the year 1917 was approximately 276,000, amounting to $190,000,000. For the 30-day period ended June 15, 1918, the daily average number of items handled was 485,600, an increase of over 80 per cent, amounting to $385,060,000, an increase of over 100 per cent. From October 15 to November 15, 1918, the daily average number of items handled was 828,000, an increase over June 15 of 70 per cent, amounting to $556,943,000, an increase of 45 per cent. On November 15, 1917, the number of member banks was 7,826, and the number of nonmember banks on the par list was 9,210, a total of 17,036. On December 15, 1918, the number of member banks was 8,612, and the number of nonmember banks on the par list was 10,409, a total of 19,021, showing an increase for the 12 months of 1,985 in the number of banks remitting at par.

Assuming the total number of banks in the United States to be about 29,000, the number clearing through the Federal Reserve collection system by districts is shown approximately in the following table:

	Remitting at par.		Nonmember banks not remitting at par (approximate).
	Member banks.	Nonmember banks.	
Boston	423	246	
New York	723	339	
Philadelphia	661	329	102
Cleveland	814	728	411
Richmond	565	351	1,156
Atlanta	426	209	1,345
Chicago	1,334	2,392	1,805
St. Louis	514	1,046	1,600
Minneapolis	867	1,169	1,743
Kansas City	994	2,200	979
Dallas	727	247	947
San Francisco	644	1,049	159
Total	8,692	10,305	10,247

It appears, therefore, that there are something over 10,000 banks which do not remit at par. Classifying these banks according to their deposits, the approximate total of nonremitting banks in each district appears as follows:

	$1,000,000 and over.	$250,000 to $1,000,000.	$100,000 to $250,000.	Less than $100,000.	Total (approximate).
Boston					
New York					
Philadelphia	17	45	18	7	87
Cleveland	27	127	171	66	391
Richmond	42	275	411	316	1,044
Atlanta	37	250	460	528	1,275
Chicago	41	453	746	325	1,565
St. Louis	15	239	546	612	1,412
Minneapolis	6	161	463	303	933
Kansas City	3	270	779	665	1,717
Dallas	13	114	303	369	799
San Francisco	7	31	63	47	148
Total	208	1,965	3,960	3,238	[1] 9,371

[1] Many nonremitting banks do not report their deposits.

At a conference of Federal Reserve agents which was held in Washington on December 7, the conclusion was reached that every effort should be made to increase the number of banks on the par list. The banks and the public need a system that is able to collect all items. At the present time, although checks on two-thirds of the banks can be collected at par, and these banks represent perhaps 90 per cent of the banking resources of the country, the number of banks which will not remit at par, in which are included some of substantial size and located in important cities, is sufficiently large to make many banks hesitate to use the Federal Reserve collection system because of the number of items which can not be handled by the Federal Reserve Banks. Whenever the number of nonremitting banks can be reduced by one-half, or to five or six thousand, the collection system in many districts at least would be almost universally used and the Board could feel that the principle of par collections had been established beyond question. The par list has shown a steady growth, but a continuous effort will be made through correspondence and personal solicitation to make further substantial additions to it. The par collection system is not a local or selfish undertaking for the benefit of member banks, but is a national enterprise for the convenience of the public and the promotion of commerce, and concentrated and persistent efforts will be made to make the par list complete.

While the additions to the par list account in part for the large increase in the number of transit items handled, it is evident that the remarkable increase in the volume of transactions has been occasioned primarily by the greater use of the facilities of the system by all member banks. There have been only a few additions to the number of nonmember banks maintaining clearing accounts with the Federal Reserve Banks as permitted under section 13 of the act as amended June 21, 1917, and little, if any, of the increase shown is due to their cooperation.

The opinion of the Attorney General of the United States was asked as to the applicability to nonmember banks of the provision contained in the amendment to section 13 enacted in June, 1917, that member or nonmember banks "may make a reasonable charge to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time for collection or payment of checks and drafts, and remission therefor by exchange or otherwise, but no such charges shall be made against the Federal Reserve Banks." The Attorney General expressed the view that the limitations contained in section 13 do not apply to State banks not connected with the Federal Reserve System as members or depositors, but that checks on banks making exchange or collection charges should not be cleared or collected through Federal Reserve Banks. This opinion has restricted the operations of the Federal Reserve Banks to checks which can be collected without the payment of exchange to the bank acting as collecting agent.

At the close of the year 1917 the reserve banks were assessing upon member banks a service charge of from nine-tenths of 1 cent to 1½ cents per item, the charge being made to cover cost of postage, stationery, and accounting. Early in 1918 this charge was modified by some of the banks taking 500 checks per month from each member bank free, all checks in excess of that number being subject to the service charge. On July 1 the service charge was abrogated entirely, and the Federal Reserve Banks now collect without charge all checks on members and other banks on the par list.

During the month of October, as has already been stated, additional facilities were given member banks and their customers through the absorption by the Federal Reserve Banks of all cost of postage, expressage, insurance, etc., incident to shipments of currency to and from member banks (not including silver and subsidiary coin), also of the cost of telegrams between the Federal Reserve Banks and member banks in connection with currency, exchange transfers, and deposit transactions. Under a similar arrangement for nonmember banks maintaining clearing accounts, the Federal Reserve Banks absorbed the cost of postage, insurance, and expressage in connection with shipments of currency in settlement of clearing balances, and a further saving of expense to nonmember banks on the par list is provided by inclosing stamped envelopes with collection letters for return remittances. All expenses incident to shipments of currency made in payment of items sent for collection are borne by the Federal Reserve Banks.

Since the installation of the leased-wire system connecting all Federal Reserve Banks, delays in the transmission of telegraphic transfers from one section of the country to another have been reduced to a minimum, and the number of such transactions which are consummated daily indicates the member banks' appreciation of the facilities afforded.

In some districts there has been an increase in the number of banks taking advantage of the exchange facilities, provided through the medium of Federal Reserve exchange and Federal Reserve transfer drafts. Any member bank may obtain through its Federal Reserve Bank as complete facilities as it could secure by maintaining accounts in each of the 12 Federal Reserve cities, as these drafts are payable on presentation at any designated Federal Reserve Bank without deduction for time involved in collection, the settlements between the Federal Reserve Banks concerned being made through telegraphic transfers.

ISSUES OF FEDERAL RESERVE BANK NOTES.

The act approved April 23, 1918, known as the Pittman Act, the short title of which is "An act to conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist foreign Governments at war with the enemies of the United States; and for the above purposes to stabilize the price and encourage the production of silver," authorizes the Secretary of the Treasury to melt or break up and sell as bullion not more than 350,000,000 of standard silver dollars, and provides that any silver certificates which may be outstanding against such standard silver dollars so melted or broken up shall be retired at the rate of $1 of such certificates for each standard silver dollar melted or broken up, and that sales of bullion shall be made at such price—not less than $1 per ounce of silver 1,000 fine—and upon such terms as shall be prescribed from time to time by the Secretary of the Treasury.

The act further provides that the sales of silver bullion may be made for the purpose of conserving the existing stock of gold in the United States, of facilitating settlement in silver of trade balances adverse to the United States, of providing silver for subsidiary coinage and for commercial use, and of assisting foreign Governments at war with the enemies of the United States. In order to prevent contraction of the currency, the Federal Reserve Board is authorized to permit or require the Federal Reserve Banks to issue Federal Reserve bank notes in any denominations, including denominations of $1 and $2, in an aggregate amount not exceeding the amount of standard silver dollars melted or broken up and sold as bullion, upon deposit with the Treasurer of the United States, as security for the bank notes issued, of United States certificates of indebtedness, or of United States one-year gold notes. The Federal Reserve bank notes are taxable at a rate to make the net return on the certificates of indebtedness or the one-year gold notes equal to the net return on United States 2 per cent bonds used to secure Federal Reserve bank notes. The effect of the Pittman Act has been most satisfactory; it has caused no expansion of currency, as the Federal Reserve bank notes which have been issued have merely taken the place of a corresponding amount of silver dollars or silver certificates which had been in circulation and the bullion which has been made available by the melting of the silver dollars has been most effective in relieving an acute financial situation with which the British Government was confronted in India, and has also relieved, without the shipment of gold, an adverse exchange situation, which threatened to restrict our importations from the Orient.

In the allocation of silver, preference has been given to the requirements of our own Government and the governments associated with us in the war, although as the supply of silver has become more ample, shipments have been permitted to some extent for commercial purposes. Up to the close of the year, $119,162,760 of Federal Reserve bank notes were issued and put into circulation mainly in denominations of $1 and $2, and exports of silver were authorized by the Board since April 23, amounting to $258,209,000.

These issues of Federal Reserve bank notes are of a temporary character and will be retired automatically as the Treasury redeems the certificates of indebtedness or notes securing them, as required by section 6 of the Pittman Act, which provides that "as and when standard silver dollars shall be coined out of bullion purchased under authority of this act, the Federal Reserve Banks shall be required by the Federal Reserve Board to retire Federal Reserve bank notes issued under authority of section 5 of this act, if then outstanding, in an amount equal to the amount of standard silver dollars so coined, and the Secretary of the Treasury shall pay off and cancel any United States certificates of indebtedness deposited as security for Federal Reserve bank notes so retired."

AMENDMENTS TO THE FEDERAL RESERVE ACT.

The ability of the Federal Reserve System to meet the abnormal conditions incident to the war has been due in a large measure to the liberal attitude and prompt action of Congress in enacting legislation necessary to make the Federal Reserve Act responsive to these conditions.

The acts which have become law since the last annual report of the Board, and which amend the provisions of the Federal Reserve Act, or affect the operations of the Federal Reserve Banks or member banks, may be summarized briefly as follows:

(1) Section 8 of the act approved April 4, 1918, known as the third Liberty bond act, authorized the Secretary of the Treasury to leave on deposit with banks which subscribed for themselves or for their customers to the third Liberty loan the proceeds of such subscriptions under certain safeguards and restrictions. This was obviously necessary to prevent complications which might have resulted from heavy withdrawals of deposits from banks throughout the United States and the concentration of these funds in the Treasury.

(2) Section 13 of the act approved April 5, 1918, known as the war finance act, authorized the Federal Reserve Banks to discount direct obligations of member banks secured by bonds of the War Finance Corporation and to use notes so secured, if it becomes necessary, as a basis for Federal Reserve notes. While the War Finance Corporation did not find it necessary to issue bonds or to obtain credit through the Federal Reserve Banks, this precautionary legislation unquestionably had a very beneficial effect in stabilizing credits.

Section 15 authorized the Federal Reserve Banks to act as fiscal agents and depositaries of the War Finance Corporation, thus placing at the disposal of that corporation the facilities of the Federal Reserve System.

Section 20 of this act amended section 5202, Revised Statutes, so as to exempt from the liabilities which may be incurred by a national bank those incurred under the provisions of the war finance corporation act.

Section 301 repealed the stamp tax in so far as it applied to promissory notes secured by bonds or obligations of the United States. This provision of the war finance corporation act aided materially in marketing Liberty bonds.

(3) The act approved April 23, 1918, known as the Pittman Act, amended the Federal Reserve Act by authorizing Federal Reserve Banks to issue Federal Reserve bank notes in any denomination including denominations of $1 and $2 against the security of United States certificates of indebtedness or of one-year United States gold notes. This act has been discussed elsewhere in this report.

(4) The act of September 24, 1918, entitled "A supplement to the third Liberty bond act," amended section 5200, Revised Statutes. This section limits the amount that may be loaned by any national bank to any one person to 10 per cent of the capital and surplus of the lending bank. Under this amendment loans secured by Liberty bonds were made exempt under certain conditions from this limitation, thus facilitating to a very great extent the marketing of Liberty bonds.

(5) The trading-with-the-enemy act, as amended by the act approved September 24, 1918, authorized the President to use any agencies that he might select to control foreign-exchange transactions. Under authority of this act the Federal Reserve Board was designated to perform these functions as the agency of the Secretary of the Treasury.

(6) The act of September 26, 1918, amended sections 4, 11, 16, 19, and 22 of the Federal Reserve Act, and sections 5208 and 5209, Revised Statutes:

(*a*) The amendment to section 4 of the Federal Reserve Act simplified the procedure to be followed in the election of directors of Federal Reserve Banks.

(*b*) The amendment to section 11, subsection (*k*), of the Federal Reserve Act, broadened to some extent the trust or fiduciary powers that may be exercised by national banks; made such operations subject to appropriate safeguards and restrictions, and will make it possible for national banks to exercise these powers on a basis of substantial equality with competing State corporations.

(*c*) The amendment to section 16 of the Federal Reserve Act authorized the issuance of Federal Reserve notes in larger denominations than was possible under preexisting laws.

(*d*) The amendment to section 19 of the Federal Reserve Act vested in the Board the power to classify banks in outlying districts of reserve and central reserve cities as banks in reserve or nonreserve cities, thus removing what might have proven an injustice to the smaller banks in the outlying districts of the larger cities or in newly annexed territory of such cities.

(*e*) The amendment to section 22 of the Federal Reserve Act, which relates to transactions between member banks and their officers or directors, has cleared up the many ambiguities of that section and has removed what was regarded by many State banks as an obstacle to membership.

(*f*) The amendment to sections 5208 and 5209, Revised Statutes, which prescribe penalties for false statements made with intent to defraud by officers or directors of national banks, and certain penalties for embezzlement, abstraction, or willful misapplication of funds on the part of such officers or directors, makes subject to these penalties officers and directors of Federal Reserve Banks and receivers of national banks.

PENDING AMENDMENTS TO THE FEDERAL RESERVE ACT.

There is now pending in the House a bill to amend sections 7, 10, 11, and 25 of the Federal Reserve Act, and section 5172 of the Revised Statutes. A bill has already been passed in the Senate, the provisions of which are substantially similar to those of the House bill, except that it does not include any amendment to sections 10 and 25 of the Federal Reserve Act.

The purpose of the proposed amendments included in these bills may be summarized briefly as follows:

AMENDMENT TO SECTION 7.

Section 7 of the Federal Reserve Act now provides that the net earnings of the Federal Reserve Banks, after paying expenses and cumulative dividends, shall be paid to the United States as a franchise tax, except that one-half of such net earnings shall be paid into a surplus fund until that fund amounts to 40 per cent of the paid-in capital.

The amendment to section 7 provides that all net earnings shall be paid into a surplus fund until that fund amounts to 100 per cent of the subscribed capital of the Federal Reserve Bank and that thereafter 10 per cent of said net earnings shall be paid into this fund.

The Federal Reserve Banks are not subject to the same restrictions as are imposed upon national banks regarding liabilities that may be incurred. National banks are not permitted to become liable for borrowed money (except to Federal Reserve Banks and to the War Finance Corporation) in an amount greater than their capital stock, nor can they issue and put in circulation national bank notes in excess of this amount.

In order to give greater elasticity to their operations, Federal Reserve Banks were not made subject to these restrictions. It is therefore of very great importance to the United States as well as to the banks, that a large surplus should be created for the protection of outstanding liabilities. Federal Reserve notes issued through Federal Reserve Banks and for which they are ultimately liable are obligations of the United States.

The net earnings of the Federal Reserve Banks, which are paid to the Government under existing laws as a franchise tax, are used either to supplement the gold reserve held against outstanding United States notes, or to reduce the outstanding bonded indebtedness of the United States. The law provides that should a Federal Reserve Bank be dissolved or go into liquidation, any surplus remaining after the payment of all debts, dividend requirements, and the par value of the stock, shall be paid to and become the property of the United States. It is obvious, therefore, that if these earnings are carried into the surplus account of the Federal Reserve Banks they will accomplish substantially the purpose for which they are now used, since they will protect the credit of the United States.

AMENDMENT TO SECTION 10.

Section 10 now makes members of the Federal Reserve Board ineligible during the time that they are in office and for two years thereafter, to serve as officers or directors of member banks.

The proposed amendment is designed to make the members ineligible during the time they are in office and during the period for which they are appointed, but will not disqualify them after they have served their full term.

AMENDMENT TO SECTION 11.

Federal Reserve Banks are now prohibited from rediscounting for a member bank notes bearing the signature or indorsement of any one borrower in an amount in excess of 10 per cent of the capital and surplus of the member bank.

By recent amendment to the national bank act, national banks under regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, are permitted to lend to one person, an amount in excess of 10 per cent of their capital and surplus, provided such loans are secured by United States bonds or certificates of indebtedness issued after April 24, 1917.

In view of the limitations contained in sections 9 and 13 of the Federal Reserve Act, national banks and other member banks which, in the interest of the Government, have made loans to customers in excess of 10 per cent of their capital and surplus, upon the security of Liberty bonds, are now unable to rediscount the notes taken with the Federal Reserve Banks. In justice to the member banks, therefore, it is important that this amendment to section 11 should be adopted, which will permit the Federal Reserve Board, when necessary, to suspend the limitations of the sections above referred to.

AMENDMENT TO SECTION 25.

The Board has, on previous occasions, recommended to Congress that the Federal Reserve Act be amended so as to permit national banks under certain conditions to establish branches. The proposed amendment to section 25 which has been incorporated in the House bill but not in the Senate bill, authorizes national banks located in a city of more than 100,000 inhabitants and having a capital and surplus of $1,000,000 or more, to establish branches not to exceed 10 in number within the corporate limits of the city or town in which it is located, provided the State laws extend a similar privilege to competing State corporations. As the law now stands national banks are at a serious disadvantage in meeting the competition of State banks with branches. In the opinion of the Board the proper development of the Federal Reserve System makes it necessary to coordinate as far as possible the powers of all member banks. Under existing laws, State banks and trust companies in many cases are permitted to operate branches even after conversion into national banks, with the result that some member banks, both national and State, are given advantage over other member banks.

The Board therefore renews its recommendation that this amendment be adopted, being confident that it will prove beneficial to the Federal Reserve System, as well as to the communities concerned.

AMENDMENT TO SECTION 5172, R. S.

A bill identical in form with this amendment has already passed the House and the Senate. In the Senate, however, it was passed as an independent bill, while in the House it was a part of a bill which dealt with other subjects. In these circumstances it has not become a law.

Under the present law, national bank notes must be delivered to member banks registered and countersigned in blank and are presumably signed by the officers of the issuing bank. The law makes such notes, however, subject to redemption by a national bank, whether issued and placed in circulation without signatures or with forged or fraudulent signatures. The actual signing of the note is therefore not a necessary incident to its validity. This amendment permits the signatures to be engraved on the notes before they are delivered to the banks. If adopted, considerable expense will be avoided and the distribution of the notes will be expedited.

FEDERAL ADVISORY COUNCIL.

The Federal Advisory Council during the year held four meetings at Washington, as required by section 12 of the Federal Reserve Act.

It is the practice of the Board, in advance of each meeting, to furnish the council with a list of topics suggested for discussion, and to hold a joint session with the council at the beginning and close of each meeting. At the opening session the Board's viewpoint is outlined and at the closing session the council submits a written report giving its opinions and conclusions regarding the questions brought to its attention by the Board, and makes, at the same time, such independent suggestions or recommendations as it may deem proper.

These meetings are of constantly increasing interest and value, for they give the Board the advantage of the views of leading bankers from all sections of the country, and at the same time enable the Board to make clear to these representative bankers its own attitude on various banking and financial problems.

The statute requires that these meetings be held not less than four times each year, and oftener if called by the Federal Reserve Board. The council is also empowered to hold additional meetings whenever it may deem it necessary, either in Washington or elsewhere. So far additional meetings have not been deemed necessary, but the Board will not hesitate to call the council together whenever, in the consideration of the problems incident to the readjustment period which the country is entering, such action should seem advisable.

The members of the Federal Advisory Council inform the Board at each meeting of financial, commercial, and agricultural conditions in their respective districts.

BOARD'S ORGANIZATION, STAFF, AND EXPENDITURES.

The personnel of the Federal Reserve Board, which had remained intact for nearly four years, has undergone marked changes since July 22, 1918, when Mr. Frederic A. Delano, now a lieutenant colonel, Corps of Engineers, United States Army, resigned his membership in order to engage in military service overseas. The term of Mr. Paul M. Warburg, vice governor of the Board, expired on August 9, and the resignation of Hon. Wm. G. McAdoo, Secretary of the Treasury and ex officio chairman of the Board, became effective on December 16. Mr. Albert Strauss, of New York, was appointed by the President for the 10-year term to succeed Mr. Warburg, and taking the oath of office on October 20, was designated by the President as vice governor of the Board. Hon. Carter Glass, who became Secretary of the Treasury on December 16, is now by virtue of his office, chairman of the Board. No successor to Mr. Delano has yet been named. Dr. H. Parker Willis, who had been the secretary of the Board since its organization, resigned on August 1, and the Board elected as his successor, Mr. Joseph A. Broderick, of New York, who had been from the outset the chief of its Division of Audit and Examination, and in addition to his duties as secretary, Mr. Broderick remains as the head of that division. On May 16, Mr. Louis C. Adelson was elected assistant secretary of the Board, and on September 1, Mr. Webb T. Chapman was elected as an additional assistant secretary. The marked growth of the activities of the Federal Reserve System has been accompanied by a heavy increase in the volume of the Board's work, necessitating considerable additions to the clerical force. The establishment of the Division of Foreign Exchange, with headquarters in New York, as well as the creation of the Division of Analysis and Research, have increased the number of persons employed by the Board from 76 on December 31, 1917, to 227 on December 31, 1918, of whom 91 are in the Division of Foreign Exchange, engaged in work which will end with the reestablishment of peace.

The total cost of conducting the work of the Board during the year 1918, including salaries of members, expenses involved in printing the Bulletin, and the cost of operating the Division of Foreign Exchange, was $428,318.59. During the year 1918 two assessments were levied against the Federal Reserve Banks, aggregating $382,081, or approximately one-half of 1 per cent of the average paid-in capital and surplus of the Federal Reserve Banks for the year.

The annual reports of the Federal Reserve agents and further details relating to the operations of the Federal Reserve Board and of the Federal Reserve Banks appear in the appendix.

CONCLUSION.

Having submitted a report of operations in considerable detail, the Board deems it appropriate in closing to refer to certain facts and conditions which have had a bearing upon its policies and operations.

In meeting the emergencies occasioned by the war, Governments everywhere have been compelled to make unprecedented drafts upon their national incomes and resources. With the great nations engaged in a death grapple, preservation of national life has been the supreme object. Most difficult questions of financial expediency have been presented to finance ministers in deciding upon the most available and effective means of mobilizing national resources. The decision once made, it became the duty of all separate administrative agencies concerned with fiscal or banking functions to cooperate in giving effect to policies adopted, and it was in this spirit of cooperation that the Federal Reserve Board felt it to be its duty to assist in making effective the policies determined upon by the Secretary of the Treasury, however inconsistent some of the steps necessary to be taken might be with principles which usually govern in normal times. The demands of war are imperative and must be met without delay, and in financing the titanic struggle happily ended by the armistice last November first consideration could not always be given to what was theoretically desirable or convenient from the standpoint of banking practice.

The financial obligations of the Government are being met, the war has been won, hostilities have been ended, and representatives of the United States and the allied powers are now in conference regarding terms of peace. The country is confronted, it is true, with the problems incident to the demobilization of troops, the readjustment of prices, and the diversion of industry from war activities to the employments of peace. We are approaching an era of general readjustment and resumption of construction at home, and of reconstruction abroad, but the termination of the war at a time far in advance of popular expectation has minimized instead of magnified our national problems. We should have been confronted with them in any event whenever the war terminated, and the Government has not been required to withdraw from their ordinary employment the 2,000,000 or more of men it was preparing to withdraw in September last, nor is the country faced with the necessity of equipping them, and of maintaining overseas military and naval forces for a year or more of 4,000,000 to 5,000,000 men. The expenditures of $25,000,000,000 to $30,000,000,000 which had been anticipated for the year 1919 will be greatly reduced, and instead of sending new men to the front the Government is bringing back a large portion of the forces which it had been maintaining abroad.

Within a few months the country's war financing will have been completed, and the Board can then deal with the problems incident to bringing our credit structure and our banking operations back to a commercial basis. Our banking situation is strong and inherently sound, and is much stronger than would have been the case had the war continued for another year.

On December 31 the Federal Reserve Banks held a reserve of about 50 per cent against their combined liability for deposits and note issues, and if the reserve against deposits be computed on the basis of the legal requirement of 35 per cent, the reserve against Federal Reserve notes would be 60 per cent. The ability of the country to absorb investments has proved to be far greater than had been anticipated, and our credit structure, although expanded, is unshaken. We have no currency problems, and conditions are not comparable with those which existed at the close of the Civil War, and while the volume of circulation is larger than it has been at any period in our history, there has been no depreciation in the gold value of our currency, every form of which is on an absolute parity with gold. True, the purchasing power of money has declined, but this is due to the abnormal and urgent demands for goods and services and the accompanying expansion of credit and currency. The quality of our currency has been maintained; there is a single standard of prices which is based upon the dollar, and not a double standard, one based upon the gold dollar and the other upon the paper dollar, as was the case during and after the Civil War. The increased volume of Federal Reserve notes has been an incident or an effect of expansion of credits, rather than the cause of such expansion, and the conditions which resulted in additions to the country's gold stock of more than $1,000,000,000 during the years 1915 and 1916 have changed.

With the development of our foreign trade, with increased shipping facilities, and with the granting of credits to other nations to aid them in their work of reconstruction and to enable us to sell them goods, a new influence will be felt in due course, which will work toward the restoration of more normal levels. Banking credits, which are not extended beyond our power to sustain them, but which are at present concentrated in this country, will become more widely diffused throughout the world, and the elastic quality of our currency, the main constituent of which is now the Federal Reserve note, will soon be manifest, as indeed it has already been evidenced in some degree by the retirement of approximately $200,000,000 of notes since the close of the year.

An obligation rests upon the American people to assist the Government in the completion of its financial program and to absorb the securities which have been and are yet to be issued. This absorption can be accomplished by reasonable economies and by persistent saving for some time to come, and it will be the duty of the Federal Reserve Board and of the banks in the meanwhile to aid in the extension of credit facilities, necessary in the processes of production and distribution. Drastic contraction would be followed by results no less disastrous than those which would attend undue expansion, and the processes of deflation must therefore be permitted to work themselves out in a gradual and orderly manner. Discount rates, which for the past 18 months have been based upon the rates borne by Government issues, must for the time being continue to be fixed with regard to Treasury requirements, but when the war obligations of the Government have been digested, and the invested assets of the Federal Reserve Banks have been restored to a commercial basis, rates can be established with reference to the commercial requirements of the country.

The Board is profoundly conscious of the responsibilities imposed upon it by the Federal Reserve Act, and during the period of readjustment and afterwards as progress is made in the reestablishment of peace conditions, its purpose will be to exercise its control of our credit structure in such manner as best to promote the national welfare, the agricultural, industrial, and commercial interests of the country, and the development of our foreign trade.

By direction of the Federal Reserve Board.

W. P. G. HARDING,
Governor.

The SPEAKER OF THE HOUSE OF REPRESENTATIVES.

THE FEDERAL RESERVE BOARD.

1919.

CARTER GLASS, ex officio,
Secretary of the Treasury, Chairman.
JOHN SKELTON WILLIAMS, ex officio,
Comptroller of the Currency.

W. P. G. HARDING, *Governor.*
ALBERT STRAUSS, *Vice Governor.*
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ANNUAL REPORT OF THE FEDERAL RESERVE BOARD.

FEDERAL RESERVE BOARD,
Washington, February 2, 1920.

SIR: The Sixth Annual Report of the Federal Reserve Board covering operations for the calendar year ended December 31, 1919, is submitted herewith.

INTRODUCTORY REVIEW.

The past year has witnessed the return and demobilization of troops, the readjustment of commercial and industrial activities to a peace basis, and the removal of most of the war-time restrictions. It has, moreover, been a year marked by industrial unrest, by economic confusion, by reduced production, increased domestic consumption, high prices, and unprecedented extravagance.

In the exercise of its functions, the Federal Reserve Board has been confronted with problems of peculiar difficulty, not admitting of treatment either by methods necessary or permissible in time of war, nor by recourse to means which would naturally suggest themselves under normal economic conditions.

A consideration of these problems makes necessary a brief review of the financial exigencies of the war and of the manner in which they were met. It must be remembered at the outset that war financing necessarily involves credit expansion unless private consumption is curtailed at a rate commensurate with the increase of Government requirements. Such curtailment is at best a gradual process; with us it had been brought under a gratifying degree of control when the armistice was signed. The War Industries Board through priority orders and price fixing, and the Food and Fuel Administrations by rationing, voluntary cooperation, and price fixing had limited consumption, and as a consequence expenditure; and these limitations, had the war continued, would have shown striking results in our ability to place further Liberty bond issues with investors. To the extent, however, that what was accomplished in saving fell short of actual requirements, there was a margin of bonds that could not be paid for immediately out of savings and which it became necessary for the banks to carry, either directly or indirectly through loans to purchasers. This expansion of bank loans must be kept in mind in order to understand the situation. Failure to understand it leads to the impression held by many that Liberty bonds could all have been sold to investors had they borne a higher interest rate. No rate within reason could have accomplished this end, as the investment funds to absorb these enormous issues in their entirety simply did not exist and their growth could not have been induced to an adequate degree by higher rates.

In order that the member banks might carry the burden of undigested Government securities they were obliged to rediscount with Federal Reserve Banks, and in order that such rediscounting should not involve them in heavy loss it was essential that as long as the banks were lending to bond subscribers at coupon rates the rediscount rate should be related to the bond rate. The rediscount rates of Federal Reserve Banks, therefore, instead of being higher than the market rates, as in theory and in normal practice they should have been, were made lower than the market rates. This circumstance is enough to prevent a normal functioning of a Federal Reserve Bank, whose rates should be so fixed that resort thereto is unprofitable to the borrowing institution and thus has a tendency to check expansion.

The remedy for this condition is the absorption by investors of the undigested securities. This process could not be accelerated, as in normal times, by sharp declines in value, as the large volume to be digested precluded that possibility. Absorption can be brought about only by time and saving; and it often happens that a rising price causes better absorption than a falling quotation. A consideration of these facts makes it clear that abnormalities were imposed on the banking system by the war and that a restoration of normal conditions must be brought about through the gradual elimination of war paper from the banks. It was necessary to cooperate with the Treasury in every way to facilitate first the sale of Government securities and then their absorption by investors. For the full understanding of the Treasury's position as the most important factor in the money market, it is necessary to touch briefly on its issues of certificates of indebtedness. The principal issues of such certificates were loan issues and tax issues. On May 5, 1919, there were outstanding $6,467,525,000 of certificates, which was the maximum at any time outstanding. On December 31, 1919, there were outstanding $3,262,184,500; at the date of this report there were outstanding but $3,124,757,500, whereof about $550,000,000 mature March 15 and will be paid off out of tax receipts due that day. It will be seen that there has thus been a very substantial reduction of the floating debt represented by the certificates of indebtedness. Certificates now outstanding mature on March 15, June 15, September 15, and December 15, 1920, these being the dates on which taxes become payable and they will then be paid off out of tax receipts. It is estimated that receipts from income and excess profits taxes payable during the calendar year 1920 will be more than ample to redeem all tax certificates outstanding at present, and that a portion of these taxes will be available to cover current expenditures. The amount by which other current receipts fall short of meeting current expenditures may then be covered by further issues of tax certificates maturing on tax dates in 1921. Such issues will, it is estimated, be for amounts appreciably smaller than the issues now outstanding. The volume of certificates being steadily reduced, the new issues of certificates should be readily absorbed. It is estimated that over 60 per cent of present tax issues are held by taxpayers and investors and only 40 per cent by the banks. Distribution of the certificates has been effected through the Federal Reserve Banks, with the cooperation of the member banks—a vast organization which can not be duplicated—the member banks buying the certificates in the first instance and then gradually selling them to their costumers. This could not have been accomplished if member banks had not had the assurance that their investments in certificates pending distribution could, if necessary, be carried in Federal Reserve Banks without loss. In making rates for rediscounting loans on Government securities the policy was to avoid loss to the banks, which were necessarily the distributing media.

As Treasury operations became gradually a less determining factor in the money market, the situation as to commodity prices became more important. The purchasing power of the public growing out of high wages and large profits is greater than it has ever been before; and this purchasing power, competing with export demands arising out of the necessities of Europe, has raised prices to a point that takes no account of prudence. Every element of increased cost is added to price, and there is, therefore, no incentive to manufacturers to produce cheaply or to hold back because of any element of cost, whether of credit, labor, or material, as they can always sell their output at a profit. There is practically unlimited demand for credit not only for the manufacture and distribution of goods, but also for speculation in commodities and in the securities representing ownership of the industries producing those commodities and which profit by their production and sale.

From the facts set forth above, it is evident that an advance in discount rates while the Government had an unwieldy floating debt and Liberty bonds were still largely unabsorbed would have added to the difficulties of Government financing. While regulation and control of credit have been as desirable since the war restrictions were removed as before, the Board was convinced that to attempt this control through premature adjustments of rates would be so detrimental to the Treasury's position as to offset, if not prevent entirely, the results sought.

Early in December, however, after the program of the Treasury for the adjustment of the floating debt had advanced to a stage where it could no longer be seriously affected by the adoption of a more normal banking policy, the Board notified the Federal Reserve Banks that it was ready to consider their suggestions for rate changes, and that it would approve an advance in the rates for paper secured by Government obligations other than Treasury certificates of indebtedness. As the highest rate borne at that time by the certificates was $4\frac{1}{2}$ per cent and as they were held largely by banks, the Board felt that in view of all the circumstances the existing rate on notes secured by Treasury certificates as collateral should be maintained for a limited time. The Treasury, however, on December 29, announced that it would offer on January 2, 1920, certificates bearing interest at the rate of $4\frac{3}{4}$ per cent payable on December 15, 1920, and the Board thereupon took steps to advance the rate on notes secured by Treasury certificates to $4\frac{3}{4}$ per cent.

At the close of the year, at a majority of the Federal Reserve Banks, rates on paper secured by Government obligations of every kind had been advanced to the same level as the rates then ruling for commercial paper, while the other Federal Reserve Banks announced their readiness to comply with the Board's wishes as soon as meetings of their directors could be held.

No advance in the discount rate on commercial paper had been made up to December 31, chiefly because it was deemed desirable to ascertain to what extent the seasonal liquidation, beginning usually in January, would proceed without the added stimulus of higher rates and partly, too, because at some of the most important financial centers rates of interest on bank balances were based on the 90-day discount rate of the Federal Reserve Bank, and were subject to an automatic increase should that rate be advanced. Such increase might easily lead to a disturbing scramble for deposits. While there is no obligation on the part of either the Board or the Federal Reserve Banks to consider interest rates allowed by commercial banks on deposits in establishing discount rates, it was the Board's view that this fact should be understood by the banking community, and that the banks in the centers affected should be given an opportunity in anticipation of future rate changes to modify their rules. Accordingly, on December 29, the Board invited clearing-house associations to send representatives to a conference to be held in Washington on January 6, 1920, for a discussion of the matter.

It was the Board's conviction, however, at the close of the year, that a substantial advance in all discount rates was necessary and that it should not be long delayed.

The act of September 7, 1916, amended section 13 of the Federal Reserve Act by providing that "any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding 15 days at rates to be established by such Federal Reserve Bank, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount, or for purchase by Federal reserve banks under the provisions of this act, or by the deposit or pledge of bonds or notes of the United States." Until recently it has been the policy of the Federal Reserve Banks to establish, and of the Federal Reserve Board to approve, preferential rates for paper, including member banks' collateral notes, maturing within 15 days, and a very large proportion of the invested assets of the Federal Reserve Banks have been represented by paper of this class.

This amendment was suggested by the Board at a time when borrowings by member banks were very small, and when much of the limited demand was for a short period only. Banks having occasion to use funds for a few days found frequently that eligible paper in their portfolios had a longer time to run than the period covering their requirements, and the result was either that no offering was made or that the loans were taken up before maturity with request for rebates.

During the period when the success of offerings of Government bonds and of Treasury certificates depended so largely upon the cooperation of the banks the ability of member banks to discount at preferential rates at Federal Reserve Banks their short-time notes secured by Government obligations proved of great value, but now that Treasury financing is no longer the paramount factor in the money market it is the view of the Board that there should be no preferential rates given to member banks' collateral notes.

INTERBANK PURCHASES OF ACCEPTANCES AND REDISCOUNT OPERATIONS.

The rediscounting between Federal Reserve Banks of bills purchased and of discounted paper has been continuous throughout the year, due both to the movement of funds in connection with fiscal operations of the Treasury and also to seasonal requirements for the movement of crops and the purchase of raw materials by industries.

The Board has carried out its policy of equalizing as far as practicable the reserve position of the several Federal Reserve Banks. All rediscount transactions and sales between Federal Reserve Banks have been arranged by the Board under authority of section 11 of the Federal Reserve Act, which provides that a Federal Reserve Bank may be permitted or, upon the affirmative vote of at least five members of the Federal Reserve Board, required to rediscount the discounted paper of another Federal Reserve Bank at rates of interest fixed by the Federal Reserve Board. There has, however, been such a spontaneous spirit of cooperation between the Federal Reserve Banks that all transactions suggested by the Federal Reserve Board have been made voluntarily, and in no case has the

Board found it necessary to exercise its statutory power to require such operations. By means of the Federal Reserve leased-wire system rediscount transactions have been consummated almost instantaneously. All payments have been made on the day the transactions were completed by direct transfers through the gold settlement fund, through book entries at the banks and at the office of the Board, without involving any physical transfer of gold.

There has been during the year a continuous increase in the amount of open-market purchases of acceptances made chiefly by the Federal Reserve Banks located in New York and Boston, which cities are the principal acceptance markets.

The Federal Reserve Banks of Cleveland, Chicago, Minneapolis, Kansas City, and San Francisco have participated daily in the open-market purchases of the Federal Reserve Bank of New York under an agreement approved by the Federal Reserve Board. Other Federal Reserve Banks have undertaken to care for acceptances originating in their own districts which have been sold in the New York market. The total purchases of acceptances by the Federal Reserve Bank of New York amounted to $1,950,898,000, of which $739,499,000 were immediately allotted in the amounts indicated to the Federal Reserve Banks in the cities named below:

Cleveland	$179,592,000
Chicago	160,173,000
St. Louis	500,000
Minneapolis	88,696,000
Kansas City	22,461,000
San Francisco	288,077,000

The growth of the acceptance business and the great increase in the volume of acceptances purchased by Federal Reserve Banks are indicated in the following table.

Acceptances bought by Federal Reserve Banks.

[In thousands of dollars.]

Federal Reserve Bank.	Bought in open market.					Bought from other Federal Reserve Banks.		
	1915	1916	1917	1918	1919	1917	1918	1919
Boston	14,105	52,377	86,481	194,158	360,784	5,047	6,709	....
New York	25,834	123,406	445,307	945,498	1,211,399	19,659	50,182	15,827
Philadelphia	7,565	53,122	70,710	77,686	14,049	15,204	42,321	....
Cleveland	2,963	27,542	51,007	122,800	261,750	40,102	54,199	55,300
Richmond	250	11,313	54,759	70,766	52,977	3,357	331	5,080
Atlanta	72	12,544	25,388	45,477	51,661	1,005	2,514	5,065
Chicago	5,782	27,061	61,142	122,787	292,012	5,572	100,077	95,477
St. Louis	1,801	20,681	22,788	26,096	87,503	6,944	4,551	40,320
Minneapolis	1,455	13,539	16,397	13,903	108,714	16,675	25,911	19,282
Kansas City	1,788	8,191	17,561	14,691	26,086	9,264	19,047	45,099
Dallas	....	3,543	9,743	25,024	12,415	25,333	8,242	10,077
San Francisco	3,230	32,776	48,018	150,653	345,827	20,249	22,506	133,050
Total	64,845	386,095	909,301	1,809,539	2,825,177	168,411	336,590	424,577

In order to maintain an open market for bankers' acceptances the Federal Reserve Banks of Boston and New York have been called upon constantly to make very heavy purchases, and it has been necessary for these banks in order to sustain their reserves to make large sales of acceptances. Other Federal Reserve Banks have had, from time to time, surplus funds and with the approval of the Federal Reserve Board have purchased bankers' acceptances from these eastern banks. In cases where Federal Reserve Banks have of their own initiative purchased bankers' acceptances from other Federal Reserve Banks with the approval of the Board, the indorsement of the selling bank has not been given as a rule, but whenever the Board has requested a Federal Reserve Bank to rediscount bankers' acceptances for another the selling bank has been required to indorse the bills sold.

The Federal Reserve Banks of Cleveland, Chicago, St. Louis, Minneapolis, and San Francisco are the only banks which have neither rediscounted nor sold paper during the past year. Rediscount operations between Federal Reserve Banks including straight purchases of bankers' acceptances during the year have amounted to $2,658,254,000, as compared with $660,638,000 during the year 1918. In addition to these transactions the Federal Reserve Bank of New York has purchased and allotted to other Federal Reserve Banks $730,866,000 of bankers' acceptances, making a total interdistrict movement of bills discounted and acceptances purchased and allotted to other Federal Reserve Banks of $3,389,120,000. The figures in detail appear in the following table:

Interdistrict movement of bills discounted or purchased by Federal Reserve Banks during the period from Jan. 1 to Dec. 31, 1919.

[In thousands of dollars.]

Federal Reserve Banks.	Rediscounts and sales between Federal Reserve Banks.				Acceptances purchased for account of other Federal Reserve Banks.		Interdistrict movement of discounted and purchased paper.	
	Rediscounted or sold by—	Discounted or purchased by—	Excess of rediscounts and sales.	Excess of discounts and purchases.	Amount purchased by—	Amount purchased for account of—	Excess movement from—	Excess movement to—
Boston	131,165		131,165				131,165	
New York	312,740	55,827	256,913		739,499		996,412	
Philadelphia	826,521		826,521				826,521	
Cleveland		284,317		284,317		179,592		463,909
Richmond	842,946	5,080	837,866				837,866	
Atlanta	82,690	10,065	72,625				72,625	
Chicago	[1] 124	1,423,815		1,423,691		160,173		1,583,864
St. Louis		180,529		180,529		500		181,029
Minneapolis	[1] 78	447,895		447,817		88,696		536,513
Kansas City	56,500	50,099	6,401			22,461		16,060
Dallas	404,975	67,577	337,398				337,398	
San Francisco	[1] 515	133,050		132,535		288,077		420,612
Total	2,658,254	2,658,254	2,468,889	2,468,889	739,499	739,499	3,201,987	3,201,987

[1] Acceptances purchased in the open market through the Federal Reserve Bank of New York and returned to that bank before maturity.

The reserve position of the 12 Federal Reserve Banks at the close of business on the last Friday of the year, December 26, and the amount of unmatured rediscounts and paper sold to other banks are shown below:

Reserve position of the 12 Federal Reserve Banks, also amount of paper rediscounted with or sold to and held by other Federal Reserve Banks as at close of business, Dec. 26, 1919.

[In thousands of dollars.]

Banks.	Bills rediscounted with or sold to other Federal Reserve Banks.	Bills discounted for or purchased from other Federal Reserve Banks.	Ratio of total reserves to combined net deposit and Federal Reserve note liabilities.	
			Actual.	After adjustment of reserves by deducting amount of bills rediscounted with or sold to other Federal Reserve Banks and adding amount of bills discounted for or purchased from other Federal Reserve Banks.
			Per cent.	*Per cent.*
Boston	69,899		44.0	24.3
New York	58,201		40.0	36.2
Philadelphia	27,615		40.8	32.7
Cleveland		12,265	46.3	49.4
Richmond		5,080	40.9	43.5
Atlanta		5,065	52.8	55.2
Chicago		60,090	50.6	58.8
St. Louis		29,022	46.5	60.5
Minneapolis			39.4	39.4
Kansas City	13,000	9,805	43.1	41.3
Dallas		32,123	49.4	77.0
San Francisco		15,265	54.9	59.3
Total	168,715	168,715	44.8	44.8

Changes in discount rates approved by the Board for the Federal Reserve Banks were, during the first 11 months of the year, unimportant, but in order to complete the record tables showing the changes and the dates on which they became effective are subjoined hereto.

Changes in discount rates on paper secured by United States Treasury certificates of indebtedness, maturing within 15 days, including member banks' collateral notes.

Federal Reserve Bank.	Effective— Jan. 1, 1919.	Apr. 21, 1919.	Apr. 25, 1919.	Apr. 26, 1919.	Aug. 29, 1919.	Sept. 3, 1919.	Nov. 4, 1919.	Nov. 5, 1919.	Nov. 6, 1919.	Nov. 7, 1919.	Nov. 10, 1919.	Nov. 17, 1919.	Dec. 12, 1919.	Dec. 13, 1919.	Dec. 15, 1919.	Dec. 16, 1919.	Dec. 17, 1919.	Dec. 19, 1919.	Dec. 26, 1919.	Dec. 30, 1919.
Boston	4						[1] 4½													
New York	4						[1] 4½						[2] 4½							4¾
Philadelphia	4								[1] 4½							4½				
Cleveland	4										[3] 4½									
Richmond	4¼		4								[1] 4½				4½					
Atlanta	4										[1] 4½						4½			
Chicago	4	[4] 4			4			[1] 4½						4½						
St. Louis	4									[1] 4½								4½		
Minneapolis	4								[1] 4½					4½						
Kansas City	4¼			[4] 4		4	[1] 4½								4½					
Dallas	4										[1] 4½				4½					
San Francisco	4¼											[1] 4½							4½	

1 Rate of 4¼ per cent on paper secured by 4¼ per cent Treasury certificates.
2 Applies only to member banks' collateral notes; no rate on customers' paper.
3 Rate of 4¼ per cent on member banks' collateral notes secured by 4¼ per cent Treasury certificates.
4 Applies only to member banks' collateral notes; rate of 4¼ per cent on customers' paper.

Changes in discount rates on paper secured by United States Treasury certificates of indebtedness maturing within 16 to 90 days.

Federal Reserve Bank.	Effective—													
	Jan. 1, 1919.	Nov. 4, 1919.	Nov. 5, 1919.	Nov. 6, 1919.	Nov. 7, 1919.	Nov. 10, 1919.	Nov. 17, 1919.	Dec. 13, 1919.	Dec. 15, 1919.	Dec. 16, 1919.	Dec. 17, 1919.	Dec. 19, 919.	Dec. 26, 1919.	Dec. 30, 1919.
Boston	4¼	[1] 4½												
New York	4¼	(2)												4¾
Philadelphia	4¼			[1] 4½						4½				
Cleveland	4¼					4½								
Richmond	4¼					[1] 4½			4½					
Atlanta	4¼					[1] 4½					4½			
Chicago	4¼		4½											
St. Louis	4¼				[1] 4½							4½		
Minneapolis	4¼			[1] 4½				4½						
Kansas City	4¼	[1] 4½							4½					
Dallas	4¼					[1] 4½			4½					
San Francisco	4¼						[1] 4½						4½	

[1] Rate of 4½ per cent on paper secured by Treasury certificates bearing interest at 4½ per cent.
[2] Rate discontinued.

Changes in discount rates on paper secured by Liberty bonds and Victory notes maturing within 15 days, including member banks' collateral notes.

Federal Reserve Bank.	Effective—																			
	Jan. 1, 1919.	Apr. 21, 1919.	Apr. 25, 1919.	May 15, 1919.	June 19, 1919.	Sept. 2, 1919.	Nov. 4, 1919.	Nov. 5, 1919.	Nov. 6, 1919.	Nov. 7, 1919.	Nov. 10, 1919.	Nov. 12, 1919.	Nov. 17, 1919.	Dec. 12, 1919.	Dec. 13, 1919.	Dec. 15, 1919.	Dec. 16, 1919.	Dec. 17, 1919.	Dec. 19, 1919.	Dec. 26, 1919.
Boston	4						4½							4¾						
New York	4						4½							4¾						
Philadelphia	4								4½								4¾			
Cleveland	4										4¾									
Richmond	[1] 4¼		4¼								4½					4¾				
Atlanta	4										4½							4¾		
Chicago	4	4¼						4½							4¾					
St. Louis	4									4½									4¾	
Minneapolis	4								4½						4¾					
Kansas City	[1] 4¼				4¼		4½					4¾				5				
Dallas	4			[2] 4¼		4¼					4½					5				
San Francisco	4¼												4½							4¾

[1] Rate of 4 per cent on paper secured by fourth Liberty loan bonds where paper rediscounted had been taken by discounting bank at rate not exceeding coupon rate on bonds.
[2] Rate applies to member banks' collateral notes; rate of 4 per cent on customers' paper.

Changes in discount rates on paper secured by Liberty bonds and Victory notes maturing within 16 to 90 days.

Federal Reserve Bank.	Effective—													
	Jan. 1, 1919.	Nov. 4, 1919.	Nov. 5, 1919.	Nov. 6, 1919.	Nov. 7, 1919.	Nov. 10, 1919.	Nov. 12, 1919.	Nov. 17, 1919.	Dec. 12, 1919.	Dec. 13, 1919.	Dec. 15, 1919.	Dec. 16, 1919.	Dec. 17, 1919.	Dec. 19, 1919.
Boston	4¼	4½							4¾					
New York	4¼	4½							4¾					
Philadelphia	4¼			4½								4¾		
Cleveland	4¼					4¾								
Richmond	4¼					4½					4¾			
Atlanta	4¼					4½							4¾	
Chicago	4¼		4½							4¾				
St. Louis	4¼				4½									4¾
Minneapolis	4¼			4½						[1] 4¾				
Kansas City	4¼	4½					4¾				5			
Dallas	4¼					4½					5			
San Francisco	4¼							4¾						

[1] Rate of 5 per cent for maturities 61 to 90 days.

NOTE.—Rate of 4 per cent on paper secured by fourth Liberty loan bonds where paper rediscounted was taken at rate not exceeding coupon rate, established during 1918 at the following banks, was discontinued on the dates given: Boston, Feb. 15, 1919; Chicago, Apr. 21, 1919; Richmond, Apr. 25, 1919; St. Louis, June 5, 1919; Atlanta, July 17, 1919; Kansas City, June 19, 1919.

Changes in discount rates on commercial paper maturing within 15 days, including member banks' collateral notes secured by such paper.

Federal Reserve Bank.	Effective—											
	Jan. 1, 1919.	Apr. 21, 1919.	Nov. 4, 1919.	Nov. 5, 1919.	Nov. 6, 1919.	Nov. 7, 1919.	Nov. 10, 1919.	Nov. 17, 1919.	Dec. 13, 1919.	Dec. 15, 1919.	Dec. 19, 1919.	Dec. 26, 1919.
Boston	4		4¾									
New York	4		4¾									
Philadelphia	4				4¾							
Cleveland	4¼						4¾					
Richmond	4½						[1] 4¾			4¾		
Atlanta	4¼						4¾					
Chicago	4	4¼		4½					4¾			
St. Louis	4					4½					4¾	
Minneapolis	4½								4¾			
Kansas City	4½		5									
Dallas	4½						5					
San Francisco	4¼							4½				4¾

[1] 4½ per cent on member banks' collateral notes.

Changes in discount rates on commercial paper maturing within 16 to 90 days.

Federal Reserve Bank.	Effective—			Federal Reserve Bank.	Effective—		
	Jan. 1, 1919.	Nov. 10, 1919.	Dec. 26, 1919.		Jan. 1, 1919.	Nov. 10, 1919.	Dec. 26 1919.
Boston	4¾			Chicago	4¾		
New York	4¾			St. Louis	4¾		
Philadelphia	4¾			Minneapolis	[1] 4¾		
Cleveland	4¾			Kansas City	5		
Richmond	4¾			Dallas	[1] 4¾	5	
Atlanta	4¾			San Francisco	5		4¾

[1] Rate of 5 per cent for maturities 61 to 90 days.

Changes in discount rates on paper secured by War Finance Corporation bonds maturing within 90 days.

Federal Reserve Bank.	Rates on paper secured by War Finance Corporation bonds established on dates given below at 1 per cent in excess of rates on commercial paper of corresponding maturities.	Federal Reserve Bank.	Rates on paper secured by War Finance Corporation bonds established on dates given below at 1 per cent in excess of rates on commercial paper of corresponding maturities.
Boston	Apr. 11, 1919.	Chicago	Apr. 4, 1919.
New York	Do.	St. Louis	Do.
Philadelphia	Do.	Minneapolis	Do.
Cleveland	Apr. 4, 1919.	Kansas City	Do.
Richmond	Do.	Dallas	Do.
Atlanta	Do.	San Francisco	Apr. 9, 1919.

Changes in discount rates on agricultural and live-stock paper maturing within 91 to 180 days.

Federal Reserve Bank.	Effective—		Federal Reserve Bank.	Effective—	
	Jan. 1, 1919.	Nov. 10, 1919.		Jan. 1, 1919.	Nov. 10, 1919.
Boston	5		Chicago	5½	
New York	5		St. Louis	5½	
Philadelphia	5		Minneapolis	5½	
Cleveland	5¼		Kansas City	5½	
Richmond	5		Dallas	5¼	
Atlanta	5	5½	San Francisco	5½	

Changes in discount rates on trade acceptances maturing within 15 days.

Federal Reserve Bank.	Effective—											
	Jan. 1, 1919.	Apr. 21, 1919.	Nov. 4, 1919.	Nov. 5, 1919.	Nov. 6, 1919.	Nov. 7, 1919.	Nov. 10, 1919.	Nov. 17, 1919.	Dec. 12, 1919.	Dec. 16, 1919.	Dec. 26, 1919.	Dec. 30, 1919.
Boston	4		4½						4¾			
New York [1]	4		4½									4¾
Philadelphia	4				4½					4¾		
Cleveland	4¼						[1] 4½					
Richmond	4½											
Atlanta	4¼						4½					
Chicago	4	4¼		4½								
St. Louis	4					4½						
Minneapolis	4½											
Kansas City	4¼		5									
Dallas	4½						5					
San Francisco	4¼							4½			4¾	

[1] Rates apply also to discounted bankers' acceptances.

Changes in discount rates on trade acceptances maturing within 16 to 90 days.

Federal Reserve Bank.	Effective—							
	Jan. 1, 1919.	Nov. 4, 1919.	Nov. 10, 1919.	Nov. 17, 1919.	Dec. 12, 1919.	Dec. 16, 1919.	Dec. 26, 1919.	Dec. 30, 1919.
Boston	4½				4¾			
New York	[1] 4½	[2] 4½						[2] 4¾
Philadelphia	4½					4¾		
Cleveland	4½		[2] 4½					
Richmond	4½							
Atlanta	4½							
Shicago	4½							
Ct. Louis	4½							
Minneapolis	4½							
Kansas City	4¾	5						
Dallas	4½		5					
San Francisco	4¾			5			4¾	

[1] Bankers' acceptances discounted, 4¼ per cent for maturities 16 to 60 days; 4½ per cent for maturities 61 to 90 days.
[2] Rate applies also to bankers' acceptances discounted.

Open market rates on bankers' acceptances maturing within three months.

Federal Reserve Bank.	Effective Jan. 1, 1919—minimum rate.	Federal Reserve Bank.	Effective Jan. 1, 1919—minimum rate.
Boston	4	Chicago	4
New York	4	St. Louis	4
Philadelphia	4	Minneapolis	4
Cleveland	4	Kansas City	4
Richmond	4	Dallas	4
Atlanta	4	San Francisco	4

NOTE.—Whenever application is made by member banks for renewal of 15-day paper, the Federal Reserve Banks may charge a rate not exceeding that for 90-day paper of the same class.

178983—20——2

MOVEMENT OF THE PRINCIPAL ASSETS AND LIABILITIES OF ALL FEDERAL RESERVE BANKS DURING THE YEAR 1919.

During the year the activities of the Federal Reserve Banks continued in undiminishing scope and in even greater volume than heretofore. As stated in the opening paragraph of this report, the cessation of actual hostilities did not end the war work of the banks, and participation in the financial operations of the Treasury involving the flotation of the last of the popular war loans and the placing of the several issues of loan and tax certificates, continued to be an important function of the Federal Reserve Banks. The work performed by the Federal Reserve Banks during the year involved the collection, concentration, and disbursement on Government account of $15,669,000,000, of which $4,491,500,000 represents the total of the Victory loan allotted; $6,754,400,000 the combined amounts of eight series of certificates issued during the year in anticipation of the Victory loan, and of four series of the so-called loan certificates; and $4,423,000,000 the total of 11 series of certificates issued in anticipation of income and excess profits taxes due in 1919 and 1920.

The reported holdings by Federal Reserve Banks of war paper aggregated slightly more than $1,400,000,000 at the close of the year 1918, and reached a maximum of $1,863,500,000 on May 16 1919, about the time of the flotation of the Victory loan, when paper secured by Government obligations constituted 91.4 per cent of the total discounted paper of the Federal Reserve Banks. After this date there was a gradual decline to $1,383,900,000, or 84.1 per cent of their total discounted paper on September 19. Between that date and November 14 the amount of war paper held by the Federal Reserve Banks increased to $1,700,618,000, but since the latter date, as the result of rate revision during the months of November and December, the amount of such paper held by Federal Reserve Banks was reduced to $1,510,400,000, or 68.8 per cent of their total holdings of discounted paper on December 26. Of this amount $732,400,000, or 48.5 per cent were secured by Liberty bonds, $337,700,000, or 22.3 per cent by Victory notes, and $440,300,000, or 29.2 per cent by Treasury certificates. Other discounts, which aggregated $302,500,000 at the close of the year 1918, continued at a comparatively low level during the greater part of the year 1919. It was not until the latter part of September that the discounts of ordinary commercial paper began to show a material increase. On December 26 holdings of such paper amounted to $684,500,000, and constituted 31.2 per cent of the Federal Reserve Banks' total holdings of discounted bills as against less than 18 per cent a year earlier. Acceptances held, which amounted to $303,700,000 on December 27, 1918, moved within moderate limits during the first half of the calendar year, and not until the end of June was the total amount in excess of

$300,000,000. During the months of November and December the volume and amount of acceptances held by the Federal Reserve Banks increased very rapidly, and the total held by the banks on the last Friday of the year 1919 ($585,200,000) was over 21 per cent of their total bills held as compared with 15 per cent on the corresponding date of the previous year.

During the year ending December 26 the Federal Reserve Banks' holdings of United States bonds decreased from $28,900,000 to $26,800,000, this amount being made up mainly of bonds purchased to secure Federal Reserve bank notes, and of 3 per cent conversion bonds, the amount of Liberty bonds held being comparatively negligible. The increase during the year of $159,194,500 in the holdings of Treasury certificates represents largely the banks' holdings of one-year 2 per cent certificates to secure Federal Reserve bank note circulation issued to replace silver certificates and silver dollars withdrawn under the operation of the Pittman Act. The total of earning assets increased during the same period from $2,346,200,000 to $3,080,500,000, or nearly 33 per cent.

During the first half of the year, while the gold embargo was still in force and also in the period between August and November, the gold reserves of the Federal Reserve Banks were increased by net importations and deposits of gold and by the purchase of German gold from the United States Grain Corporation and its transfer to the Bank of England where it is held as a special deposit available for shipment to this country at any time. These gains were practically offset, however, by gold withdrawn for foreign shipments, principally to Spain, Argentina, and the Far East, the net result being that the gold reserves held by the Federal Reserve Banks on December 26, 1919, amounted to $2,078,400,000, or $11,800,000 less than the amount held on December 27, 1918. The total cash reserves held by the Federal Reserve Banks on December 26 show a corresponding decline from $2,146,200,000 to $2,135,500,000.

As compared with the moderate changes in the banks' aggregate reserves, their net deposits, because of additions to membership and in consequence of the general credit expansion, increased during the year from $1,552,900,000 to $1,704,500,000. Federal Reserve notes in circulation on the last Friday in the year 1918 amounted to $2,685,200,000. During the early months of the year 1919 there was a very appreciable contraction of the note circulation, the amount outstanding on January 31 being $2,450,729,000, on August 1 $2,506,820,000, and on September 26 $2,655,354,000. Between that date and December 26 the volume of Federal Reserve notes in circulation increased by over $400,000,000 to $3,057,646,000, the average weekly rate of increase being more than $30,000,000. There has, in addition, been an increase during the year of $143,900,000 of Federal Reserve bank notes in circulation, all of which, however, have been issued to take the place of silver certificates withdrawn from circulation and of silver dollars broken up and exported under the provisions of the act of April 23, 1918, commonly known as the Pittman Act.

The peak in Federal Reserve note circulation during the year 1918 was attained on December 27 and the high point for the year 1919 was reached on December 26. From December 27, 1918, to January 31, 1919, the note issues declined by $234,515,000 and similar reduction may be expected during the opening weeks of the year 1920.

The reserve position of the banks until the close of September shows but little change, the ratio of cash reserves to aggregate deposit and note liabilities during the entire period, except on July 11, continuing above 50 per cent. Substantial growth of deposit liabilities during October and November and the large note issues during the last two months, coupled with a simultaneous loss of about 70 millions in reserves, account for the considerable decline in the reserve ratio during the latter part of the year. On the last Friday of 1919 the reserve ratio stood at 44.8 per cent, compared with 50.6 per cent on the corresponding date in 1918.

The following table shows in detail the changes in the principal assets and liabilities of the Federal Reserve Banks, week by week, throughout the year.

Movement of principal assets and liabilities of all Federal Reserve Banks during the calendar year 1919.

[In thousands of dollars.]

	Resources.								Liabilities.			
	1	2	3	4	5	6	7	8	9	10	11	12
	Discounted paper secured by Government war obligations.	Other discounted paper.	Total discounted paper.	Bills bought in open market.	Total bills discounted and bought.	Per cent (1 to 3).	Per cent (1 to 5).	Total cash reserves.	Net deposits.	Federal Reserve notes in actual circulation.	Ratio of cash reserves to net deposit and Federal Reserve note liabilities combined.	Federal Reserve Bank notes in circulation, net liability.
Jan. 3	1,534,670	295,194	1,829,864	290,269	2,120,133	83.9	72.4	2,152,154	1,551,209	2,647,605	51.3	120,267
Jan. 10	1,484,847	273,229	1,758,076	277,896	2,035,972	84.5	72.9	2,161,898	1,575,867	2,590,681	51.9	123,466
Jan. 17	1,347,088	254,263	1,601,351	273,607	1,874,958	84.1	71.8	2,170,163	1,592,450	2,513,089	52.9	125,011
Jan. 24	1,497,500	264,533	1,762,033	284,539	2,046,572	85.0	73.2	2,168,387	1,685,981	2,466,556	52.3	126,810
Jan. 31	1,357,571	243,557	1,601,128	281,293	1,882,421	84.8	72.1	2,179,646	1,659,457	2,450,729	53.0	129,445
Feb. 7	1,451,147	243,254	1,694,401	282,702	1,977,103	85.6	73.4	2,175,614	1,614,161	2,454,165	53.5	131,315
Feb. 14	1,603,052	233,849	1,836,901	275,068	2,111,969	87.3	75.9	2,185,318	1,744,662	2,468,388	51.9	132,291
Feb. 20	1,596,458	221,996	1,818,454	269,920	2,088,374	87.8	76.4	2,191,532	1,730,796	2,466,248	52.2	133,465
Feb. 28	1,667,965	211,855	1,879,820	276,919	2,156,739	88.7	77.3	2,188,723	1,796,729	2,472,307	51.3	134,042
Mar. 7	1,701,487	186,240	1,887,727	273,493	2,161,220	90.1	78.7	2,205,462	1,802,090	2,488,537	51.4	136,591
Mar. 14	1,702,351	184,012	1,886,363	262,139	2,148,502	90.2	79.2	2,196,737	1,769,445	2,503,095	51.4	139,479
Mar. 21	1,691,678	189,861	1,881,539	261,924	2,143,463	89.9	78.9	2,208,578	1,768,646	2,510,687	51.6	142,442
Mar. 28	1,691,010	195,230	1,886,240	248,107	2,134,347	89.7	79.2	2,210,524	1,741,425	2,521,776	51.9	145,540
Apr. 4	1,674,916	193,066	1,867,982	240,790	2,108,772	89.7	79.4	2,218,628	1,703,366	2,547,670	52.2	149,449
Apr. 11	1,767,459	200,465	1,967,924	218,590	2,186,514	89.8	80.8	2,211,989	1,777,915	2,548,588	51.1	151,560
Apr. 18	1,720,960	201,314	1,922,274	196,885	2,119,159	89.5	81.2	2,230,859	1,735,070	2,543,704	52.1	155,074
Apr. 25	1,760,672	189,740	1,950,412	185,822	2,136,234	90.3	82.4	2,240,152	1,752,094	2,549,552	52.1	158,848
May 2	1,788,068	178,715	1,966,783	195,284	2,162,067	90.9	82.7	2,237,219	1,774,950	2,549,040	51.7	161,450
May 9	1,795,735	172,568	1,968,303	182,036	2,150,339	91.2	83.4	2,242,784	1,765,309	2,556,749	51.9	164,415
May 16	1,863,476	175,464	2,038,940	184,717	2,223,657	91.4	83.8	2,245,857	1,865,315	2,532,039	51.1	168,045
May 23	1,762,487	176,379	1,938,866	193,187	2,132,053	90.9	82.6	2,247,933	1,797,505	2,504,253	52.3	167,208
May 29	1,802,893	186,499	1,989,392	183,650	2,173,042	90.6	82.5	2,255,106	1,830,920	2,519,292	51.8	168,427
June 6	1,620,994	190,130	1,811,124	198,307	2,009,431	89.5	80.7	2,270,343	1,712,118	2,513,037	53.7	169,246
June 13	1,695,576	182,598	1,878,174	234,537	2,112,711	90.3	80.2	2,261,988	1,794,770	2,499,265	52.7	170,937
June 20	1,621,928	215,512	1,837,440	274,736	2,112,176	88.3	76.8	2,234,459	1,771,329	2,488,253	52.5	173,775
June 27	1,573,483	244,557	1,818,040	304,558	2,122,598	86.6	74.4	2,216,256	1,750,694	2,499,180	52.1	177,185
July 3	1,632,639	262,389	1,895,028	330,679	2,225,707	86.2	73.3	2,195,353	1,772,003	2,552,348	50.8	181,570

Movement of principal assets and liabilities of all Federal Reserve Banks during the calendar year 1919—Continued.

[In thousands of dollars.]

	Resources.								Liabilities.			
	1	2	3	4	5	6	7	8	9	10	11	12
	Discounted paper secured by Government war obligations.	Other discounted paper.	Total discounted paper.	Bills bought in open market.	Total bills discounted and bought.	Per cent (1 to 3).	Per cent (1 to 5).	Total cash reserves.	Net deposits.	Federal Reserve notes in actual circulation.	Ratio of cash reserves to net deposit and Federal Reserve note liabilities combined.	Federal Reserve Bank notes in circulation, net liability.
July 11	1,684,946	251,367	1,936,313	360,035	2,296,348	87.0	73.4	2,180,211	1,842,433	2,538,127	49.8	184,806
July 18	1,579,728	248,347	1,828,075	372,353	2,200,428	86.4	71.8	2,177,481	1,769,496	2,512,048	50.9	186,911
July 25	1,616,210	251,392	1,867,602	375,556	2,243,158	86.5	72.0	2,161,023	1,796,561	2,504,497	50.2	193,849
Aug. 1	1,612,639	235,300	1,847,939	374,791	2,222,730	87.3	72.5	2,156,327	1,766,181	2,506,820	50.5	200,945
Aug. 8	1,608,583	225,535	1,834,118	381,241	2,215,359	87.7	72.6	2,152,118	1,820,817	2,532,057	49.4	205,318
Aug. 15	1,522,992	220,347	1,743,339	374,375	2,117,714	87.4	71.9	2,151,723	1,688,675	2,540,904	50.9	209,709
Aug. 22	1,563,048	211,262	1,774,310	362,911	2,137,221	88.1	73.1	2,142,701	1,621,147	2,553,534	51.3	215,795
Aug. 29	1,609,296	205,838	1,815,134	363,138	2,178,272	88.7	73.8	2,135,976	1,629,797	2,580,629	50.7	219,815
Sept. 5	1,635,233	212,185	1,847,418	354,667	2,202,085	88.5	74.2	2,136,870	1,624,117	2,611,697	50.4	223,565
Sept. 12	1,524,521	230,317	1,754,838	362,005	2,116,843	86.9	72.0	2,138,499	1,618,216	2,621,228	50.4	228,169
Sept. 19	1,383,896	261,985	1,645,881	353,817	1,999,698	84.1	69.0	2,162,057	1,499,914	2,621,258	52.5	232,594
Sept. 26	1,572,503	309,779	1,882,282	342,491	2,224,773	83.5	70.7	2,187,505	1,634,074	2,655,354	51.0	239,451
Oct. 3	1,654,166	361,771	2,015,937	326,667	2,342,604	82.1	70.6	2,205,511	1,726,266	2,708,186	49.7	241,937
Oct. 10	1,672,797	401,058	2,073,855	326,852	2,400,707	80.7	69.7	2,202,100	1,743,850	2,741,684	49.1	247,176
Oct. 17	1,698,885	422,842	2,121,727	342,938	2,464,665	80.1	68.9	2,199,185	1,796,159	2,752,569	48.3	249,675
Oct. 24	1,666,055	416,084	2,082,139	368,846	2,450,985	80.0	68.0	2,214,561	1,792,402	2,753,457	48.7	251,590
Oct. 31	1,681,082	447,465	2,128,547	394,355	2,522,902	79.0	66.6	2,205,592	1,850,518	2,752,876	47.9	254,933
Nov. 7	1,771,028	418,461	2,189,489	433,586	2,623,075	80.9	67.5	2,187,369	1,870,510	2,806,759	46.8	257,572
Nov. 14	1,700,618	439,000	2,139,618	455,653	2,595,271	79.5	65.5	2,200,106	1,858,258	2,808,456	47.1	257,281
Nov. 21	1,673,890	450,747	2,124,637	480,043	2,604,680	78.8	64.3	2,186,972	1,846,800	2,817,173	46.9	257,680
Nov. 28	1,736,033	478,176	2,214,209	495,595	2,709,804	78.4	64.1	2,159,666	1,889,399	2,852,277	45.5	256,793
Dec. 5	1,603,313	504,795	2,108,108	514,219	2,622,327	76.1	61.1	2,154,095	1,761,521	2,881,359	46.4	257,480
Dec. 12	1,588,417	550,999	2,139,416	541,551	2,680,967	74.3	59.2	2,160,405	1,786,424	2,907,435	46.0	258,444
Dec. 19	1,414,950	580,162	1,995,112	566,266	2,561,378	70.9	55.2	2,154,911	1,610,924	2,988,894	46.8	259,975
Dec. 26	1,510,364	684,514	2,194,878	585,212	2,780,090	68.8	54.3	2,135,536	1,704,470	3,057,646	44.8	261,039

CONDITION DURING 1919 OF MEMBER BANKS IN PRINCIPAL CITIES.

The Board receives reports on Friday of each week from member banks in leading cities showing the principal items of resources and liabilities. The subjoined table shows the number of reporting banks and the weekly changes in their resources and liabilities.

In making a comparison between the consolidated figures for reporting member banks on various dates throughout the year, it should be borne in mind that the number of reporting banks has increased gradually from 763 to 797 as a result of accession of new members in the reporting cities.

The total of United States securities owned by the reporting banks shows a decrease during the year of 433.5 millions, from 2,363.3 to 1,929.8 millions, notwithstanding the inclusion since June 6 of Victory notes under this general heading. Holdings of Treasury certificates, which were 1,269.9 millions on the first Friday of the year, reached a maximum of 2,328 millions on May 2, shortly before the close of the Victory loan campaign. Since October 10 these holdings have been below 1,000 millions, and at the close of the year stood at 789.9 millions, or 480 millions less than the total shown at the beginning of the year. Holdings of United States bonds other than those available for circulation—principally Liberty bonds—declined during the year from 827.6 to 632.8 millions, while Victory notes, holdings of which appeared for the first time on June 6, declined from 447.9 millions to about 238 millions.

Between June 6 and the end of the year the net liquidation of United States securities by reporting banks amounted to 938.7 millions.

Loans secured by United States war obligations, which amounted to about 1,220 millions on January 3, exclusive of rediscounts with the Federal Reserve Banks, showed a downward trend until the flotation of the Victory loan. During the month of June these loans increased considerably, reaching the high point of 1,438.2 millions on June 20, Since the latter part of October holdings of war paper show a perceptible decrease, the total of such holdings at the close of the year, 1,020.4 millions, being about 200 millions less than at the beginning of the year. Since August 15 loans secured by miscellaneous stocks and bonds have been segregated in the weekly statements of member banks. These loans on the whole have followed an upward course during the five months for which data are available, and the total on December 26, 3,300.4 millions, shows an increase of 373.5 millions over the total reported on August 15.

Total loans and investments, including ordinary commercial discounts and acceptances, but excluding bills rediscounted at Federal Reserve Banks, show an increase for the year from 13,697.8 millions to 15,621 millions, the latter figure being the high point for the year, The rediscounts of these reporting banks with the Federal Reserve Banks amounted to 466.2 millions on January 3 and declined gradually to 226 millions on May 23. During the last three months of the year the movement has been upward, and the total amount held under rediscount by the Federal Reserve Banks for the reporting banks on December 26, 899.6 millions, was nearly double the amount held at the beginning of the year. In addition to rediscounts, the Federal Reserve Banks extended accommodation to member banks by discounting their notes secured by United States war obligations, by customers' paper secured by such obligations, and to a much smaller extent by other eligible paper. The total of collateral notes held under rediscount by Federal Reserve Banks for reporting banks, which was 972.2 millions at the beginning of the year, reached its maximum of 1,312.1 millions on May 16, the Friday preceding the allotment of the Victory loan. During November and December, owing largely to the elimination of the differential between rates on war paper and ordinary commercial paper, the amount of member banks' collateral notes discounted by the Federal Reserve Banks shows some decline, the total on December 26 of 933.6 millions being 38.6 millions below the aggregate on January 3. Of the total amount of bills held by the Federal Reserve Banks under discount and rediscount for the reporting member banks on December 26, 1,236.5 millions, or about two-thirds, was secured by war paper, and 596.7, or about one-third, by commercial paper.

Government deposits showed wide fluctuations in connection with the various operations of the Treasury, mainly the flotation of the Victory loan, the issue and redemption of the various loan and tax certificates series, and the collection of the quarterly installments of income and excess profits taxes. The high point, 1,180.6 millions, was reached on June 6 following the allotment of the Victory loan. Large deposits are shown also on dates following the payment of tax installments and the redemption by the Treasury of outstanding certificates. Government deposits held by the reporting banks were considerably smaller during the last quarter of the year than during the preceding months. Other net demand deposits show an upward movement paralleling the increase in the loans and investments of the reporting banks. Except in the first quarter of the year, when demand deposits fell below 10,000 millions, the movement was upward, reaching its high point of 11,404 millions on December 12. Time deposits, partly as the result of accession to membership of trust companies with large savings departments, show an almost steady upward course, except for the few weeks in May preceding the placing of the Victory loan, and on December 26 reached a maximum total of 2,302.3 millions, or about 750 millions more than the total at the beginning of the year.

Reserve balances of the reporting banks carried with the Federal Reserve Banks fluctuated within the narrow limits of 1,225.2 millions on February 7 and 1,461.6 millions on November 7. Cash in vault shows maximum amounts of about 429 millions at the opening and close of the year, and a minimum of 336.5 millions on the third Friday in February.

Principal resources and liabilities of member banks in leading cities on each Friday during the calendar year 1919.

[In thousands of dollars.]

	Number of reporting banks.	United States bonds to secure circulation.	Other United States bonds, including Liberty bonds.	United States Victory notes.	United States certificates of indebtedness.	Total United States securities owned.	Loans secured by United States war obligations.	Loans secured by stocks and bonds other than U. S. bonds.	All other loans and investments.[1]	Total loans and investments.	Reserve balances with Federal Reserve Bank.	Cash in vault.	Net demand deposits on which reserve is computed.	Time deposits.	Government deposits.	Bills payable with Federal Reserve Bank.	Bills rediscounted with Federal Reserve Bank.
Jan. 3	763	265,774	827,569	....	1,269,948	2,363,291	1,220,040	....	10,114,469	13,697,800	1,295,849	428,791	10,145,058	1,552,301	431,604	972,220	466,163
Jan. 10	769	263,184	797,991	....	1,300,888	2,362,063	1,165,451	....	10,131,141	13,658,655	1,295,723	411,603	10,066,502	1,565,326	499,022	880,286	446,707
Jan. 17	768	262,742	825,595	....	1,467,026	2,555,363	1,182,721	....	10,135,468	13,873,552	1,298,874	386,621	10,080,102	1,605,064	658,956	811,749	402,730
Jan. 24	772	262,785	799,999	....	1,457,219	2,520,003	1,189,351	....	10,092,149	13,801,503	1,275,623	368,296	9,995,791	1,587,597	489,447	998,545	360,773
Jan. 31	772	263,047	769,727	....	1,514,776	2,547,550	1,183,245	....	10,100,720	13,831,515	1,307,454	353,950	9,952,408	1,611,721	693,681	838,230	352,525
Feb. 7	771	263,214	739,108	....	1,463,955	2,466,277	1,198,353	....	10,006,011	13,670,641	1,225,219	353,177	9,786,907	1,616,452	581,969	933,753	372,888
Feb. 14	771	263,111	723,713	....	1,742,993	2,729,817	1,170,031	....	10,072,938	13,972,786	1,255,438	361,138	9,911,667	1,624,454	644,536	1,039,467	376,113
Feb. 21	772	262,760	698,676	....	1,729,178	2,690,614	1,158,500	....	9,975,131	13,824,245	1,225,462	336,514	9,945,267	1,633,657	552,634	1,078,992	323,153
Feb. 28	771	263,523	695,678	....	1,998,658	2,957,859	1,174,124	....	10,039,003	14,170,986	1,253,166	337,698	9,988,464	1,646,174	680,105	1,157,121	316,738
Mar. 7	771	264,375	675,632	....	1,994,256	3,934,263	1,133,193	....	10,069,172	14,136,628	1,262,249	346,035	10,035,620	1,646,620	546,190	1,188,026	292,831
Mar. 14	772	265,735	676,095	....	2,241,182	2,183,012	1,118,067	....	10,201,559	14,502,638	1,298,290	348,814	10,311,435	1,668,533	670,239	1,175,463	290,087
Mar. 21	772	267,081	665,441	....	2,022,018	2,954,540	1,123,551	....	10,233,563	14,311,654	1,236,335	347,755	10,058,842	1,674,992	690,045	1,131,300	293,717
Mar. 28	772	267,756	660,825	....	1,900,673	2,829,254	1,121,818	....	10,252,960	14,204,032	1,244,821	350,048	10,054,438	1,684,259	608,561	1,140,828	282,109
Apr. 4	773	268,883	646,365	....	1,841,783	2,757,031	1,106,751	....	10,218,294	14,082,076	1,267,552	349,579	10,097,465	1,691,971	452,831	1,140,253	276,737
Apr. 11	773	268,950	647,493	....	2,109,440	3,025,883	1,110,132	....	10,237,377	14,373,392	1,252,477	356,145	10,047,102	1,698,117	723,775	1,210,425	293,428
Apr. 18	773	268,779	637,264	....	2,079,489	2,985,532	1,093,982	....	10,266,712	14,346,226	1,275,986	349,952	10,186,109	1,714,216	652,671	1,159,498	281,472
Apr. 25	772	268,823	657,697	....	2,046,358	2,972,878	1,099,898	....	10,264,007	14,336,783	1,288,044	353,173	10,209,754	1,717,842	525,735	1,164,126	244,995
May 2	771	269,287	669,736	....	2,328,124	3,267,147	1,085,333	....	10,326,851	14,679,331	1,273,146	347,320	10,322,632	1,720,352	727,905	1,244,113	243,671
May 9	773	268,188	678,617	....	2,260,432	3,207,237	1,072,498	....	10,369,872	14,649,607	1,299,739	360,887	10,486,764	1,742,095	551,099	1,254,624	244,031
May 16	773	268,095	682,490	....	2,222,332	3,172,917	1,080,080	....	10,428,511	14,681,508	1,317,760	360,596	10,571,547	1,718,894	434,848	1,312,063	248,002
May 23	773	268,215	864,846	....	1,777,868	2,910,929	1,179,537	....	10,515,096	14,605,562	1,298,008	359,184	10,370,747	1,715,542	627,897	1,226,986	225,953
May 29	772	268,378	852,944	....	1,739,582	2,860,904	1,194,722	....	10,561,604	14,617,230	1,285,891	344,662	10,442,847	1,729,689	541,247	1,250,202	235,772
June 6	770	269,153	636,978	447,884	1,514,452	2,868,467	1,420,581	....	10,656,381	14,945,429	1,303,769	368,882	10,375,244	1,727,163	1,180,592	1,084,182	251,215
June 13	771	268,566	636,292	424,665	1,422,736	2,752,259	1,416,615	....	10,772,909	14,941,783	1,257,523	374,450	10,587,031	1,729,575	945,738	1,119,496	274,187
June 20	771	268,540	638,781	388,738	1,040,664	2,336,723	1,438,204	....	10,711,859	14,486,786	1,268,989	358,588	10,321,405	1,736,134	823,236	1,062,494	300,522
June 27	772	269,264	628,427	374,822	916,739	2,189,252	1,380,628	....	10,780,317	14,350,197	1,323,333	351,599	10,286,406	1,756,963	782,610	1,025,844	325,067
July 3	773	269,314	635,170	349,918	1,001,415	2,255,817	1,369,948	....	10,873,648	14,499,413	1,269,102	343,185	10,511,628	1,758,103	601,481	1,113,102	335,750
July 11	771	269,614	628,734	341,030	978,081	2,217,459	1,384,579	....	10,901,086	14,503,124	1,335,133	383,808	10,646,627	1,763,207	516,420	1,154,341	354,341
July 18	769	269,001	650,083	368,189	930,124	2,217,397	1,382,145	....	10,891,032	14,490,574	1,300,919	364,823	10,716,098	1,766,815	412,925	1,068,817	349,978
July 25	769	269,622	636,510	353,751	896,685	2,156,568	1,363,764	....	10,859,247	14,379,579	1,318,281	355,910	10,543,056	1,789,774	405,161	1,100,684	340,096
Aug. 1	770	269,743	645,116	337,239	1,134,206	2,386,304	1,353,109	....	11,057,662	14,797,075	1,353,542	338,966	10,776,645	1,861,519	517,149	1,092,941	337,123
Aug. 8	770	270,231	641,315	328,671	1,160,302	2,400,519	1,326,286	....	11,040,854	14,767,659	1,353,345	351,220	10,744,722	1,882,694	551,406	1,088,510	338,810
Aug. 15	773	268,988	644,195	329,442	1,200,736	2,443,361	1,304,031	2,926,989	8,274,832	14,949,213	1,360,554	347,145	10,879,079	1,896,770	624,744	1,006,902	320,560

[1] Prior to Aug. 15 loans secured by stocks and bonds were included in this classification.

Principal resources and liabilities of member banks in leading cities on each Friday during the calendar year 1919—Continued.

[In thousands of dollars.]

	Number of reporting banks.	United States bonds to secure circulation.	Other United States bonds, including Liberty bonds.	United States Victory notes.	United States certificates of indebtedness.	Total United States securities owned.	Loans secured by United States war obligations.	Loans secured by stocks and bonds other than U.S. bonds.	All other loans and investments.	Total loans and investments.	Reserve balances with Federal Reserve Bank.	Cash in vault.	Net demand deposits on which reserve is computed.	Time deposits.	Government deposits.	Bills payable with Federal Reserve Bank.	Bills rediscounted with Federal Reserve Bank.
Aug. 22	775	268,959	642,182	321,955	1,187,316	2,420,412	1,307,872	2,943,553	8,292,637	14,964,474	1,286,616	350,507	10,794,660	1,900,776	573,213	1,086,341	290,586
Aug. 29	774	269,252	637,382	319,282	1,155,560	2,381,476	1,302,062	2,915,491	8,369,878	14,968,907	1,325,776	345,605	10,802,505	1,923,494	524,017	1,123,709	287,428
Sept. 5	774	269,393	636,804	316,489	1,334,416	2,557,102	1,294,285	2,956,596	8,425,179	15,233,162	1,342,058	365,330	10,901,999	1,921,549	686,443	1,147,401	297,805
Sept. 12	774	269,551	632,065	312,628	1,111,850	2,326,094	1,309,370	3,012,523	8,497,269	15,145,256	1,383,481	368,649	11,220,961	1,928,472	505,296	1,037,148	312,449
Sept. 19	776	270,365	624,434	312,726	1,125,677	2,333,202	1,343,049	3,027,173	8,602,211	15,305,635	1,249,379	358,276	10,973,284	1,978,118	770,864	925,339	335,917
Sept. 26	776	269,706	619,968	302,930	1,050,339	2,242,943	1,333,697	3,053,110	8,667,708	15,297,458	1,332,919	349,780	10,839,154	1,994,216	692,335	1,096,072	379,770
Oct. 3	776	269,656	615,624	304,608	1,008,046	2,197,934	1,318,944	3,122,614	8,751,950	15,391,442	1,363,437	353,950	11,019,486	2,002,595	604,485	1,168,574	425,221
Oct. 10	776	269,539	611,714	305,181	992,791	2,179,225	1,321,076	3,105,934	8,870,046	15,476,281	1,369,653	370,745	11,062,811	2,024,097	612,268	1,181,395	467,704
Oct. 17	778	269,365	615,062	305,866	945,549	2,135,842	1,302,128	3,141,026	8,854,567	15,433,563	1,396,123	368,385	11,153,523	2,037,688	482,804	1,214,751	489,349
Oct. 24	783	268,689	632,321	302,887	930,126	2,134,023	1,252,406	3,166,168	8,984,507	15,537,104	1,382,356	374,581	11,179,529	2,173,538	438,955	1,187,969	466,853
Oct. 31	784	268,612	636,066	298,637	904,623	2,107,938	1,234,057	3,246,059	9,023,666	15,611,720	1,403,171	358,771	11,284,902	2,194,156	355,360	1,194,489	503,480
Nov. 7	783	268,209	633,950	292,410	847,558	2,042,127	1,141,049	3,246,138	9,141,277	15,570,591	1,461,651	382,679	11,284,244	2,209,169	330,843	1,166,815	611,231
Nov. 14	782	268,997	631,730	278,659	831,281	2,010,667	1,061,438	3,202,988	9,147,264	15,422,357	1,417,123	381,503	11,354,900	2,224,012	285,863	1,065,540	668,000
Nov. 21	794	269,073	634,368	275,522	821,016	1,999,979	1,060,216	3,220,937	9,182,416	15,463,548	1,409,113	386,046	11,343,085	2,288,186	231,701	1,054,532	679,546
Nov. 28	795	269,097	628,221	265,981	816,540	1,979,839	1,053,663	3,222,622	9,195,138	15,451,262	1,414,856	384,543	11,337,614	2,288,133	183,053	1,107,935	704,974
Dec. 5	796	269,425	631,374	256,465	862,017	2,019,281	1,028,107	3,204,845	9,186,687	15,438,920	1,406,193	395,987	11,203,994	2,270,678	415,063	985,128	739,598
Dec. 12	796	269,850	628,728	251,624	792,722	1,942,924	1,020,574	3,249,062	9,246,697	15,459,257	1,402,429	393,558	11,404,289	2,283,673	295,962	977,054	783,803
Dec. 19	796	269,188	626,297	241,910	844,309	1,981,704	1,022,633	3,270,511	9,339,958	15,614,806	1,316,937	403,554	11,195,085	2,293,384	647,898	846,103	792,311
Dec. 26	797	269,113	632,776	237,997	789,882	1,929,768	1,020,384	3,300,373	9,370,426	15,620,951	1,347,175	429,712	11,174,249	2,302,344	580,452	933,603	899,604

ACCEPTANCES.

Reference has already been made to the efforts to develop an acceptance market in this country, and notwithstanding adverse conditions there has been a substantial growth in the use of the acceptance as a credit instrument especially adapted to financing the movement of goods between the United States and foreign countries, from one foreign market to another, and between localities within the United States. Incorporated banks were first permitted to accept about 10 years ago under the laws of some of the States in which they were domiciled, and the Federal Reserve Act authorizes member banks to accept drafts and bills of exchange having not more than six months' sight to run, exclusive of days of grace, which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. The law also permits any member bank to accept drafts or bills of exchange drawn upon it having not more than three months' sight to run, exclusive of days of grace, drawn under regulations to be prescribed by the Federal Reserve Board, by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies, or insular possessions. There is a restriction, however, which applies to all three classes of acceptances, that no member bank may accept bills for any one person, firm, or corporation to an amount equal at any time in the aggregate to more than 10 per cent of its paid-up and unimpaired capital stock and surplus, unless the bank is secured either by attached documents or some other adequate security growing out of the same transaction as the acceptance, and no bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus.

The Federal Reserve Board is, however, authorized, under such general regulations as it may prescribe to be applicable to all banks alike, to permit any member bank to accept bills growing out of transactions involving the importation or exportation of goods to an amount not exceeding at any time in the aggregate 100 per cent of its paid-up and unimpaired capital stock and surplus, but in no event shall a member bank's acceptances growing out of domestic transactions or for the purpose of furnishing dollar exchange exceed in the aggregate 50 per cent of its capital stock and surplus. The Federal

Reserve Banks are authorized to discount acceptances of the kinds just described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank, and they are also permitted under rules and regulations prescribed by the Federal Reserve Board to purchase and sell in the open market at home or abroad either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities made eligible for rediscount, with or without the indorsement of a member bank.

Under the law the Board appears to have some latitude of discretion in the matter of permitting Federal Reserve Banks to discount renewal acceptances, and this authority was granted in a few instances and for comparatively small amounts during the war and immediately following the cessation of hostilities. The Board had repeated applications during the first half of the year for authority to discount renewal acceptances growing out of various foreign transactions, but has consistently declined to admit the eligibility of renewals except in cases where owing to delay in transportation or for other reasons it was clear that the renewal bill would meet all requirements applicable to the original acceptance, and that the goods covered by the acceptances were still in existence unconverted in form and capable of ready identification.

In its last annual report the Board discussed the subject of acceptances at length and pointed out that there was not in this country any broad acceptance market such as exists in London. The development of such a market is necessarily a slow process and the burden of its support has fallen during the year 1919, as in previous years, upon the Federal Reserve Banks. This condition will doubtless continue until banks generally begin to invest funds temporarily idle in acceptances and until this method of employing funds appeals to the private investor. The Federal Reserve Banks most actively engaged in the purchase of acceptances in the open market deemed it necessary in the beginning to establish a more favorable rate both for the discount of these bills for member banks and for their purchase in the open market than was established for the discount of commercial paper. This policy merely involved a recognition of the high quality of these credit instruments and was adopted the more readily in order to stimulate the development of a new business with which the American bankers were, as a rule, unfamiliar and which was regarded as essential in upbuilding the Federal Reserve system and in financing the foreign commerce of the United States by American banks instead of by foreign banks.

In establishing preferential rates for acceptances recognition was given to the fact that bills drawn against actual shipments of commodities and accepted by the strongest banks and bankers of the country were credit instruments of greater value and could therefore command a lower rate than the average of commercial paper coming from miscellaneous banks in the ordinary course of their discount operations. The Federal Reserve Banks in their open-market purchases have adopted the policy of keeping their buying rates more closely in line with the rates at which bills were offered in the open market by purchasing only at or slightly below those rates, taking into consideration the value of the bank indorsement required by Federal Reserve Banks, but which the bills did not bear ordinarily when they were sold on the outside. For example, when prime 90-day bills unindorsed were sold at $4\frac{1}{4}$ per cent, the Federal Reserve Banks would buy prime bills of like maturity well indorsed at $4\frac{1}{8}$ to $4\frac{1}{4}$ per cent, and as outside rates advanced they would advance their buying rates so that in December prime 60 to 90 day bills with good indorsements were bought by the Federal Reserve Banks at the rate for commercial paper, $4\frac{3}{4}$ per cent, although the same bills may have been offered by dealers in the open market without indorsement at $4\frac{7}{8}$ to 5 per cent. A differential in favor of prime bills indorsed and rediscounted by member banks will be a necessary step in the further development of a broad and dependable acceptance market.

The fact that exports from the United States during the year 1919 reached unprecedented figures, and exceeded imports in value by about $4,000,000,000, has aroused inquiry as to what expedients have been resorted to in the financing of exports. Goods have been sent out of the country in large volume, notwithstanding high prices, and the utter demoralization in the exchanges of many of the importing countries, conditions which ordinarily would greatly restrict our exports. Although there has been the largest trade balance in our favor in our history, our net visible outgo of gold for the year was $291,651,202, or, if the amount of gold held on December 31, 1919, for Federal Reserve account by the Bank of England is deducted, a net total of $160,330,713. These circumstances point to credit transactions on a large scale, the nature of which it is difficult even measurably to ascertain. The acceptances purchased by the Federal Reserve Banks are based mainly upon imports, and it appears that exporters have generally used their own capital and credit in financing their credit transactions abroad.

IMPORTS AND EXPORTS.

In considering the figures of our foreign commerce, it is necessary to realize that the great volume of our exports at present goes to countries to which sale is, in most cases, possible only if coupled with arrangements for extending credit, while the balance of trade is adverse to this country with countries in a position to pay by their own exports or in gold. Our foreign commerce for the 12 months ending December 31, 1919, showed a balance of exports amounting to $4,017,745,000. If this balance is subdivided so as to show separately our trade with countries where, broadly speaking, credit must be extended and countries which, in general, are in position to pay, either through exports or by the shipment of gold, the figures result as follows:

Imports into the United States and exports from the United States in the trade with leading foreign countries during the calendar year 1919.

[In thousands of dollars.]

	Imports.	Exports.	Excess of exports.
Group A—Allied and associated countries:			
United Kingdom	309,189	2,279,178	1,969,989
Canada	494,694	734,267	239,573
Newfoundland and Labrador	5,361	15,190	9,829
France	123,871	893,369	769,498
Belgium	7,700	377,876	370,176
Italy	59,048	442,677	383,629
Portugal	6,415	19,962	13,547
Roumania		6,588	6,588
Serbia, Montenegro, and Albania		2,928	2,928
Greece	28,611	42,884	14,273
Russia in Europe	2,953	27,758	24,805
Russia in Asia	6,710	54,679	47,969
Total	1,044,552	4,897,356	3,852,804
Group B—Former enemy countries:			
Austria-Hungary	2,391	42,212	39,821
Germany	10,624	92,761	82,137
Bulgaria	2,098	1,788	[1] 310
Total	15,113	136,761	121,648
Group C—Neutral, including inactive belligerent countries:			
(a) Neutral countries in Europe—			
Netherlands	75,507	255,134	179,627
Sweden	13,826	133,063	119,237
Norway	7,371	135,135	127,764
Denmark	6,202	163,965	157,763
Spain	49,392	102,820	53,428
Switzerland	27,688	76,146	48,458
Total	179,986	866,263	686,277
(b) Non-European neutrals and inactive belligerents—			
Argentina	199,158	155,968	[1] 43,190
Brazil	233,571	114,656	[1] 118,915
Chile	82,442	53,472	[1] 28,970
Cuba	418,610	278,391	[1] 140,219
China	154,154	105,515	[1] 48,639
British East Indies	322,148	81,514	[1] 240,634
Japan	409,853	366,365	[1] 43,488
Total	1,819,936	1,155,881	[1] 664,055
All other countries	844,819	865,890	21,071
Grand total	3,904,406	7,922,151	4,017,745

[1] Excess of imports.

To make possible these large exports to countries not in a position to pay cash, credit or capital must have been advanced in one shape or another. The nature of these transactions can not, of course, be accurately analyzed. Between January 1, 1919, and December 31, 1919, the Government of the United States made advances to allied and associated powers amounting to $1,757,989,481.95, and various loans were placed in the American market by foreign Governments. The remainder was undoubtedly covered in many ways. A large part, approximately $2,000,000,000, has probably fallen, directly or indirectly, upon the commercial banks throughout the country, and to this fact is to be attributed in corresponding measure the expansion of bank credit experienced during the year. While such credits would not be eligible for rediscount at Federal Reserve Banks, the banks extending them have undoubtedly in whole or in part recouped themselves through the rediscount of eligible paper with the Federal Reserve Banks. The Board has frequently expressed itself as opposed to the financing of exports which require long-term credit through banking operations as distinguished from appeals to the securities market, and takes occasion to repeat that view in this summary of general conditions.

FISCAL AGENCY OPERATIONS.

Although the conclusion of the armistice ended the more strenuous stage of Treasury financing, there has been no slackening of the duties imposed upon the Federal Reserve Banks as fiscal agents of the Government. These banks, as heretofore, have handled all details connected with the sale, allotment, distribution, and redemption of Treasury certificates of indebtedness among member and nonmember banks of their respective districts, have received subscriptions to the Victory loan, collected all note and certificate payments, and redeposited the funds with depositary banks, withdrawing them as required by the Treasury. They have also effected the various exchanges of bonds and redemptions of certificates and have paid and canceled coupons of war securities as they have fallen due and have been presented.

By means of interdistrict settlements through the gold-settlement fund, the Treasury has continued to be able to leave funds with designated depositary banks throughout the country until actually required, transfers being made by telegraph to Federal Reserve Banks in cities where Government disbursements are made. These transfers have involved very large sums, and the number of transfers to New York alone over the wires of the Federal Reserve System amounted in 1919 to 2,883.

The subjoined table presents a detailed statement of the year's operations covering Victory notes, Treasury certificates of indebtedness issued in anticipation of Victory notes, certificates issued in anticipation of tax payments, and loan certificates.

Allotments of Victory notes and Treasury certificates from Jan. 1 to Dec. 31, 1919.

Federal Reserve Bank.	Victory notes.	Treasury certificates issued.						Grand total.
		In anticipation of—				Loan certificates.	Total certificates.	
		Victory loan.	Tax payments.					
			1919 taxes.	1920 taxes.	Total tax certificates.			
Boston	$371,910,150	$382,881,000	$156,158,000	$117,145,500	$273,303,500	$146,092,000	$802,276,500	$1,174,186,650
New York	1,318,041,150	1,833,198,000	1,056,238,500	926,614,500	1,982,883,000	690,074,500	4,506 155 500	5,824,196,650
Philadelphia	376,290,100	335,797,000	101,194,500	133,223,500	234,418,000	111,296,500	681,511,500	1,057,801,600
Cleveland	443,802,250	452,061,500	292,972,000	172,204,000	465,176,000	137,716,000	1,054,953,500	1,498,755,750
Richmond	210,889,300	148,981,500	75,856,000	45,309,000	121,165,000	36,428,500	306,575,000	517,464,300
Atlanta	133,080,800	115,362,000	56,515,000	55,243,000	111,758,000	58,870,000	285,990,000	419,070,800
Chicago	694,330,000	772,990,500	337,976,000	267,842,500	605,818,500	228,736,500	1,607,545,500	2,301,875,500
St. Louis	201,787,600	199,737,000	53,700,500	65,929,500	119,630,000	68,972,500	388,339,500	590,127,100
Minneapolis	170,076,650	172,115,500	39,601,000	39,303,000	78,904,000	59,114,000	310,133,500	480,210,150
Kansas City	192,429,300	145,851,500	30,878,500	40,959,500	71,838,000	66,238,500	283,928,000	476,357,300
Dallas	84,002,500	85,349,500	45,664,000	65,296,500	110,960,500	65,709,500	262,019,500	346,022,000
San Francisco	294,905,050	308,075,000	111,720,000	135,381,500	247,101,500	132,725,000	687,901,500	982,806,550
Total	4,491,544,850	[1] 4,952,400,000	2,358 474,000	2,064,482,000	4,422,956,000	1,801,973,500	11,177,329,500	15,668,874,350

[1] Excluding $1,181,792,000 of Treasury certificates in anticipation of the Victory loan allotted through the Federal Reserve Banks during 1918.

NOTE.—Above figures are exclusive of $154,668,000 of 2 per cent 1-year certificates sold to Federal Reserve Banks to secure bank-note circulation, also of special temporary certificates sold to Federal Reserve Banks, none of which were outstanding on Dec. 31, 1919.

The detail work accomplished by the several Federal Reserve Banks in their respective operations as fiscal agents of the Government has been very heavy and has required the services, in the aggregate for the 12 banks, of about 2,500 officers and employees. The number of banks, members and nonmembers, through which subscriptions to the Victory loan were received by the Federal Reserve Banks was 28,120, and the Federal Reserve Banks secured subscriptions to Treasury certificates of indebtedness from 21,895 member and nonmember banks. During the year there passed through the Federal Reserve Banks and branches 32,899,724 Government checks amounting to $14,518,470,830; the banks received, paid and cancelled Liberty bond coupons and Victory note coupons to the number of 102,139,832, aggregating $515,924,896; and they redeemed Treasury certificates of indebtedness to the extent of $10,590,458,500. Payments for subscriptions to the Victory loan were received as follows: In cash, $1,050,974,052; in credit upon the books of designated depositaries, $2,043,163,341; in certificates of indebtedness, $1,397,200,508. The balance reported unpaid on December 31, 1919, was $206,949. Payments for subscriptions to Treasury certificates in anticipation of 1920 taxes were received as follows: In cash, $198,641,103; in credit, $1,512,281,397; maturing certificates of former issues, $353,559,500. Payment for subscriptions to Treasury loan certificates were received as follows: In cash, $199,-173,116; in credit, $1,377,629,384; certificates of former issues, $225,-171,000. The number of bank depositaries designated by the Secretary of the Treasury through the Federal Reserve Banks was 7,632 on December 31. The average daily Government balance with these depositaries during 1919 was $737,665,000, and as security for these deposits, the Federal Reserve Banks approved and received collateral of the average face value of approximately $1,338,304,000. In addition to the fiscal agency operations outlined above the Federal Reserve Banks during the year sold Treasury savings certificates amounting to $14,961,000; war savings stamps amounting to $13,118,000; and thrift stamps amounting to $1,898,000.

The Treasury balances carried with the Federal Reserve Banks have been subject to wide fluctuations owing to the constantly changing requirements of the Treasury and to the seasonal character of collections of internal revenue taxes made for the Treasury's account. The following table exhibits the maximum, minimum, and daily average amount of Government deposits in the 12 Federal Reserve Banks during each month of 1919.

178983—20——3

Government deposits held by Federal Reserve Banks.

[In thousands of dollars.]

Month.	Maximum.	Minimum.	Daily average.
January	150,346	20,974	71,379
February	210,920	22,745	129,750
March	292,147	60,023	176,960
April	169,972	38,069	99,094
May	194,115	64,448	126,378
June	245,245	3,917	111,614
July	185,834	43,190	112,601
August	112,051	37,896	66,106
September	85,129	30,253	53,970
October	173,650	51,789	88,300
November	106,752	31,700	79,978
December	124,891	30,959	70,301
Year	292,147	3,917	98,755

MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES.

The movement of State banks and trust companies into the Federal Reserve System has continued throughout the year in a fairly satisfactory manner, although on December 31 about 8,021 eligible State institutions were not members. The Board is cooperating with the Federal Reserve Banks in a continuous campaign for State bank membership, and one member of the Board has been detailed to supervise these activities. The American Bankers' Association has continued its committee on Federal Reserve membership, which has done such effective work in impressing upon the management of State banks the advantages to be obtained from membership in the system.

On December 31, 1918, the total membership of State banks and trust companies was 930, representing an aggregate capital and surplus of $759,790,000, and total resources of about $7,482,000,000. On December 31, 1919, the membership of other than national banks had increased to 1,181, representing a total capital and surplus of over $891,200,000, and total resources of about $9,913,700,000. Favorable legislation in a number of States as well as cordial cooperation by nearly all of the State banking authorities have aided materially in obtaining these results.

The movement of State banks and trust companies into the Federal Reserve System during 1919, as well as the percentage relationship between the number, capital, and surplus, and total resources of such members and of all State banks and trust companies reported as eligible for membership, are indicated in the following tables:

Number, capital and surplus, and total resources of State banks and trust companies, members of the Federal Reserve System.

[Amounts in thousands of dollars.]

Federal Reserve district.	Dec. 31, 1918.			Mar. 4, 1919.			June 30, 1919.		
	Number.	Capital and surplus.	Total resources.	Number.	Capital and surplus.	Total resources.	Number.	Capital and surplus.	Total resources.
Boston	31	57,656	599,596	32	58,414	605,236	36	60,908	657,007
New York	101	277,492	3,488,611	102	286,110	3,598,070	110	297,999	4,021,687
Philadelphia	29	66,588	324,408	31	67,000	352,963	36	68,379	376,861
Cleveland	66	90,857	597,288	73	91,785	661,562	80	93,168	681,624
Richmond	37	16,002	110,430	39	16,183	114,973	42	16,901	131,663
Atlanta	54	26,424	249,532	55	27,059	245,691	57	27,396	264,638
Chicago	288	138,827	1,363,695	296	141,116	1,446,951	305	142,963	1,556,249
St. Louis	44	43,970	347,683	43	44,440	350,880	52	41,618	333,696
Minneapolis	70	8,259	81,861	72	8,852	90,122	75	9,112	90,671
Kansas City	27	8,489	96,796	29	8,759	104,648	31	6,969	94,574
Dallas	97	9,083	58,254	107	10,025	65,356	115	10,538	70,231
San Francisco	86	16,143	163,959	90	15,731	164,609	103	16,960	173,681
Total	930	759,790	7,482,113	969	775,474	7,801,061	1,042	792,911	8,452,582

Federal Reserve district.	Nov. 17, 1919.			Dec. 31, 1919.		
	Number.	Capital and surplus.	Total resources.	Number.	Capital and surplus.	Total resources.
Boston	36	64,233	692,320	36	64,385	719,918
New York	117	306,574	4,203,806	122	320,123	4,283,636
Philadelphia	38	70,328	359,318	38	70,455	370,462
Cleveland	93	97,330	760,659	97	101,871	803,439
Richmond	44	18,087	158,886	46	19,285	166,007
Atlanta	63	34,529	366,831	64	35,553	389,854
Chicago	321	153,837	1,681,302	326	157,019	1,751,177
St. Louis	66	44,086	391,268	68	44,354	409,086
Minneapolis	82	10,087	101,601	86	10,455	107,139
Kansas City	42	7,934	107,909	47	8,353	119,953
Dallas	113	9,779	87,196	114	10,391	97,103
San Francisco	120	37,329	513,217	137	48,930	695,933
Total	1,135	854,133	9,424,313	1,181	891,174	9,913,707

Statement showing comparison between the number, capital and surplus, and total resources of (1) member banks, (2) banks eligible for membership in Federal Reserve System (including both member and nonmember banks), and (3) all banks in the United States, exclusive of savings and private banks, as of June 30, 1919.

[Amounts in thousands of dollars.]

	Number.	Per cent of total.	Capital and surplus.		Aggregate resources.	
			Amount.	Per cent of total.	Amount.	Per cent. of total.
1. Member banks:						
National	7,780	88.2	1,989,597	71.5	20,791,147	71.1
State banks and trust companies	1,042	11.8	792,911	28.5	8,452,582	28.9
Total	8,822	100.0	2,782,508	100.0	29,243,729	100.0
2. Banks eligible for membership:						
Member banks	8,822	52.0	2,782,508	72.1	29,243,729	77.4
Nonmember banks	8,160	48.0	1,074,365	27.9	8,547,623	22.6
Total	16,982	100.0	3,856,873	100.0	37,791,352	100.0
3. All banks in the United States, exclusive of savings and private banks:						
Member banks	8,822	33.4	2,782,508	66.9	29,243,729	72.3
Nonmember banks	17,560	66.6	1,376,023	33.1	11,209,020	27.7
Total	26,382	100.0	4,158,531	100.0	40,452,749	100.0

State banks and trust companies, members and nonmembers of the Federal Reserve System, classified according to institutions with combined capital and surplus of (1) $1,000,000 and over, and (2) less than $1,000,000, as of June 30, 1919.

[Amounts in thousands of dollars.]

(1) BANKS AND TRUST COMPANIES WITH COMBINED CAPITAL AND SURPLUS OF $1,000,000 AND OVER.

Federal Reserve district.	Members.			Nonmembers.		
	Number.	Capital and surplus.	Total resources.	Number.	Capital and surplus.	Total resources.
Boston	13	49,850	536,267	8	14,800	113,020
New York	45	275,667	3,746,366	25	91,277	683,730
Philadelphia	12	60,100	310,564	28	56,278	269,386
Cleveland	15	79,200	537,664	18	38,920	209,583
Richmond	6	9,700	77,848	16	36,390	173,794
Atlanta	10	18,497	185,934	1	1,000	9,730
Chicago	24	100,550	1,070,758	10	21,200	181,591
St. Louis	12	33,172	252,749	3	6,525	41,498
Minneapolis				3	4,050	14,137
Kansas City	2	3,000	51,443			
Dallas				3	4,742	10,913
San Francisco	3	4,700	57,589	21	43,366	564,498
Total	142	634,436	6,827,182	136	318,548	2,271,880

(2) BANKS AND TRUST COMPANIES WITH COMBINED CAPITAL AND SURPLUS OF LESS THAN $1,000,000.

Federal Reserve district.	Members. Number.	Members. Capital and surplus.	Members. Total resources.	Nonmembers. Number.	Nonmembers. Capital and surplus.	Nonmembers. Total resources.
Boston	23	11,058	120,740	155	28,407	315,808
New York	65	22,332	275,321	238	48,343	491,510
Philadelphia	24	8,279	66,297	312	70,423	514,415
Cleveland	65	13,968	143,960	533	73,077	613,191
Richmond	36	7,201	53,815	561	55,263	403,563
Atlanta	47	8,899	78,704	720	53,948	366,660
Chicago	281	42,413	485,491	2,016	160,277	1,537,193
St. Louis	40	8,446	80,947	926	63,949	462,665
Minneapolis	75	9,112	90,671	687	40,510	358,906
Kansas City	29	3,969	43,131	824	49,765	403,445
Dallas	115	10,538	70,231	397	34,092	157,980
San Francisco	100	12,260	116,092	655	77,763	650,407
Total	900	158,475	1,625,400	8,024	755,817	6,275,743

Total number, capital and surplus, and resources of State banks and trust companies, both member and nonmember reported as eligible for membership on basis of capital requirements; also ratios of number, capital and surplus, and resources of State bank and trust company members to totals for all State banks and trust companies reported as eligible for membership, as of June 30, 1919.

[Amounts in thousands of dollars.]

Federal Reserve district.	Number of banks.			Capital and surplus.			Total resources.		
	1. Total eligible.	2. Members.	3. Per cent (2÷1).	4. Total eligible banks.	5. Member banks.	6. Per cent (5÷4).	7. Total eligible banks.	8. Member banks.	9. Per cent (8÷7).
Boston	199	36	18.1	104,115	60,908	58.5	1,085,835	657,007	60.5
New York	373	110	29.5	437,619	297,999	68.1	5,196,927	4,021,687	77.4
Philadelphia	376	36	9.6	195,080	68,379	35.1	1,160,662	376,861	32.5
Cleveland	631	80	12.7	205,165	93,168	45.4	1,504,398	681,624	45.3
Richmond	619	42	6.8	108,554	16,901	15.6	709,020	131,663	18.6
Atlanta	778	57	7.3	82,344	27,396	33.3	641,028	264,638	41.3
Chicago	2,331	305	13.1	324,440	142,963	44.1	3,275,033	1,556,249	47.5
St. Louis	981	52	5.3	112,092	41,618	37.1	837,859	333,696	39.8
Minneapolis	765	75	9.8	53,672	9,112	17.0	463,714	90,671	19.6
Kansas City	855	31	3.6	56,734	6,969	12.3	498,019	94,574	19.0
Dallas	515	115	22.3	49,372	10,538	21.3	239,124	70,231	29.4
San Francisco	779	103	13.2	138,089	16,960	12.3	1,388,586	173,681	12.5
Total	9,202	1,042	11.3	1,867,276	792,911	42.4	17,000,205	8,452,582	49.7

In the table immediately following will be found a statement of the total resources as of June 30, 1919, of all member banks, from which it will be seen that the resources of the State banks and trust companies which are members of the system are but 95 millions less than those of the nonmember banks reported as eligible for membership, and that the total resources of all member banks are about three and one-half times as great as those of eligible nonmember banks. The resources of the member banks are 72.3 per cent of the total resources of all banks in the United States, exclusive of savings and private banks.

	Total resources.
(1) Member banks:	
National	$20,791,147,000
State banks and trust companies	8,452,582,000
Total	29,243,729,000
(2) Nonmember State banks and trust companies reported as eligible for membership in the Federal Reserve System	8,547,623,000
(3) All banks in the United States, exclusive of savings and private banks:	
National	20,791,147,000
State banks and trust companies	19,661,602,000
Total	40,452,749,000
(4) Ratio of total resources of all member banks to total resources of nonmember banks reported as eligible for membership (per cent)	342.1
Ratio of total resources of member banks to total resources of all banks in the United States, exclusive of savings and private banks (per cent)	72.3

RATES OF EARNINGS BY CLASSES OF ASSETS.

Prior to the revision of discount rates in November, the rates of earnings of the Federal Reserve Banks during the year from the various classes of investments fluctuated between comparatively narrow limits. Earnings from discounts showed a maximum average rate of 4.53 per cent in December and a minimum average rate of 4.13 per cent in August. Variations in the average rate correspond more or less to the relative volume of war paper taken during the respective months. Average rates of earnings from acceptances purchased in the open market because of the special preferential treatment of war paper were slightly higher than the average rates from discounts, and the average rates earned by the Federal Reserve Bank of New York were somewhat lower than corresponding rates reported by the other banks. Earning rates were fairly level during the first 10 months of the year, ranging from 4.19 per cent in June to 4.29 per cent in January.

Increases in both the discount and open-market rates at the Federal Reserve Banks are reflected in higher rates of earnings for November and December, the rate of earnings from discounted paper showing a rise from 4.15 in October to 4.40 in November and 4.53 in December, while the rate of earnings from open-market paper rose from 4.22 in October to 4.33 in November and to 4.53 in December.

Average rates of earnings from United States securities ranged between 2.17 per cent in September and 2.43 per cent in April. With a steady increase in the amount of one-year 2 per cent certificates included in the United States security holdings of the banks, a corresponding decline in the average rate of return might have been expected, but the average monthly rates of return did not show such a decline for the reason that the ratio was affected by the much larger amounts of special certificates held by the banks at various intervals for one or more days to cover Treasury overdrafts. The effect of these holdings is seen in the relatively low average rates obtaining in January, February, and September.

As a result of this development the average rate of return on all investments between January and October moved more or less in conformity with the average monthly rate of return from discounts. In September, however, when the holdings of special 2 per cent Treasury certificates were particularly heavy, the average rate of return from all investments shows a decline notwithstanding the simultaneous rise in the percentage of return from bills discounted.

Rates of earnings from investments of the Federal Reserve Banks.

	Bills discounted.	Bills bought in open market.	United States securities.	Total investments.
January	4.21	4.29	2.26	4.04
February	4.18	4.25	2.31	4.03
March	4.16	4.26	2.41	4.02
April	4.16	4.23	2.43	4.01
May	4.15	4.25	2.42	3.99
June	4.20	4.19	2.33	4.01
July	4.15	4.27	2.24	3.98
August	4.13	4.22	2.21	3.93
September	4.17	4.27	2.17	3.91
October	4.15	4.22	2.18	3.95
November	4.40	4.33	2.22	4.16
December	4.55	4.54	2.19	4.29
Average for year	4.23	4.30	2.26	4.04

DISTRIBUTION OF EARNING ASSETS AT THE OPENING AND CLOSE OF THE YEAR.

During the past year total earning assets of the Federal Reserve Banks increased by 805 millions, from 2,275 to 3,080 millions. All three main classes of assets show considerable gains for the year—discounts by 365 millions, open market purchases by 293 millions, and United States securities by 145 millions.

Largely as the result of the reduction during the year in the volume of outstanding Treasury certificates, the holdings of "war paper" (i. e., discounted and rediscounted paper secured by United States war obligations) show a decline from 1,535 to 1,510 millions. Of the later date total, over 75 per cent was composed of member banks' collateral notes, as against about 50 per cent at the beginning of the year.

Considerable gains are shown in the December 26 figures of discounted bank and trade acceptances. The largest increase, however, under the general head of discounted bills is shown for ordinary commercial paper, the holdings of which assumed particularly large proportions during the last two months of the year, following the adoption of revised discount rates which reduced and subsequently eliminated in part the differential in favor of war paper maintained during the greater part of the year.

There has been a steady and increasing flow of bank acceptances, based on foreign trade transactions, into the portfolios of the Federal Reserve Banks, holdings of this class of paper at the close of the year, 452.5 millions, being 317.8 millions larger than at the beginning of the year.

Larger holdings are also shown for trade acceptances based upon foreign trade transactions and for dollar exchange bills, while holdings of both bank and trade acceptances based on domestic trade transactions were smaller at the close of the year than at its opening. As against a decrease of 3 millions in the holdings of United States bonds (largely circulation bonds and 3 per cent conversion bonds) the banks show an increase during the year of 148.4 millions in Treasury certificates, the holdings of this class of securities constituting nearly 9 per cent of the total earning assets of the banks, compared with 5.5 per cent on the first Friday of the year.

Changes in classes of earning assets during 1919.

[In thousands of dollars.]

	Jan. 3, 1919.	Dec. 26, 1919.	Increase.
Bills discounted:			
Secured by Government war obligations—			
Customer's paper	734,610	352,588	[1] 382,022
Member banks' collateral notes	800,060	1,157,766	357,706
Total	1,534,670	1,510,354	[1] 24,316
Otherwise secured and unsecured—			
Agricultural paper	28,108	24,825	[1] 3,283
Live-stock paper	27,247	26,243	[1] 1,004
Member banks' collateral notes	18,365	[2] 8,256	[1] 10,109
Bankers' acceptances	1,596	18,183	16,587
Trade acceptances	16,633	30,992	14,359
Other commercial and industrial paper	203,245	576,025	372,780
Total	295,194	684,524	389,330
Total discounted bills	1,829,864	2,194,878	365,014

[1] Decrease.
[2] Includes $20,000 secured by War Finance Corporation bonds.

Changes in classes of earning assets during 1919—Continued.

[In thousands of dollars.]

	Jan. 3, 1919.	Dec. 26, 1919.	Increase.
Bills bought in open market:			
Bankers' acceptances—			
In the foreign trade	134,703	452,460	317,757
In the domestic trade	147,830	121,169	[1] 26,661
Dollar exchange bills	1,647	3,914	2,267
Total	284,180	577,543	293,363
Trade acceptances—			
In the foreign trade	3,426	5,024	1,598
In the domestic trade	2,663	2,645	[1] 18
Total	6,089	7,669	1,580
Total bills bought in open market	290,269	585,212	294,943
United States bonds	29,824	26,834	[1] 2,990
United States Victory notes		64	64
United States certificates of indebtedness	125,063	273,507	148,444
All other earning assets	13		[1] 13
Total earning assets	2,275,033	3,080,495	805,462

[1] Decrease.

EARNINGS AND OPERATING EXPENSES OF FEDERAL RESERVE BANKS.

The number of officers and employees of each of the Federal Reserve Banks at the close of the year 1919, as compared with the number at the end of the previous year, is as follows:

Federal Reserve Bank.	Number of officers and employees Dec. 31, 1918.	Number of officers and employees Dec. 31, 1919.
Boston	585	755
New York	2,657	2,896
Philadelphia	423	647
Cleveland	589	626
Richmond	254	401
Atlanta	317	386
Chicago	815	1,199
St. Louis	385	541
Minneapolis	267	287
Kansas City	480	583
Dallas	403	505
San Francisco	531	567
Total	7,706	9,393

The operating expenses of all the banks have been considerably higher than in previous years. Member banks, private banking firms, and corporations have drawn or attempted to draw upon the Federal Reserve Banks for officers and employees, and the continued advance in the cost of living also has made it necessary to raise salaries. There has been no increase in the maximum salary paid nor have any salaries been approved by the Board for Federal Reserve Bank officers as high as those paid officers of similar rank by the larger commercial banks in the several Federal Reserve cities.

The average salary paid officers and employees by each Federal Reserve Bank is as follows:

Federal Reserve Bank.	Average salary of officers.	Average salary of employees.
Boston	$8,542	$1,184
New York	10,540	1,206
Philadelphia	8,318	1,133
Cleveland	7,347	1,206
Richmond	6,215	1,031
Atlanta	5,080	1,054
Chicago	6,666	1,200
St. Louis	6,331	1,051
Minneapolis	5,985	1,090
Kansas City	5,554	1,194
Dallas	5,400	1,167
San Francisco	5,700	1,255

The Federal Reserve Banks have strengthened their auditing and examining departments, and other necessary expenses have been incurred in bringing the banks in closer contact with the member and nonmember banks of their districts. The Federal Reserve Banks also paid all costs of transportation of currency sent to and received from member banks, and some of the Federal Reserve Banks paid all costs of returning to member banks the collateral lodged with them by their member banks as security for advances made by the reserve banks. Notwithstanding the very considerable increase in the expense accounts of the Federal Reserve Banks, the combined current net earnings of the 12 Federal Reserve Banks for the year 1919 amounted to $82,038,785, as compared with $55,446,979 for the year 1918, or an increase of $26,591,806. The combined gross earnings were $102,380,583, as compared with $67,584,417 in 1918.

Provision is made for the division of earnings of the Federal Reserve Banks in section 7 of the Federal Reserve Act, which provides in part that "after all necessary expenses of a Federal Reserve Bank have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative." As originally enacted, this section further provided that "after the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that one-half of such net earnings shall be paid into a surplus fund until it shall amount to forty per centum of the paid-in capital stock of such bank." The act of March 3, 1919, amended this section to read as follows: "After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax except that the whole of such net earnings, including those for the year ending December 31, 1918, shall be paid into a surplus fund until it shall amount to one hundred per centum of the subscribed capital stock of such bank, and that thereafter ten per centum of such net earnings shall be paid into the surplus."

At the end of the year 1917, and before section 7 was amended, the Federal Reserve Banks of Boston, New York, Richmond, Atlanta, Chicago, and Minneapolis had paid all accumulated dividends to the end of the year 1917, and after charging off all expenses and making the depreciation allowances authorized by the Board, carried to surplus the sum of $1,134,234 and paid an equal amount to the Government as a franchise tax. The six remaining Federal Reserve Banks not having earned a sufficient amount to pay their accumulated dividends, carried nothing to surplus and made no payment to the Government at the end of the year 1917.

The Federal Reserve Bank of New York having provided for all expenses and depreciation charges, and having paid all accumulated dividends, carried to surplus out of its net earnings for the year 1919, the sum of $23,964,678. It has therefore accumulated the maximum proportion of surplus provided for in section 7, as amended, of 100 per cent of its subscribed capital, plus $300,433, being 10 per cent of the balance of its net earnings for the year. The remaining 90 per cent ($2,703,894) has been paid to the Government as a franchise tax.

The percentage of surplus to subscribed capital of all Federal Reserve Banks at the close of business December 31, 1919, is as follows:

Federal Reserve Bank of—	Per cent.
Boston	58.80
New York	100.67
Philadelphia	55.84
Cleveland	47.67
Richmond	66.26
Atlanta	68.48
Chicago	57.87
St. Louis	45.81
Minneapolis	58.05
Kansas City	76.15
Dallas	44.29
San Francisco	65.56

The Board desires to call attention to the fact that the very large earnings of the banks are due to their abnormally large volume of discounts forced upon them first by the war and then by conditions growing out of the war. At the close of the year 69 per cent of the loans and discounts were secured by Government war obligations. The banks have been able to maintain their reserves while carrying this heavy loan account only because a correspondingly large volume of Federal Reserve notes has been needed to meet the demands of commerce and business. As conditions become more normal, and as recourse is had by member banks to Federal Reserve Banks less constantly, and when accommodations are sought principally for the purpose of meeting unexpected demands or seasonal requirements, the gross earnings of the Federal Reserve Banks will be reduced very substantially, and as it is not probable that the expense accounts can be reduced in a corresponding degree the net earnings in future are likely to be very much smaller.

The Board takes occasion again to point out that it was not until June 30, 1918, that all cumulative dividends were paid by all of the Federal Reserve Banks. At the close of the year 1918 each of the Federal Reserve Banks had set aside a reserve, out of surplus earnings, for the Government franchise tax, the aggregate of all being $26,-728,440. These reserves were transferred to the surplus funds of the respective banks on March 5, 1919, under authority of the act of March 3, 1919, above referred to.

The table below shows the capital and surplus of each Federal Reserve Bank on December 31, 1919, the gross and net earnings for the year, the dividends paid, the amounts transferred in each case to surplus, and the payments to the Treasury for account of the Government franchise tax:

Federal Reserve Bank.	Gross earnings.	Current net earnings.	Miscellaneous deductions from current net earnings.	Net earnings available for dividends, surplus, and franchise tax.	Dividend payments.
Boston	$7,497,583	$5,825,758	$48,377	$5,777,381	$414,447
New York	35,332,412	29,598,067	1,638,448	27,959,619	1,291,047
Philadelphia	8,609,880	6,834,695	175,526	6,659,169	462,380
Cleveland	7,800,829	6,404,798	311,013	6,093,785	556,785
Richmond	4,775,324	3,863,397	[a] 13,869	3,877,266	252,872
Atlanta	4,416,001	3,443,784	61,387	3,382,397	197,397
Chicago	12,012,078	9,463,754	887,550	8,576,204	700,807
St. Louis	3,884,478	2,709,685	354,531	2,355,154	234,660
Minneapolis	3,007,041	2,450,550	116,607	2,333,943	180,186
Kansas City	4,961,482	3,775,413	[a] 147,949	3,923,362	228,755
Dallas	3,062,251	2,079,415	37,551	2,041,864	196,335
San Francisco	7,021,224	5,589,469	202,109	5,387,360	296,161
Total	102,380,583	82,038,785	3,671,281	78,367,504	5,011,832

Federal Reserve Bank.	Transferred to surplus account.	Paid to United States Government as a franchise tax.	Subscribed capital Jan. 1, 1920.	Surplus account, Jan. 1, 1920.	Ratio of surplus to subscribed capital on Jan. 1, 1920.
					Per cent.
Boston	$5,362,934		$14,215,000	$8,359,034	58.80
New York	23,964,678	$2,703,894	44,781,500	45,081,933	100.67
Philadelphia	6,196,789		15,768,300	8,805,132	55.84
Cleveland	5,537,000		19,065,900	9,089,000	47.67
Richmond	3,624,394		8,784,000	5,820,463	66.26
Atlanta	3,185,000		6,856,400	4,695,000	68.48
Chicago	7,875,397		24,694,300	14,291,643	57.87
St. Louis	2,120,494		8,128,900	3,723,805	45.81
Minneapolis	2,153,757		6,147,900	3,569,000	58.05
Kansas City	3,694,607		8,031,100	6,116,033	76.15
Dallas	1,845,529		6,841,400	3,029,937	44.29
San Francisco	5,091,199		11,499,500	7,539,374	65.56
Total	70,651,778	2,703,894	174,814,200	120,120,354	68.71

[a] Credit.

PERMANENT BUILDINGS FOR FEDERAL RESERVE BANKS.

In its report for the year 1918 the Board referred to the necessity for providing Federal Reserve Banks with permanent and more adequate physical facilities for the transaction of their business and called attention to the purchases of sites by eight of the banks. All of the banks have now provided themselves with suitable building sites.

The property acquired by the Federal Reserve Bank of Boston early in the year 1918 at a cost of $1,000,000 was found to be inadequate because of the increased business of the bank, and a few months ago the Board approved of the sale of this property at a net profit of approximately $140,000 and the purchase at approximately $1,400,000 of other real estate of nearly three times the area of that originally acquired.

As a rule the real estate acquired by the Federal Reserve Banks may be classified as improved property, but, except in Philadelphia, the buildings can not be utilized permanently and will have to be razed before work can be begun on new construction. While it is not believed that the existing buildings add materially to the value of the land, they are assessed separately, and in cases where new construction has been begun or where plans have been completed the Board has approved the charging off by the Federal Reserve Banks of amounts equal to the assessed value of the buildings to be removed.

The real estate and building account of each of the Federal Reserve Banks at the close of business December 31, 1919, is as follows:

Boston	$1, 102, 827
New York	3, 094, 050
Philadelphia	500, 000
Cleveland	640, 392
Richmond	504, 025
Atlanta	463, 302
Chicago	2, 116, 149
St. Louis	355, 737
Minneapolis	500, 000
Kansas City	461, 687
Dallas	399, 399
San Francisco	231, 375

In order to be in position to pass more intelligently upon the expenditures which the Federal Reserve Banks propose to make in their building operations, as well as to secure uniformity in essential details, the Board deemed it expedient to employ a consulting architect and secured the services of Mr. A. B. Trowbridge, of New York, in this capacity. The United States Bureau of Standards of the Department of Commerce is cooperating with the Board's consulting architect in a study of the best methods of vault construction.

BRANCHES OF FEDERAL RESERVE BANKS AND THEIR OPERATIONS.

At the end of the year 1918 there were in operation 16 branches of Federal Reserve Banks, 5 of which had been authorized during that year. The branch of the Federal Reserve Bank of St. Louis at Little Rock, which was authorized during the latter part of the year 1918, began business on January 6, 1919. During the year just ended six additional branches have been authorized, as follows:

Location.	Established by Federal Reserve Bank of—
Houston, Tex	Dallas.
Nashville, Tenn	Atlanta.
Buffalo, N. Y	New York.
Helena, Mont	Minneapolis.
Los Angeles, Calif	San Francisco.
Oklahoma City, Okla	Kansas City.

All of these were in active operation at the end of the year 1919 except those authorized to be established at Helena, Los Angeles, and Oklahoma City. The Federal Reserve Bank of Atlanta also established an agency for the receipt and shipment of currency at Savannah, Ga.

The Board called attention in its last annual report to the greater facilities afforded by the branches to member banks located in their vicinity, as well as to the impracticability of establishing branches merely to gratify civic pride. The policy which was adopted nearly two years ago of giving equal facilities as far as possible to all member banks by having the Federal Reserve Banks pay all transportation charges on shipments of currency made to and received from member banks has been continued with satisfactory results, and, except as to time involved in transit, member banks located at a distance from the Federal Reserve Bank enjoy the same facilities in the matter of currency transfers as member banks located in Federal Reserve cities.

The activities of the branches, except those at New Orleans, Detroit, and in the St. Louis, Kansas City, Dallas, and San Francisco districts, where discount operations are authorized, are devoted mainly to the collection of checks and maturing notes and bills and to currency transfers to and from member banks.

A condensed statement of these activities of the branch Federal Reserve Banks appears below:

Operations of Federal Reserve Branch Banks during the calendar year 1919.

Branch banks.	Opened for business.	Average number and amount of items handled daily.		Average monthly currency receipts and shipments.	
		Number.	Amount.	Received.	Shipped.
Buffalo	May 15, 1919	18,944	$6,418,888	[1] $6,118,120	[1] $8,090,857
Cincinnati	Jan. 10, 1918	24,907	8,345,111	6,590,415	4,623,206
Pittsburgh	Apr. 22, 1918	32,940	15,265,149	15,844,576	16,814,852
Baltimore	Mar. 1, 1918	24,581	11,419,118	7,679,653	5,590,849
Birmingham	Aug. 1, 1918	6,489	2,612,619	2,400,056	2,167,916
Jacksonville	Aug. 5, 1918	5,822	1,319,101	1,879,792	2,044,364
Nashville	Oct. 21, 1919	8,830	2,572,052	[2] 1,392,516	[2] 1,677,750
New Orleans	Sept. 10, 1915	8,184	4,004,788	5,402,518	4,230,352
Detroit	Mar. 18, 1918	6,110	4,311,323	13,599,667	14,954,079
Little Rock	Jan. 6, 1919	5,535	1,282,815	1,412,786	1,196,659
Louisville	Dec. 3, 1917	9,141	3,183,944	3,615,367	2,033,699
Memphis	Sept. 3, 1918	5,472	1,758,026	2,924,000	3,931,200
Denver	Jan. 14, 1918	12,368	3,145,812	1,978,490	1,186,136
Omaha	Sept. 4, 1917	15,437	4,513,692	1,433,205	1,817,015
El Paso	June 17, 1918	7,482	1,431,182	1,129,136	1,150,335
Houston	Aug. 4, 1919	8,847	2,945,752	[3] 1,640,856	[3] 2,823,946
Portland	Oct. 1, 1917	6,593	2,362,095	1,628,339	2,021,613
Salt Lake City	Apr. 1, 1918	15,010	3,920,959	1,099,546	864,533
Seattle	Sept. 19, 1917	8,533	3,525,956	2,958,443	2,473,197
Spokane	July 26, 1917	6,751	1,561,856	566,447	693,175
Total		237,978	85,900,238	81,293,928	80,385,733
Savannah agency	Feb. 4, 1919			[4] 817,730	[4] 916,660

[1] Average for 7 months.
[2] Average for 2 months.
[3] Average for 5 months.
[4] Average for 10 months.

FEDERAL RESERVE CLEARING AND COLLECTION SYSTEM.

Rapid progress has been made during the year in the development of the Federal Reserve clearing and collection system. The par lists of the Federal Reserve Banks include all banks in the New England States, New York, Pennsylvania, New Jersey, Delaware, Maryland, Ohio, Indiana, Illinois, Michigan, Iowa, Missouri, North Dakota, Nebraska, Kansas, Oklahoma, Wyoming, Montana, Colorado, New Mexico, Texas, Utah, Idaho, Nevada, and California, and a majority of banks in all the other States except North Carolina, South Carolina, Georgia, Florida, Alabama, and Mississippi.

Opposition has developed in some localities to those provisions which require the Federal Reserve Banks to receive from their member banks, at par, checks and drafts payable on presentation and prescribe that no charge for remitting for such checks shall be made against the Federal Reserve Banks. This opposition, however, which has gradually become less intense, except in districts Nos. 6, 9, and 10, will, it is believed, disappear entirely within a reasonable time after all banks in the country are placed on the par list.

Member banks are compelled by law to remit at par to Federal Reserve Banks for checks drawn upon them, and for some years it was the policy of the Federal Reserve Banks to decline to receive from member banks, for credit or for collection, checks drawn upon nonmember banks which had not agreed to remit for them at par. Persistent efforts were made to induce nonmember banks to make remittances without charge to the Federal Reserve Banks for checks drawn upon them, but as these banks were able to avail themselves of the facilities of the system to collect their own items without expense through some correspondent bank, they were in many cases disinclined to render a like service and declined to give up this source of profit. With the approval of the Federal Reserve Board several of the Federal Reserve Banks, early in the year, undertook to collect at par on every bank in their respective districts. The Federal Reserve Bank of Boston has for more than three years been collecting at par on all banks in its district, and other Federal Reserve Banks felt that in justice to their member banks and to the public no further discrimination should be made. Recourse was had in many cases to means of collection other than banks, but as a rule such steps were not necessary for any length of time, and of the 29,561 banks in the country, 25,565 were on December 31 remitting to the Federal Reserve Banks at par, while 3,996 still declined to do so. The efforts to establish a universal par remittance system will be continued until all banks are on the par list, and it is believed that this result will be accomplished within a comparatively short time. Several banks in various sections of the country have protested against the means adopted by the Federal Reserve Banks with the approval of the Board of collecting checks drawn upon banks which refuse to remit at par to the Federal Reserve Banks for items drawn on themselves, and in reply to formal complaints the Board has defined its attitude as follows:

The Board's action is based upon its conception of the very evident purposes of the Federal Reserve Act. Section 13 of the act begins as follows: "Any Federal Reserve Bank may receive from any of its member banks and from the United States deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills." Even though the Federal Reserve Board has heretofore ruled that the permissive "may" as used in the foregoing paragraph should not be construed to mean the mandatory "shall," nevertheless it is clear that a Federal Reserve Bank in order to do any business whatever must exercise some of the permissive powers authorized by law. It would be impossible otherwise for a Federal Reserve Bank to afford to its member banks many of the privileges which the law clearly contemplates and to which the member banks are clearly entitled. But independently of a discussion of this phase of the situation, it seems to the Board that doubts upon this question are resolved upon a consideration of the provisions of section 16: "Every Federal Reserve Bank shall receive on deposit at par from member banks or from Federal Reserve Banks checks and drafts drawn upon any of its depositors." In this case, the obligatory "shall" is used so that there is no option in the Federal Reserve Bank so far as checks and drafts upon its depositors are concerned. From this it may be argued that as the depositors of a Federal Reserve Bank are member banks there is no obligation upon the Federal Reserve Bank to receive on deposit at par checks on nonmember banks, but even if the language of section 13 be construed as permissive there seems to be no question that the Federal Reserve Bank has the right to receive on deposit from any of its member banks any checks or drafts upon whomsoever drawn, provided they are payable upon presentation. The whole purpose of the act demands that in justice to member banks they should exercise that right.

Section 16 further provides that the Federal Reserve Board "may at its discretion exercise the functions of a clearing house for such Federal Reserve Banks * * * and may also require each such bank to exercise the functions of a clearing house for its member banks." In accordance with the purpose of this paragraph, the Federal Reserve Board, with the view ultimately of establishing a universal or national system of clearing intersectional balances as well as bank checks and drafts, has established a gold settlement fund through which daily clearings between all Federal Reserve Banks are consummated and has also required each Federal Reserve Bank to exercise the functions of a clearing house for its member banks. In order, however, to make fully effective its facilities as a clearing house in accordance with the terms of this section, there does not seem to be any doubt that the Federal Reserve Bank should not only exercise its obligatory power to receive from member banks checks and drafts drawn upon other member banks, but that it should also exercise its permissive power to receive from member banks any other checks and drafts upon whomsoever drawn, provided that they are payable upon presentation.

There are no doubt many nonmember banks without sufficient capitalization to make them eligible for membership in the Federal Reserve System, but provision is made for such banks in section 13 by authorizing the Federal Reserve Banks, for purposes of exchange or of collection, to receive deposits from any nonmember bank or trust company. But for the fact that the small country banks are able to have their out of town items credited at par by some city correspondent, there is no doubt that many more of them would avail themselves of the nonmember collection privilege than have done so.

There is a proviso in section 13 which allows member and nonmember banks to make reasonable charges "to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve Banks." This has been construed by the Attorney General of the United States as meaning that a Federal Reserve Bank can not legally pay any fee to a member or nonmember bank for the collection and remittance of a check. It follows, therefore, that if the Federal Reserve Banks are to give the service required of them under the provisions of section 13 they must, in cases where banks refuse to remit for their checks at par, use some other means of collection no matter how expensive.

The action of the various Federal Reserve Banks in extending their par lists has met with the cordial approval of the Federal Reserve Board, which holds the view that under the terms of existing law the Federal Reserve Banks must use every effort to collect all bank checks received from member banks at par. Several of the Federal Reserve Banks are now able to collect on all points in their respective districts at par, and new additions to the other par lists are being made every day. The Board sees no objection to one bank charging another bank or a firm or individual the full amount provided in section 13 of the Federal Reserve Act (10 cents per $100) and has not undertaken to modify these charges, but the act expressly provides that no such charge shall be made against the Federal Reserve Banks.

It is the Board's duty to see that the law is administered fairly and without discrimination and that it applies to all banks and sections alike. It will, therefore, take any and all steps necessary to carry out the intent of the law as construed by the highest legal authority of the administrative branch of the Government.

The marked increase during the past year in the volume and amount of checks cleared through the Federal Reserve Banks shows that member banks are depending more and more upon the facilities afforded by the Federal Reserve Banks. The daily average number of items handled by the Federal Reserve Banks during the 30 days ending December 15, 1919, was 1,412,737, as compared with a daily average during the same period in 1918 of 912,752, and the daily average during the entire 12 months of the year 1919 was 1,110,791, against 612,731 during the year 1918. For the monthly period between November 16 and December 15, 1919, the daily average amount represented by the items handled by all Federal Reserve Banks was $631,650,320, as compared with $524,407,631 for the same period in 1918. The daily average value of items increased from about $190,000,000 in 1917 to $420,980,209 in 1918, and $524,960,916 in 1919, an increase of nearly 25 per cent during the year 1919 as compared with the year 1918.

It should be recalled that during the year 1918 the service charge of from 1 to 1½ cents per item previously imposed by Federal Reserve Banks to cover overhead and other costs of collection was abolished and the growth of the collection business during that year was due to a great extent to this fact. Further growth during the year 1919 may be attributed to the larger use of the Federal Reserve collection system by member banks and to the greater effectiveness and value of the par collection system because of its approach toward universality.

The following table shows the daily average number and the amount of items collected by the 12 Federal Reserve Banks for each 30-day period from December 16, 1918, to December 15, 1919:

Daily average number and amount of items handled by the 12 Federal Reserve Banks, during each month from Dec. 16, 1918, to Dec. 15, 1919.

Month ending (1919).	Items drawn on banks in Federal Reserve city (daily average).		Items drawn on banks in district outside Federal Reserve city (daily average).		Items drawn on Treasurer of United States (daily average).	
	Number.	Amount.	Number.	Amount.	Number.	Amount.
Jan. 15	95,622	$221,889,946	635,080	$165,386,737	77,282	$37,753,800
Feb. 15	90,944	198,935,424	599,951	156,360,759	126,051	63,221,002
Mar. 15	109,083	168,567,377	640,346	171,714,589	114,563	46,746,505
Apr. 15	138,817	197,456,121	686,512	167,142,262	137,228	48,802,574
May 15	129,378	176,737,129	665,641	163,067,746	157,820	45,278,441
June 15	132,688	196,594,573	696,457	191,330,944	118,248	48,316,599
July 15	149,902	218,737,336	737,007	194,300,102	95,986	49,867,067
Aug. 15	139,678	194,733,618	731,680	176,612,134	83,659	57,868,769
Sept. 15	149,460	208,529,081	761,680	202,812,209	77,201	51,935,604
Oct. 15	164,761	235,072,612	824,862	223,417,562	93,437	45,272,641
Nov. 15	177,569	236,521,957	915,794	246,055,511	107,551	37,355,291
Dec. 15	182,347	251,531,229	975,095	254,594,746	88,071	36,506,264

Month ending (1919).	Items handled by entire Federal Reserve system (daily average excluding duplications).		Items doubly handled.			
			Drawn on banks in other districts (daily average).		Handled by both parent bank and branches (daily average).	
	Number.	Amount.	Number.	Amount.	Number.	Amount.
Jan. 15	807,984	$425,030,483	99,828	$64,079,660	13,662	$10,080.440
Feb. 15	816,946	418,517,185	89,972	58,431,530	12,807	11,036,400
Mar. 15	863,992	387,028,471	100,963	55,760,559	15,047	9,774,269
Apr. 15	962,557	413,400,957	101,329	59,610,264	16,958	9,029,805
May 15	952,839	385,083,316	95,541	57,858,264	15,798	7,613,957
June 15	947,393	436,242,116	99,349	61,906,814	18,260	11,626,331
July 15	982,895	462,904,505	104,997	66,672,048	19,061	10,502,207
Aug. 15	955,017	429,214,521	110,817	66,552,940	20,787	9,119,203
Sept. 15	988,341	463,276,894	107,279	66,883,891	21,959	10,984,785
Oct. 15	1,083,060	503,762,815	119,387	74,965,478	23,162	11,417,988
Nov. 15	1,200,914	519,932,757	129,399	78,178,485	27,594	12,683,739
Dec. 15	1,245,513	542,632,239	139,915	76,999,447	27,309	12,018,634

The table next following shows by Federal Reserve districts the number of banks remitting at par on January 1, 1920, and the number of nonmember banks not remitting at par, as compared with the number on January 1, 1919, together with the additions to the par list during the year 1919.

Federal Reserve Bank.	Number of banks remitting at par on Jan. 1, 1919.			Nonmember banks not remitting at par on Jan. 1, 1919.	Number of banks remitting at par on Jan. 1, 1920.			Nonmember banks not remitting at par on Jan. 1, 1920.	Net increase during year in number of nonmember banks on par list.
	Member banks.	Nonmember banks.	Total.		Member banks.	Nonmember banks.	Total.		
Boston	423	246	669	....	432	245	677	....	[1] 1
New York	723	339	1,062	....	753	318	1,071	....	[1] 21
Philadelphia	661	329	990	102	678	415	1,093	....	86
Cleveland	814	728	1,542	411	843	1,085	1,928	....	357
Richmond	565	351	916	1,156	585	485	1,070	995	134
Atlanta	426	209	635	1,345	426	355	781	1,219	146
Chicago	1,334	2,392	3,726	1,805	1,374	3,896	5,270	293	1,504
St. Louis	514	1,046	1,560	1,600	538	2,309	2,847	355	1,263
Minneapolis	867	1,169	2,036	1,743	920	1,879	2,799	1,025	710
Kansas City	994	2,200	3,194	979	1,038	3,346	4,384	....	1,146
Dallas	727	247	974	947	756	1,220	1,976	....	973
San Francisco	644	1,049	1,693	159	723	942	1,665	109	[1] 107
Total	8,692	10,305	18,997	10,247	9,066	16,495	25,561	3,996	6,190

[1] Decrease.

GOLD SETTLEMENT FUND.

There has been a continued and steady increase in the volume of business cleared through the gold settlement fund during the past year. This increase is due in part to the transfer of funds on account of the Treasury's fiscal operations, including transactions incident to the sale of certificates of indebtedness and to the flotation of the Victory loan and payment on account of income and excess-profits taxes. Heavy transfers have also been occasioned by seasonal demands for money throughout the country for the movement of crops and for industrial purposes, and the transactions have been increased in volume also because of the larger use by member banks of the clearing and collection facilities of the Federal Reserve System.

There has been no important change during the past year in the method of operating the gold settlement fund, which has been explained fully in previous reports. The facilities of the gold settlement fund clearing have been extended to all branches of Federal Reserve Banks which carry deposit accounts of member banks, thus simplifying the accounting between the head offices and the branch banks. The New Orleans branch of the Federal Reserve Bank of Atlanta, the Baltimore branch of the Federal Reserve Bank of Richmond, the Louisville, Memphis, and Little Rock branches of the Federal Reserve Bank of St. Louis, the Omaha and Denver branches of the Federal Reserve Bank of Kansas City, the El Paso and Houston branches of the Federal Reserve Bank of Dallas, and the Salt Lake City, Seattle, Spokane, and Portland branches of the Federal Reserve Bank of San Francisco are now settling direct. While this arrangement has added to the work of making the settlement in the office of the Federal Reserve Board, additional facilities have been provided so that the settlements are now effected more quickly for the 12 Federal Reserve Banks and 13 branches than when the settlements were made only between the 12 Federal Reserve Banks.

The gold settlement fund operations have been affected to a large extent during the year 1919 as during the two previous years by the operations of the Treasury. This is shown by the comparison of the volume of clearings and transfers handled through the gold settlement fund with the principal fiscal operations of the Treasury. During the first quarter of the year clearings and transfers through the fund averaged more than one billion dollars a week. The record figure of $1,345,521,000 was established during the week ending January 9. A large part of the volume of business handled through the fund during this period is accounted for by the movement of funds received by the Treasury from the sale of $4,952,400,000, of certificates issued in anticipation of the Victory loan. For the week ending March 20 combined clearings and transfers exceeded by more than $200,000,000 similar transactions for the previous week. This increase is accounted for by the movement of funds incident to the payment of the first installment of the income and excess-profits taxes to the Government on March 15, which amounted to more than $1,000,000,000. Another large increase is noted for the week of May 22, which is incident to the movement of funds in connection with the payment of the first installment on account of the subscriptions to the Victory loan. For the week ending June 19 a new high record in the volume of business was established and combined clearings and transfers amounted to more than $1,696,907,000, an increase of more than $450,000,000 over the previous week's figures. This is accounted for by the large movement of funds incident to the second installment payment of the income and excess profits taxes due on June 15. These figures were exceeded, however, during the week ending September 18, the combined clearings and transfers for the week aggregating $1,729,000,000. This amount was again exceeded the following week, when the total transfers and clearings through the fund amounted to more than $1,940,000,000. The large volume of transactions during this period is accounted for by the payment of funds in connection with the third installment of income and excess profits taxes on September 15 and the unusually heavy movement of Government funds in connection with the redemption of Treasury certificates of indebtedness outstanding. During the last quarter of the year the combined clearings and transfers have averaged well above $1,500,000,000 weekly, due to continued heavy movements of funds by the Government and to large transfers for account of member banks.

Combined clearings and transfers through the fund during the year 1919 aggregate $73,984,252,000, as compared with $50,251,-592,000 in 1918, $27,154,704,000 in 1917, $5,533,966,000 in 1916, and $1,052,649,000 in 1915, making a grand total of $157,977,163,000 since the operation of the fund was begun on May 20, 1915.

When it is considered that these enormous transfers are made almost instantaneously by means of the leased wire system without involving the physical movement of a dollar, it will be seen that the arrangement has been of incalculable value to the Government, the banks, and the public. The total expense of operation, including the entire cost of the leased wires and salaries of accountants, was approximately $250,000. This represents the basic cost of effecting the domestic exchanges between the several Federal Reserve districts. A charge of 10 cents per $100, if generally imposed, would have involved an expense to the commerce of the country of $73,984,252.

FEDERAL RESERVE BANK NOTES.

On May 6, 1919, the Secretary of the Treasury announced that no further sales of silver under the act of April 23, 1918, generally known as the Pittman Act, except to the Director of the Mint, were contemplated. This act, which was reviewed in the last annual report of the Board, provides that in order to prevent contraction of currency, the Federal Reserve Board is authorized to permit, or require Federal Reserve Banks to issue Federal Reserve bank notes in any denomination, including denominations of $1 and $2, in an aggregate amount not to exceed the amount of standard silver dollars melted or broken up, upon depositing with the Treasurer of the United States, as security for the bank notes issued, United States certificates of indebtedness, or United States one-year gold notes. The total amount of standard silver dollars melted or broken up under the provisions of this act up to May 6, 1919, the date of final transaction, was $260,121,554, which, therefore, is the total amount of Federal Reserve bank notes which can be issued by the Federal Reserve Banks under the provisions of the so-called Pittman Act without melting more silver dollars.

Up to December 31, 1919, $259,375,000 of Federal Reserve bank notes had been issued by the Federal Reserve Banks under the provisions of the act, principally in denominations of $1 and $2, as shown by the following table:

Statement showing Federal Reserve bank notes, by denominations, issued to Federal Reserve Banks under the provisions of the "Pittman Act" up to and including Dec. 31, 1919.

Bank.	$1	$2	$5	$10	Total.
Boston	$12,788,000	$6,728,000	$1,920,000		$21,436,000
New York	33,944,000	13,272,000	10,620,000	$1,440,000	59,276,000
Philadelphia	19,196,000	4,664,000	6,420,000		30,280,000
Cleveland	13,900,000	4,080,000	5,319,000		23,299,000
Richmond	10,524,000	1,736,000			12,260,000
Atlanta	12,388,000	1,656,000	1,620,000		15,664,000
Chicago	27,608,000	7,344,000	3,700,000	960,000	39,612,000
St. Louis	9,056,000	2,512,000	4,500,000	1,000,000	17,068,000
Minneapolis	6,012,000	1,648,000	820,000		8,480,000
Kansas City	6,688,000	1,792,000	4,340,000		12,820,000
Dallas	6,432,000	1,368,000	500,000		8,300,000
San Francisco	8,076,000	2,304,000	500,000		10,880,000
Total	166,612,000	49,104,000	40,259,000	3,400,000	259,375,000

Section 6 of the so-called Pittman Act provides that as and when standard silver dollars shall be coined out of bullion purchased under authority of this act the Federal Reserve Banks shall be required by the Federal Reserve Board to retire Federal Reserve bank notes issued under section 5 of the act, if then outstanding, in an amount equal to the amount of standard silver dollars so coined, and the Secretary of the Treasury shall pay off and cancel United States certificates of indebtedness deposited as security for the bank notes so retired. As no bullion had been purchased by the Secretary of the Treasury on August 20, 1919, which was the date when the first certificates deposited under the provisions of this act as security for Federal Reserve bank notes matured, the Secretary of the Treasury advised the Federal Reserve Banks that the one-year Treasury certificates of indebtedness which had been purchased to secure their bank-note circulation would be extended for one year from that date and that all subsequent issues of certificates of indebtedness held by the Federal Reserve Banks under the provisions of this act to secure their bank notes would be extended for one year from date of maturity until further notice by the Secretary of the Treasury.

REGULATION AND CONTROL OF FOREIGN EXCHANGE.

During the first half of the year the restrictions which had been imposed on foreign exchange operations during the war, under the authority vested in the Secretary of the Treasury and the Federal Reserve Board by the Executive order of January 26, 1918, were removed as rapidly as was consistent with the best interests of the United States. Remittances were authorized to countries to which they had formerly been prohibited, and, wherever possible, "dealers" were allowed entire freedom in consummating exchange transactions which had previously required the approval of the Division of Foreign Exchange.

By the 1st of June most of the restrictions on foreign exchange transactions had been removed, and further statistical reports were not required from "dealers" after June 25. These reports disclose that from February 20, 1918, when the Executive order went into effect, to June 25, 1919, the total exchange from all sources on all countries of the world purchased by American "dealers" was $11,769,942,317, while the total amount sold during that period was $11,747,071,165. The total purchases and sales of demand and cable exchange between "dealers" in the United States for the same period were $9,980,894,404, of which $6,882,707,401, or approximately 69 per cent, were for exchange on Great Britain. In addition to these figures, the statement of the arbitrage operations also shows the important position in world finance held by Great Britain.

Exchange on Great Britain was sold in the United States by foreign holders from February 20, 1918, to June 25, 1919, in an aggregate amount of $927,664,000, and exchange on Great Britain was purchased from American "dealers" for foreign account to a total of $904,693,000. Of these amounts residents of the United States bought from British banks sterling to the equivalent of $540,020,000, while we sold to British banks the equivalent of $232,758,000 in sterling bills. The total arbitrage transactions of American "dealers" for this period were as follows:

Foreign exchange purchased from other countries by the United States	$1,606,710,000
Foreign exchange sold to other countries by the United States	1,296,454,000

During the period under discussion the total debits and credits to dollar accounts in the United States of European allied countries were $39,949,417,757, of European countries other than our Allies $5,498,186,496, of Asia $4,310,229,078, and South America $3,230,701,836. Purchases of securities in this country for foreign account for the same period were made to the value of $777,031,000, while sales here for foreign account aggregated $701,367,000. Securities held in this country for foreign account at the close of business June 25, 1919, amounted to $1,990,808,000, while securities held abroad for American account on the same date were $112,982,000.

EXCHANGE ON CENTRAL EUROPE.

On April 22 the Division of Foreign Exchange prohibited "dealers" from purchasing exchange, except from the American Relief Administration, upon any of the following countries: Finland, Czecho-Slovakia, Jugo-Slavia, Roumania, Poland, German Austria, Serbia, Bulgaria, and Turkey.

On April 30 Germany was added to this list by virtue of a license issued by the War Trade Board. This regulation was issued for the purpose of enabling the American Relief Administration to make use of such foreign currencies in the countries concerned as were received by it for food being shipped and to employ the dollar equivalent in the purchase of food in the United States for shipment to those countries, and was of great service in getting food into those territories. The arrangement continued in effect until June 30, on which date the American Relief Administration went out of existence.

The President issued an order on June 26, 1919, which revoked and canceled all previous proclamations prohibiting the exportation of coin, bullion, and currency and controlling transactions in foreign exchange and the power and authority for those purposes vested in the Secretary of the Treasury and in the Federal Reserve Board, and all orders, rules, and regulations issued or prescribed in connection therewith, except that such proclamations, orders, rules and regulations were continued in force and effect in so far as they were necessary to enable the Secretary of the Treasury and the Federal Reserve Board effectively to control: (1) All exportations of coin, bullion, and currency to that part of Russia now (then) under the control of the so-called Bolshevik government, (2) any and all dealings or exchange transactions in Russian rubles, (3) the transfer of credit or exchange transactions with that part of Russia now (then) under the control of the so-called Bolshevik government, (4) any and all transfers of credit or exchange transactions with territories in respect of which such transactions were then permitted only through the American Relief Administration. On August 12 the Federal Reserve Board announced the issue of a general license permitting the exportation from the United States of Russian rubles, provided that notice of exportation be given to the Customs Division of the Treasury and to the Division of Foreign Exchange of the Federal Reserve Board. As the War Trade Board section of the Department of State issued on July 14 a general enemy trade license opening Germany to trade and communication and took similar action with regard to Hungary on September 2, all restrictions have been removed from the exportation of coin, bullion, and currency, and from transactions in foreign exchange, except as to (1) transactions with or for persons in that part of Russia now under the control of the so-called Bolshevik government, and (2) the importation of or exchange transactions in Russian rubles.

Continued and insistent demand for silver in China and the Orient generally led to a gradual increase in the price of silver, which on November 25, 1919, sold as high as $1.3875 per ounce. The bullion value of the silver content of the standard silver dollar is equal to $1 when silver sells at $1.2929 per fine ounce. The bullion value of the silver content of our subsidiary coinage is equal to its face value when silver sells at $1.38. It is evident, therefore, that when silver rises appreciably above $1.29 per ounce, our standard silver dollars can be exported at a profit, and that should silver remain for any length of time above $1.38 our subsidiary silver coinage would be subject to export. Standard silver dollars must, of course, be delivered on presentation for redemption of silver certificates, which are in effect trust receipts calling for the delivery of a specified number of standard silver dollars. Apart from silver so held, however, there is a considerable number of standard silver dollars free in the Treasury. In order to protect our subsidiary coinage from export it was deemed advisable to utilize the standard silver dollars free in the Treasury in order, so far as possible, so to control the rates of exchange with silver standard countries as not to permit the export of our subsidiary silver coinage to become profitable. The Board, in cooperation with the Treasury Department, accordingly arranged with American banks having their own branches in the

Orient, and included in the arrangement all American banks so situated, whereby these banks under the direction of the Division of Foreign Exchange of the Federal Reserve Board, will be enabled to utilize such standard silver dollars in meeting Oriental demands. This arrangement was announced by the Board on December 6, 1919, in a statement reading as follows:

Announcement was made to-day that under arrangements made between the Treasury and the Federal Reserve Board, standard silver dollars that are free in the Treasury will until further notice be delivered against other forms of money to the Division of Foreign Exchange of the Federal Reserve Board, which will, through the Federal Reserve Bank of New York, cooperating with the branches of American banks in the Orient, employ such dollars in regulating our exchanges with silver-standard countries.

This arrangement does not, of course, affect the redemption of outstanding silver certificates in standard silver dollars.

EXPORTS OF COIN, BULLION, AND CURRENCY.

The report of the Board for the year ended December 31, 1918, contained a complete statement of the operation of the gold export committee up to that date.

On May 6, 1919, the Board announced that thereafter licenses for the export of silver bullion or silver coin of foreign mintage would be granted freely and without condition. This was followed on June 9, 1919, by the announcement that, with the approval of the President, the control previously exercised over transactions in foreign exchange and over the exportation of coin, bullion, and currency would be terminated except as to the importation or exportation of ruble notes or exchange transactions with that part of Russia under the control of the so-called Bolshevik government, and except as to exchange transactions with territories with which such transactions were at that time permitted only through the American Relief Administration. At the same time it was announced that until formal action was taken by the President, applications for the export of gold would, like applications for the export of silver, be granted freely, irrespective of amount or destination except as above stated, and that during that interim licenses required to consummate specific transactions in foreign exchange would be granted freely with the exceptions indicated above.

The President's order of June 26, 1919, removed all restrictions upon transfers of credit and exchange transactions and exports of coin, bullion, and currency except as to those parts of Russia controlled by the so-called Bolshevik government.

On August 12, the Board announced the issuance of a general license permitting the exportation from the United States of Russian rubles, provided that notice of such exportation be given to the Customs Division of the Treasury and to the Board's Division of Foreign Exchange. With these exceptions, there is now no control over the export of coin, bullion or currency.

The following table shows the amounts represented by licenses issued by the Board from September 7, 1917, to June 7, 1919, for exports from the United States of coin, bullion, and currency, as well as the countries to which shipments were authorized. Approximately 1,142 licenses were issued for the shipment of gold, 1,500 licenses for the shipment of silver, and 1,817 licenses for the shipment of currency other than United States gold and silver certificates. There were disapproved 775 applications of all classes.

Amounts represented by licenses granted by the Federal Reserve Board from Sept. 7, 1917, to June 7, 1919, covering exports from the United States of coin, bullion and currency.

	Gold.	Silver.	United States currency.	Currency of the country to which exported.	Other currency.	Total.
North America:						
Canada	$32,639,277.87	$9,656,011.43	$3,900,946.42	$21,439,382.48	$674,059.48	$68,309,677.68
Mexico	48,033,946.96	9,924,964.99	23,969,947.58	1,394,090.66	51,445.81	83,374,396.00
West Indies	177,531.80	610,180.67	78,107,189.00	6,467.56	206,854.00	79,108,223.03
Total	80,850,756.63	20,191,157.09	105,978,083.00	22,839,940.70	932,359.29	230,792,296.71
Central America:						
Panama	2,007.38	94,000.00	2,021,000.00	....	33,250.00	2,150,257.38
Other points	6,586.35	497,066.00	3,349,910.00	98,175.00	238,019.10	4,189,756.45
Total	8,593.73	591,066.00	5,370,910.00	98,175.00	271,269.10	6,340,013.83
South America:						
Argentina	17,510,142.95	11,534.72	22,750.00	19,108.60	30,810.00	17,594,346.27
Bolivia	785,000.00	....	....	43.60	....	785,043.60
Brazil	1,142.50	2,745.00	65,000.00	1,321.00	....	70,208.50
Chile	15,553,902.35	....	....	4,886.70	....	15,558,789.05
Colombia	13,152,520.60	53,000.00	607,950.00	192.25	620,365.10	14,434,027.95
Equador	400.00	....	73,000.00	500,005.00	....	573,405.00
Peru	4,620,058.37	125,000.00	940,000.00	448,323.75	250.00	6,133,632.12
Uruguay	....	216,200.00	....	1,414.80	....	217,614.80
Venezuela	6,683,629.69	840,000.00	....	1,552.00	....	7,525,181.69
Other points	157,074.07	9,089.00	5,000.00	5,000.00	....	176,163.07
Total	58,463,870.53	1,257,568.72	1,713,700.00	981,847.70	651,425.10	63,068,412.05
Europe:						
Denmark	25.00	1,453,638.00	75,000.00	11,826.00	90,261.00	1,630,750.00
France	61,673.92	10,467,855.00	49,340,730.00	2,084,093.33	158,282.00	62,112,634.25
Great Britain	74,460.46	56,347,426.49	1,648,311.72	1,896,950.92	4,254,509.20	64,221,658.79
Holland	357.50	1,700,000.00	2,000.00	53,591.81	4,450.00	1,760,399.31
Italy	4,278.00	500,300.00	....	....	....	504,578.00
Norway	....	2,232,272.69	15,500.00	27,460.00	392,073.64	2,667,306.33
Portugal	....	10,000.00	....	438.00	....	10,438.00
Russia	5,723.00	52,959.14	1,657,000.00	102,142.50	500.00	1,818,324.64
Spain	4,455,294.00	500.00	200.00	280.00	....	4,456,274.00
Sweden	160.00	883,852.80	....	39,410.11	180,675.00	1,104,097.91
Switzerland	225.00	460,032.00	100.00	8,708.00	13,000.00	482,065.00
Other points	1,340.00	368,000.00	112,700.00	400,000.00	292,703.80	1,174,743.80
Total	4,603,536.88	74,476,836.12	52,851,541.72	4,624,900.67	5,386,454.64	141,943,270.03
Asia:						
China	197,717.10	62,150,467.90	15,686.00	2,630.20	563,391.52	62,929,892.72
India	3,888,272.00	338,704,003.35	....	810.00	2,786,025.52	345,379,110.87
Japan	1,344,789.70	500,000.00	60,500.00	101,535.43	598,790.00	2,605,615.13
Other points	357,962.50	4,328,179.76	55,100.00	61,500.00	31,250.00	4,833,992.26
Total	5,788,741.30	405,682,651.01	131,286.00	166,475.63	3,979,457.04	415,748,610.98
Africa	1,598.00	13,330.00	81.00	697.50	250.00	15,956.50
Australasia:						
Australia	20.00	2,167.50	5,650.00	45,802.87	10,815.88	64,456.25
Java	2,608,639.30	537,500.00	400.00	4,264.20	370,747.00	3,521,550.50
Philippines	....	....	....	....	....	....
Other points	1,220.00	3,727.00	728,985.00	150.00	1,025,022.00	1,759,104.00
Total	2,609,879.30	543,394.50	735,035.00	50,217.07	1,406,584.88	5,345,110.75
Grand total	152,326,976.37	502,756,003.44	166,780,636.72	28,762,254.27	12,627,800.05	863,253,670.85

Gold imports for the year just ended amounted to 76.5 millions compared with 62 millions for the calendar year 1918, while gold exports aggregated 368.2 millions, compared with 40.8 millions exported in 1918. Net gold exports for 1919 amounted to 291.7 millions, as against net imports of 21.1 millions the year before. The figures for 1919 are, however, exclusive of 173.4 millions of gold received from the Reichsbank for foodstuffs sold to the German Government. This gold is held at present in London with the exception of 42.1 millions which by arrangement have been delivered in London by the Federal Reserve Banks in place of gold that would otherwise have been withdrawn in the United States for export. Counting the 131.3 millions held on December 31 by the Bank of England for the Federal Reserve Banks as an offset against the net exports above shown, the net loss of gold through transfer abroad is reduced to 160.4 millions. Of the gold imports over three-fourths is credited to Canada, Hongkong, the United Kingdom, and Mexico, while of the gold exports 94.1 millions were consigned to Japan, and over 125 millions to the other Far Eastern countries, i. e., China, Hongkong, British India, Straits Settlements, and Dutch East Indies; 56.6 millions to Argentina, 33 millions to other South American countries, 29.8 millions to Spain, and 10.4 millions to Mexico.

Silver imports during 1919 amounted to 89.4 millions, compared with 71.4 millions in 1918, while silver exports during 1919 were about 239 millions compared with 252.8 millions the year before. By far the larger portion of the silver exported in 1919 was consigned to the Far East, British India being credited with 109.2 millions, China with 77.6 millions, and Hongkong with 10.2 millions. The three countries named account for over 80 per cent of the total value of silver shipped to foreign destinations during the past calendar year. Exports of silver to India, which constituted by far the larger portion of the total foreign silver shipments during 1918 and 1919 to September 10, have practically ceased since that date, and have been superseded by large gold shipments to that country during the latter part of the year. The recommendations of the committee now considering Indian currency problems are awaited with interest, as any change in Indian currency arrangements may have an important influence on the movement of money metals to that country.

The countries from which gold and silver were received by the United States and to which exports of these metals were made as well as the amounts in each instance, are shown in the following table:

Country.	Gold imports.	Gold exports.	Silver imports.	Silver exports.
Belgium	$831,002	$31,900	$1,797	
Denmark		2,002,666		$684,713
Finland				17,438
France		4,152,533	75,524	6,588,197
Gibraltar			2,400	
Greece	95,000			
Italy		454,925		
Netherlands		15,000		2,094,084
Norway				1,219,430
Portugal				1,950
Spain		29,778,000		228
Sweden		661		194,526
Switzerland		67,570		172,203
United Kingdom—England	4,055,739	2,091,066	61,746	15,635,386
Canada	44,487,390	5,706,428	7,171,469	7,854,378
Newfoundland	61		11	
Costa Rica	616,583		163,665	
Guatemala	29,267		8	5,900
Honduras	258,255	21,300	2,621,645	205,600
British Honduras		12,000	269,276	
Nicaragua	1,424,217	16,500	769,921	
Panama	3,401	1,390,000	89,273	363,250
Salvador	1,140,911	3,124,020	1,555,969	1,500
Mexico	4,464,140	10,357,619	63,303,437	1,926,433
Jamaica	1,947		4,639	
Trinidad	18,838	7,940	37	10,328
Other British West Indies			1,549	2,300
Cuba	9,593		82,837	161
Danish West Indies (Virgin Islands of U. S.)	525		1,105	
Dominican Republic		25,000		150,000
Dutch West Indies	5,200		300	
Argentina	102,721	56,560,000	64,433	3,867
Bolivia	2,582	2,500,000	132,785	
Brazil	26,200	525,000	2,155	2,498
Chile	233,837	100,000	1,927,324	
Colombia	556,572	5,268,620	271,274	2,000
Ecuador	379,911		13,670	
British Guiana	139,159	5,005	121	3,193
Dutch Guiana	20,144	19,795	265	5,063
Peru	814,583	3,383,369	8,862,537	
Uruguay		9,205,000		
Venezuela	381,981	12,052,220	2,521	850,000
China		39,109,769		77,583,367
Chosen (Korea)	1,714		3,328	
Hongkong	10,017,550	40,085,969	20,000	10,245,351
Dutch East Indies	3,851,075	7,365,111	1,773,584	
British India		34,300,666		109,180,718
Straits Settlements		4,209,667		
Japan		94,114,189		3,946,453
Russia (Asia)		23,000		52,759
New Zealand	1,354,578		1,566	
Philippine Islands	581,924	102,500	12,327	
British East Africa		240		
British South Africa	8,150		76,822	
British West Africa				17,777
Portuguese Africa	619,296		68,698	
Total	76,534,046	368,185,248	89,410,018	239,021,051

FOREIGN BRANCHES OF AMERICAN BANKS.

The operations of American banking corporations principally engaged in international or foreign banking have been extended during the past year and in addition to those to which reference was made in the Board's last annual report, the corporations named below have entered into the necessary agreements with the Federal Reserve Board to permit the purchase of their stock by national banks under the provisions of section 25 of the Federal Reserve Act.

The French American Banking corporation is incorporated under the laws of the State of New York. One-half of the stock of this corporation is owned by the Comptoir National D'Escompte of

Paris and the other half is divided equally between the First National Bank of Boston and the National Bank of Commerce in New York. The activities of this corporation are devoted more particularly to the development of trade relations between the United States and France. The Comptoir National D'Escompte has about 200 branches in France and also has branches in Great Britain, Spain and Belgium, and in other countries, besides affiliations with some of the French colonial banks.

The Park-Union Foreign Banking Corporation, which is owned jointly by the National Park Bank of New York and the Union Bank of Canada, is especially active in the development of trade between the United States and the Dominion of Canada and of their commerce with the Orient. It has established branches in Yokohama, Tokyo, Shanghai, Paris, San Francisco, and Seattle.

The Foreign Credit Corporation, the character of whose business is indicated by its title, is controlled by the Chase National Bank of New York.

The Shawmut Corporation was recently organized by the National Shawmut Bank of Boston. No foreign branches have been opened, but an office is maintained in New York City.

In the following table are given the names, capital and surplus, and resources of the domestic corporations principally engaged in foreign banking which have filed the necessary agreements with the Board and which number national banks among their stockholders.

Name of corporation.	Organized under laws of State of—	As of Dec. 31, 1919.				
		Capital and surplus.	Resources (head office).	Subsidiary or affiliated institutions.	Foreign branches.	Domestic branches.
American Foreign Banking Corporation, New York City.	New York	$4,575,000	$46,570,000		9	
Mercantile Bank of the Americas, New York City.	Connecticut	10,000,000	69,000,000	[1] 7	3	1
Asia Banking Corporation, New York City.	New York	5,100,000	22,100,000		8	
International Banking Corporation, New York City.	Connecticut	8,500,000	94,428,000		27	1
Park-Union Foreign Banking Corporation, New York City.	New York	2,250,000	12,698,000		4	2
French American Banking Corporation, New York City.	do	2,500,000	22,309,000			
Foreign Credit Corporation, New York City.	do	6,000,000	11,410,000			
First National Corporation, Boston, Mass.	Massachusetts	1,800,000	[2] 14,736,000			1
Shawmut Corporation, Boston, Mass.	do	2,280,000	23,444,000			1

[1] With 26 offices. [2] Includes figures for domestic branch.

It will be noted that these corporations are all organized under State laws. The Federal Reserve Board in two previous reports to Congress recommended that section 25 of the Federal Reserve Act be amended so as to provide for the Federal incorporation of associations solely engaged in international or foreign banking, which would operate under general supervision of the Federal Reserve Board and stock in which might be owned by national banks. This recommendation has been acted upon and provision is made for the Federal incorporation of corporations organized for the purpose of engaging in international or foreign banking and other international or foreign financial operations, as set forth in the act approved December 24, 1919, generally known as the Edge Act. This act contemplates the organization both of corporations to engage in foreign commercial business and of corporations to undertake long-time financing, and in connection therewith to issue securities to be sold to investors.

It is expected that some existing corporations and others to be organized will avail themselves of the privileges of this act.

The act approved September 17, 1919, amended section 25 of the Federal Reserve Act by permitting the investment by any national bank until January 1, 1921, without regard to the amount of its capital stock and surplus, of not more than 5 per cent of its paid-in capital and surplus in the capital stock of corporations organized under the laws of the United States or any State principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares and merchandise from the United States or any of its dependencies or insular possessions to any foreign country. Provision is made also in the so-called Edge Act for the Federal incorporation of financial institutions of this character.

The Federal Reserve Board is charged generally with the same duties and responsibilities as to the organization, supervision and liquidation of corporations organized under the new law as those which devolve upon the Comptroller of the Currency in the case of national banks, and it is now engaged in the preparation of rules and regulations governing their operation, as prescribed by the act. The new law authorizes all national banks to invest to the limited extent set forth above in the stock of corporations organized to facilitate export transactions and, through the instrumentality of the corporations, to cooperate with exporters, producers, and manufacturers in extending their connections abroad. Corporations contemplated by the so-called Edge Act will be permitted under the supervision of the Federal Reserve Board to invest in foreign securities of various kinds and to offer their own obligations specifically secured by their foreign collateral to American investors. They will therefore be the means of utilizing private capital in the financing of exports on long credits, not by the commercial banks but through the investment market. More extended reference to the Edge Act is made below under the caption "Law Division."

The only national banks operating branches abroad are the National City Bank of New York and the First National Bank of Boston.

MEETINGS OF THE FEDERAL ADVISORY COUNCIL.

The Federal Advisory Council has held during the year four meetings in Washington as required by section 13 of the Federal Reserve Act, and in addition there was a conference between the executive committee of the Council and the Federal Reserve Board on June 20, 1919.

The report of the proceedings of the Council and its recommendations will be found in the appendix.

The following statement was issued by the Board on June 20, 1919:

> The Federal Reserve Board had to-day a conference with the executive committee of the Federal Advisory Council (Mr. James B. Forgan, of Chicago, Mr. L. L. Rue, of Philadelphia. Mr. Daniel G. Wing, of Boston, and Mr. W. S. Rowe, of Cincinnati) to consider problems relating to the financing of the foreign trade of the United States.
>
> There was discussion as to what unusual features attached to this trade and the bearing thereof upon the American banking situation. The Board and the committee of the Council were in entire accord that the matter of providing long-term advances for Europe presented an investment rather than a banking problem and that the necessary funds must therefore come from the investment market. It was, however, the opinion of the conference that as a step toward supporting plans for the financing of our foreign trade it would be well to add a new paragraph to section 25 of the Federal Reserve Act so as to permit national banks until January 1, 1921, without regard to the amount of their capital and surplus, to invest not exceeding in the aggregate 5 per cent of their capital and surplus in the stock of one or more corporations principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods from the United States. The Board voted to recommend this legislation to Congress.

LAW DIVISION.

The general character and scope of the functions of the Law Division were set forth in the Board's last annual report. Although it is unnecessary to restate these activities in detail certain features of the current work of the Law Division should be mentioned.

State laws.—Under the terms of the Federal Reserve Act, State banks and trust companies which become members of the Federal Reserve System retain their full charter and statutory rights and, subject to the provisions of the Federal Reserve Act and the regulations of the Board, are permitted to continue the exercise of all corporate powers granted to them by the States in which they were organized. Because of the lack of uniformity in the laws of the 48 States the Law Division is frequently called upon to analyze those laws in so far as they affect the operations of banks and trust companies and to render opinions defining their scope and effect in various cases presented to the Board for consideration. The Law Division has had the very helpful cooperation of the counsel for the several Federal Reserve Banks in the preparation of those analyses of the State laws which have from time to time been published in the FEDERAL RESERVE BULLETIN. During the past year the general enabling act prepared by the Law Division and recommended by the American Bankers' Association for enactment by State legislatures has been adopted in slightly different forms by the legislatures of seven States. The purpose of this act is to aid in effecting the standardization of State banking laws and a coordination of Federal and State banking powers. A number of State legislatures other than the seven above referred to have enacted laws which include the substance of some of the recommendations embodied in the enabling act.

The Law Division has also endeavored to keep up to date its file of State laws affecting banking and other related subjects. These laws and opinions of State officials or State courts construing them have from time to time been published in the BULLETIN.

Membership of State banks and trust companies.—During the past year the Board has approved 280 applications of State banks and trust companies for membership in the Federal Reserve System. Each of these applications is first submitted to the Law Division for its consideration and report. This involves an examination of the application itself and the various exhibits accompanying it in order to determine whether the bank is technically eligible for membership and whether under the terms of the State law it possesses any unusual dowers which should be restricted by the Board in its conditions of membership.

Trust powers of national banks.—Under the terms of section 11 (*k*) of the Federal Reserve Act the Board is authorized to permit national banks to exercise trust powers when not in contravention of State or local law. During the past year 509 national banks have been granted trust permits under the terms of this section (372 of these were original applications and the remaining 137 were supplementary). The application of each of these banks has been examined by the Law Division. As a result of the amendment of September 26, 1918, making certain State laws applicable to the exercise of trust powers by national banks, many intricate questions of law and policy have arisen in connection with the approval of applications submitted to the Board under the terms of section 11 (*k*). These questions are referred to the Law Division for its report before final action is taken by the Board. A new set of regulations governing the exercise of trust powers by national banks necessitated by the amendment to section 11 (*k*) above referred to, has been prepared and issued by the Board.

Clayton Antitrust Act.—Since the issue of its last report, the Board has received and considered 281 applications presented to it under the so-called Kern amendment to section 8 of the Clayton Antitrust Act, relating to interlocking bank directorates. These applications have in each case been investigated and reported upon by the Law Division. In addition to those applications which are received by the Board the Law Division has also investigated many cases of alleged violations of the law to which its attention has been called by reports of national bank examiners. In such cases the directors involved have been requested either to resign from the banks coming within the inhibitions of the Clayton Act or to file a formal application with the Board for its consent to continue to serve on the banks concerned under the provisions of the Kern amendment.

Opinions and rulings.—The Law Division is required constantly to pass upon questions and to prepare memoranda involving the interpretation of the Federal Reserve Act, the National Bank Act, the Negotiable Instruments Law, and the laws of the several States relating to the operations of national banks and State banks or trust companies which have become members of the Federal Reserve System and also to draft rulings defining the proper application of the law or the regulations of the Board to specific cases arising in the administration of the Federal Reserve Banks or in the operations of their member banks. Such of these opinions or rulings as are of general interest to member banks are published each month in the BULLETIN. The Law Division has recently undertaken the preparation of a codification of all the opinions and rulings of the Board which are now in force. It is believed that this codification, when complete, will be of great assistance in the administration of the reserve banks and their members.

AMENDMENTS TO THE FEDERAL RESERVE ACT.

The Federal Reserve Act has been amended three times during the past year. Each of these amendments, which will be discussed in order, was recommended by the Federal Reserve Board, and the Law Division, under the directions of the Board, assisted in the preparation of each of the bills presented.

By an act approved March 3, 1919, sections 7, 10, and 11 of the Federal Reserve Act and section 5172 of the Revised Statutes were amended as follows: Section 7 was amended so as to provide that the net earnings of the Federal Reserve Banks shall be paid into a surplus fund until that fund amounts to 100 per cent of the subscribed capital and thereafter 10 per cent of the net earnings shall be paid into the surplus fund and the balance shall be paid to the United States as a franchise tax. Previously the maximum surplus provided for was 40 per cent of the paid-in capital. That part of section 10 which made members of the Board ineligible to hold office, position, or employment in a member bank during the time they are in office and for two years thereafter, was amended so as to provide in substance that no appointive member shall be thus ineligible after completing his full term of office.

Section 11 was amended by the substitution of a new subsection (*m*). This amendment authorizes the Federal Reserve Board upon the affirmative vote of not less than five of its members, to permit Federal Reserve Banks to discount for any member bank the paper bearing the signature or indorsement of any one borrower in excess of the amount theretofore permitted by sections 9 and 13 of the Federal Reserve Act, but in no case to exceed 20 per cent of the member bank's capital and surplus. It is provided, however, that all of the paper discounted for any member bank in excess of the amount theretofore permitted by law shall be secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States. This amendment, which is designed to broaden the discount powers of the Federal Reserve Banks to correspond to the lending power of the national banks as enlarged by the act of September 24, 1918, lapses after December 31, 1920.

Section 5172 of the Revised Statutes also was amended by the act approved March 3, 1919, so as to authorize the issue of national-bank notes in denominations of $500 and $1,000 and to permit these notes to be attested by the written or engraved signatures of the president or vice president and cashier of the national bank which issues them. In view of the fact that Federal Reserve Banks are permitted under the terms of section 18 of the Federal Reserve Act to issue Federal Reserve bank notes under the same terms and conditions that are applicable to the issue of national bank notes, this amendment relates to Federal Reserve Banks as well as to national banks. By permitting the signatures of the officers of the issuing bank to be engraved on the notes before they are delivered much inconvenience and expense incident to the issue of the notes will be avoided.

By an act approved September 17, 1919, section 25 of the Federal Reserve Act was amended so as to permit any national banking association, until January 1, 1921, without regard to the amount of its capital and surplus, to apply to the Federal Reserve Board for its permission to invest an amount not exceeding in the aggregate 5 per cent of its capital and surplus in the stock of one or more corporations chartered or incorporated under the laws of the United States or of any State thereof and principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise. Before this amendment any national banking association possessing a capital and surplus of $1,000,000 was permitted to invest in the stock of corporations principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States.

There was some doubt, however, whether the law would authorize a national bank to invest in a corporation engaged in financial operations other than those strictly defined as commercial banking operations. Under the terms of this amendment a national bank, regardless of the amount of its capital and surplus, may invest in the stock of a corporation principally engaged in a foreign investment business, whether organized under State or Federal law. This 5 per cent limit was changed by the enactment of section 25(*a*), discussed below, so far as corporations organized under Federal law are concerned.

By an act approved December 24, 1919, commonly known as the Edge Act, section 25 of the Federal Reserve Act was amended by the addition of a subsection (*a*). This amendment provides for the Federal incorporation of institutions for the purpose of engaging in international or foreign banking or in other international or foreign financial operations. By the enactment of this amendment Congress has provided for the Federal incorporation of that character of institutions in which it had previously authorized national banks to invest. Without the enactment of this Federal incorporation law, however, national banks could organize their foreign banking corporations only under State laws, although it was apparently contemplated in section 25 as amended on September 7, 1916, that they should be permitted to invest in the stock of corporations organized under either Federal or State law. Thus by the amendment approved December 24, 1919, Congress has completed the machinery designed in its earlier acts, and national banks may now under the terms of section 25(*a*) of the Federal Reserve Act, regardless of the amount of their capital and surplus, invest in the stock of a corporation organized under Federal law, either for the purpose of engaging in international or foreign banking or for the purpose of engaging in other international or foreign financial operations. It is provided under section 25(*a*) that no national bank may invest in the aggregate more than 10 per cent of its capital and surplus in the stock of corporations doing a foreign business. It should be noted, however, that although the amendment to section 25, approved September 17, 1919, heretofore discussed, limits the aggregate amount of the investments of any one national bank in the stock of corporations engaging in foreign financial operations (as distinct from foreign banking operations) to 5 per cent of its capital and surplus, nevertheless under the terms of section 25(*a*) a national bank may invest as much as 10 per cent of its capital and surplus in any corporation organized under that section, even though engaged in the foreign investment business, provided that the aggregate of all investments made by that national bank under the terms of section 25 and section 25(*a*) do not exceed 10 per cent of its capital and surplus. In effect, this permits a national bank to make a larger investment in a corporation organized under the terms of section 25(*a*) for the purpose of engaging in foreign financial operations than in a similar corporation organized under State law. It is contemplated under the terms of the law that any corporation in which a national bank makes an investment and any corporation organized under the provisions of section 25(*a*), whether or not a national bank is an investor in its stock, shall operate under rules and regulations to be prescribed by the Federal Reserve Board. A draft of these regulations is now in preparation.

Other amendments.—There have been certain other acts of Congress enacted during the past year, which, though not amending the Federal Reserve Act, are of general interest to banks. One of these is an act approved December 24, 1919, which was recommended by the Federal Reserve Board and which provides that gold certificates of the United States, payable to bearer on demand, shall be a legal tender in payment of all debts and dues, public and private. The purpose of this legislation was to give to gold certificates the same legal-tender qualities as attach to gold which they represent and for which in substance they are a warehouse receipt issued by the Government and payable to bearer on demand.

Another act of interest to member banks is the act approved October 22, 1919, amending section 5200 of the Revised Statutes so as to permit a national bank to lend to any one borrower in excess of 10 per cent of its capital and surplus, but not to exceed 25 per cent, provided that the loans over and above 10 per cent are represented by notes secured by shipping documents, warehouse receipts, or other such documents conveying or securing title covering readily marketable, nonperishable staples, including live stock; and provided further, that the actual market value of the property securing the obligation is not at any time less than 115 per cent of the face amount of the loan; and provided further, that the property is fully covered by insurance. It is specified in the act, however, that this privilege of lending in excess of 10 per cent of the bank's capital and surplus upon notes secured in the manner described, shall not apply to any one borrower for more than six months in any consecutive 12 months.

The same act amended section 5202 of the Revised Statutes by excepting from the limitations upon the amount for which any national bank may be liable at any one time those "liabilities created by the indorsement of accepted bills of exchange payable abroad, actually owned by the indorsing bank and discounted at home or abroad." This amendment does not increase the lending power of the Federal Reserve Banks.

FIDUCIARY POWERS.

Applications for permission to exercise fiduciary powers under the Federal Reserve Act as amended September 26, 1918, continue to be received and passed upon by the Board. It is the practice of the Board in each instance, before granting permission for the exercise of fiduciary powers, to satisfy itself that the bank making application is in good condition and standing and its management safe and capable.

During the year 372 original and 137 supplemental applications have been approved. The total number of banks now holding permits is 1,074, a list of which, with the powers granted, appears in the appendix.

BOARD'S ORGANIZATION, STAFF, AND EXPENDITURES.

The general readjustment in practically all branches of commercial and governmental activities during the past year has been reflected n an unusual number of changes in the organization and staff of the Board.

Early in the year Mr. Strauss, vice governor of the Board, spent about two months in France in an advisory capacity for the Treasury Department in connection with financial questions coming up for discussion at the peace conference. In February Mr. L. C. Adelson, assistant secretary of the Board, resigned to become deputy governor of the Federal Reserve Bank of Atlanta. On March 1 Mr. Geo. L. Harrison, formerly assistant counsel, was appointed general counsel of the Board to succeed Mr. M. C. Elliott, who since the organization of the Board had served as its principal counsel and who resigned to resume the general practice of law, although continuing temporarily as consulting counsel of the Board. During the summer the work of the Division of Foreign Exchange, which had its headquarters in New York, was practically completed, Mr. F. I. Kent, director, resigned, and the employees of the division were released. Mr. J. E. Crane became acting director in charge of the remaining activities of that division.

Mr. J. A. Broderick, who had been chief examiner and chief of the division of audit and examination since the organization of the Board in 1914, and also secretary of the Board since September, 1918, tendered his resignation to become effective September 1, 1919. At this time a reassignment of duties was decided upon by the Board and the following appointments were made: Mr. W. T. Chapman, secretary; Mr. R. G. Emerson, assistant secretary; Mr. W. W. Hoxton, executive secretary; and Mr. W. W. Paddock, chief of the Division of Operations and Examination.

Mr. Henry A. Moehlenpah was appointed a member of the Board by the President, and took office on November 10, to fill the unexpired term of Mr. F. A. Delano, whose resignation to enter military service abroad was noted in the last annual report.

The total cost of conducting the work of the Board during the year 1919, including salaries of members, expenses involved in printing and circulating the BULLETIN, and the cost of operating the Division of Foreign Exchange was $558,560.61. During the year two assessments were levied against the Federal Reserve Banks aggregating $594,668.63, or approximately 412 thousandths of 1 per cent of their average paid-in capital and surplus for the year.

Further details relating to the operations of the Federal Reserve Board, and the annual reports of the Federal Reserve Agents, appear as exhibits in the appendix.

PERMANENT QUARTERS FOR THE BOARD AND ITS STAFF.

Ever since its organization the Federal Reserve Board, although it is not a Treasury bureau but an independent establishment, has had its headquarters in the Treasury Building, the Secretary of the Treasury being authorized by a clause in section 10 of the Federal Reserve Act "to assign offices in the Department of the Treasury for the use of the Federal Reserve Board." There is nothing in the act, however, that makes such assignment obligatory upon the Secretary of the Treasury or that requires the Board to be located in the Treasury Building. Members of the Board have been provided with rooms for their own use, and during the first two years of operation quarters in the Treasury Building were allotted to the Board for the use of its entire staff. The development of the Federal Reserve System and the continuous increase in the volume of the Board's work have made new divisions necessary. The number of the Board's officers and employees has increased from 66 on January 1, 1916, to 324 on December 31, 1919.

Owing to the great expansion of its own business the Treasury Department has been obliged to remove many of its bureaus from the Treasury Building. While the Treasury authorities have shown a most accommodating spirit, it has been impossible for them to allot to the Board anything like the space required for the proper organization and efficient conduct of its work. Consequently arrangements had to be made to take care of some of the Board's divisions outside of the Treasury Building, so that there are now located in that building only the offices of the Board members, their secretaries and stenographers, a small room for meetings of the Board, which is entirely inadequate and unsuitable for the frequent hearings and conferences which must be held, the office of the Secretary of the Board, the office of the General Counsel, and the Gold Settlement Division, which is located on the floor above the other rooms used by the Board. The important Division of Reports and Statistics is located in the Southern Building, two squares from the Treasury, in rooms held without lease for an indeterminate period. The Division of Operations and Examination is located in the National Metropolitan Bank Building, as is also the Board's assembly room where are held its conferences with the Federal Advisory Council, the Governors of the Federal Reserve Banks, and with the Federal Reserve Agents, and also its public hearings. The Division of Analysis and Research is in New York City.

The physical separation of the Board's working force in this manner militates against good organization and efficient operation. The inconvenience occasioned has been accepted cheerfully as unavoidable because of congested conditions. The time has come, however, when provision should be made for the housing of the Board and its employees under one roof. In making arrangements consideration should be given to the relations of one division to another in order that the business may be conducted with the maximum smoothness, promptness, and efficiency. Each division should have sufficient space to allow for continued growth and for the installation of necessary modern office equipment, including an adequate filing system and essential vault facilities. Quarters suitable for the Board's purposes can not be secured by lease, and while amounts required for the payment of rentals can be included in the assessments which the Board is authorized to levy semiannually upon the Federal Reserve Banks, it appears that specific authority is necessary to enable the Board to levy an assessment upon the banks for the funds required for the construction of a building suitable for its use.

The Board recommends, therefore, that Congress authorize the Board to levy an assessment upon the Federal Reserve Banks or the funds necessary to provide adequate and permanent quarters. The acquisition of a site and the preparation of plans will require a considerable time. The Board would not, however, expect to begin construction work until conditions for building are more favorable.

BRANCHES OF NATIONAL BANKS.

The Board has on several occasions recommended to Congress that the Federal Reserve Act be amended so as to permit national banks under certain conditions to establish branches within the corporate limits of the cities in which they are located. Under the present law national banks can not afford the same facilities to the public as are given by State banks having branches, except in cases where State banks and trust companies operating branches have merged with national banks, when existing branches may be continued by the national banks. The Senate has passed a bill authorizing national banks located in cities of not less than 500,000 inhabitants and having a capital and surplus of $1,000,000 or more to establish branches not exceeding 10 in number within the corporate limits of the cities in which they are located, provided the laws of the State extend a similar privilege to banking institutions operating under State charters. While the Board would prefer to have this privilege extended to national banks in cities of not less than 100,000 inhabitants, or, failing that, have the population limit raised to 200,000, it wishes to point out that the limit fixed in the Senate bill does not affect the principle involved, and it therefore respectfully recommends once more that national banks be permitted to establish branches in the cities in which they are located under such limitations as in the wisdom of Congress may be deemed desirable.

FEDERAL RESERVE NOTES AND CREDIT EXPANSION.

On December 27, 1918, Federal Reserve notes in actual circulation amounted to $2,685,244,000. As the result of the return of notes to the banks after the seasonal demands for currency had slackened, the volume in circulation had been reduced by February 7, 1919, to $2,454,165,000. Notwithstanding the expansion of credit incident to the flotation of the Victory loan in May, there was no appreciable increase in the volume of Federal Reserve notes until the crop movement became general in August. The increase in note circulation between February 7 and August 1 was only $52,655,000. The peak of Federal Reserve note circulation was reached on December 26, 1919, on which date the amount in actual circulation was $3,057,646,000, the increase for the year, as compared with the high point attained by Federal Reserve note circulation in the year 1918, having been $372,402,000. Indeed the increase in Federal Reserve note circulation must be regarded as moderate and as an incident of the general credit expansion and as having clearly been occasioned by crop moving and other seasonal needs—among which the requirements of the extraordinary holiday trade of the year just closed held an important place. Moreover this expansion of Federal Reserve note circulation was accompanied by a reduction of $155,542,000 in other money in circulation outside the Treasury and the Federal Reserve Banks, of which about 140 millions represents the amount of gold withdrawn from use, presumably for shipment to foreign countries.

A general idea of the degree of expansion in banking operations during the last four months of the year 1919 as compared with the same period in the year 1918 may be gained from a comparison of total debits against individual accounts (all deposit accounts except those of other banks) reported by banks in about 140 leading cities for corresponding weeks in the two years. The figures for the New York banks are presented separately and are included also with those for the other centers. The separate figures for New York reflect to a considerable extent changes in the volume of stock exchange transactions; thus, for example, the appreciable increases in the New York figures early in November, 1919, were caused by the activity of the stock market and the large volume of share transactions. Tax payments are effected chiefly in the large centers, and consequently the increase in the total debits reported about the middle of September, 1919, as compared with the corresponding period in 1918, as well as with the weeks immediately preceding, is much more pronounced in New York City and in other large financial centers than in smaller financial communities.

It will be seen from the table which follows this paragraph that for the period including August 21 to December 31, 1919, totals reported by the New York banks show an increase over the figures for the same period in 1918 about twice as great as the increase in corresponding totals for the other cities. The number of banking centers which have reported to the Board in both years varies from week to week, and in order to test the validity of conclusions based upon the changes indicated in Table A an exhibit has been added giving total debits for 36 of the larger centers, including New York, for which comparative data are available for the entire period in both years. It will be seen that the changes for the corresponding weeks in the two years and in the totals for the period under review do not differ essentially from those indicated in the last column of Table A, and that if the figures for New York are eliminated from those shown in Table B, a comparison of the 1918 and 1919 totals for the 36 cities with the average of about 140 cities in Table A leads to practically the same conclusion.

TABLE A.—*Debits to individual account as reported by clearing-house banks in leading cities for each week beginning with the week ended Aug. 27, 1919, and for each corresponding week in 1918.*

[In millions of dollars.]

Week ending—	New York City.			All other reporting centers.				Totals for all reporting centers.			
	1919	1918	Per cent increase 1919 over 1918.	Number centers included.	1919	1918	Per cent increase 1919 over 1918.	Number centers included.	1919	1918	Per cent increase 1919 over 1918.
Aug. 27-28 [1]	4,253	3,085	37.9	110	3,170	2,658	19.3	111	7,423	5,743	29.2
Sept. 3-4	3,434	2,998	14.5	118	2,981	2,529	17.9	119	6,415	5,527	16.1
Sept. 10-11	4,214	3,513	20.0	121	3,594	2,826	27.2	122	7,808	6,339	23.2
Sept. 17-18	5,394	3,015	78.9	132	4,341	3,298	31.6	133	9,735	6,313	54.2
Sept. 24-25	4,993	3,077	62.3	141	3,775	3,219	17.3	142	8,768	6,296	39.3
Oct. 1-2	5,366	3,831	40.1	140	3,833	3,373	13.6	141	9,199	7,204	27.7
Oct. 8-9	5,414	3,407	58.9	141	4,159	3,306	25.8	142	9,573	6,713	42.6
Oct. 15-16	4,680	3,454	35.5	143	4,066	3,409	19.3	144	8,746	6,863	27.4
Oct. 22-23	5,712	4,222	35.3	142	4,563	3,758	21.4	143	10,275	7,980	28.8
Oct. 29-30	5,713	4,820	18.5	140	4,133	3,774	9.5	141	9,846	8,594	14.6
Nov. 5-6	5,438	3,459	57.2	142	4,453	3,379	31.8	143	9,891	6,838	44.7
Nov. 12-13	6,314	3,779	67.1	141	4,416	3,618	22.1	142	10,730	7,397	45.1
Nov. 19-20	6,028	4,053	48.7	143	5,021	4,034	24.5	144	11,049	8,087	36.6
Nov. 26-27	5,365	4,160	29.0	143	4,657	4,035	15.4	144	10,022	8,195	22.3
Dec. 3-4	5,047	3,608	39.9	145	4,473	3,496	27.9	146	9,520	7,104	34.0
Dec. 10-11	5,069	3,700	37.0	146	4,394	3,690	19.1	147	9,463	7,390	28.0
Dec. 17-18	5,784	3,816	51.6	146	5,187	3,831	35.4	147	10,971	7,647	43.5
Dec. 24	5,591	3,501	59.7	146	4,836	3,445	40.4	147	10,427	6,946	50.1
Dec. 31	5,389	3,563	51.2	147	4,398	3,341	31.6	148	9,787	6,904	41.8
Total	99,198	69,061	43.6	....	80,450	65,019	23.7	....	179,648	134,080	34.0

[1] The second date represents the end of the corresponding week in 1918.

These figures, however, throw very little light upon the relative importance of the several factors responsible for the larger volume of bank transactions during the past year. It will be difficult to determine what proportions of the increased volume of bank transactions may be ascribed to the higher price level, to the larger turnover of merchandise bought and sold, and what proportion, if any, is due to greater physical volume of goods in trade. It is evident that the increase in the price level—wholesale prices for 1919 averaging about 8 per cent higher than in 1918—is not great enough to account for the increase of over 20 per cent in the volume of bank transactions outside of New York City, and it is reasonable to assume that to the other factor mentioned, viz, the larger turn-over owing to the greater volume of speculative dealings, must be ascribed much of the increase in the volume of bank transactions shown in the tables.

TABLE B.—*Aggregate debits to individual account as reported by 36 leading cities (including New York City) for which figures are available for each week beginning with the week ended Aug. 27, 1919, as well as for each corresponding week in 1918.*

[In millions of dollars.]

Week ending—	1919	1918	Per cent increase 1919 over 1918.
Aug. 27-28 [1]	6,903	5,324	29.7
Sept. 3-4	5,883	5,092	15.5
Sept. 10-11	7,125	5,769	23.5
Sept. 17-18	8,872	4,607	92.6
Sept. 24-25	7,953	5,567	42.9
Oct. 1-2	8,355	6,475	29.0
Oct. 8-9	8,522	5,879	45.0
Oct. 15-16	7,699	5,993	28.5
Oct. 22-23	9,145	7,032	30.0
Oct. 29-30	8,830	7,685	14.9
Nov. 5-6	8,650	5,875	47.2
Nov. 12-13	9,434	6,363	48.3
Nov. 19-20	9,659	6,919	39.8
Nov. 26-27	8,726	7,000	24.7
Dec. 3-4	8,215	6,087	35.0
Dec. 10-11	8,177	6,297	29.9
Dec. 17-18	9,548	6,519	46.5
Dec. 24	9,055	5,936	52.5
Dec. 31	8,498	5,880	44.5
Total	159,249	116,299	37.4

[1] The second date represents the end of the corresponding week in 1918.

DISCOUNT POLICY AND CREDIT CONTROL.

The experience of the past three years has demonstrated the expansive power of the Federal Reserve System. It should be understood, however, that an elastic system of reserve credit and note issue implies capacity to control and the ability to curtail credit. The ability of the system to check expansion under present circumstances and to induce healthy liquidation is now to be tested.

Owing to the abnormal ease of money throughout the year 1915 and during the greater part of the year 1916 the Board had little opportunity to test the efficiency of what it conceived to be the correct discount policy. The principle had been adhered to consistently that the Federal Reserve Banks should not encourage rediscounting by members for the sake of profit, but that their own resources should be kept liquid and their reserve position strong.

Although section 5202 of the Revised Statutes, which provides that no national banking association shall at any time be in anyway liable for borrowed money to an amount exceeding the amount of its capital stock, had been amended by excepting liabilities incurred under the provisions of the Federal Reserve Act, it was not contemplated by the Board that the member banks would, except to meet seasonal requirements or emergencies, avail themselves of this amendment in order to extend their rediscount lines beyond the original limitations. It was the Board's view also that as a rule the discount rates of the Federal Reserve Banks should be higher than current market rates, thus offering no incentive to member banks to rediscount for the sake of making a profit in the transaction.

Because of this policy and of the conditions which prevailed up to the time when it began to appear that the United States would be drawn into the war, the reserve position of the Federal Reserve Banks was so strong as to suggest an analogy between the system and a safe-deposit vault.

In his address to Congress, urging the declaration of a state of war with Germany, the President pledged all the resources of the Nation—which, of course, include its man-power, money, credit, and goods—to the successful conduct of the war. By an overwhelming vote the Congress of the United States carried out the recommendations of the President, thus committing the country to the principles and policies outlined in his address.

Normal policies had to be subordinated, just as private business was subordinated, to Government business, and discount rates were of necessity fixed with the primary object of assisting the Treasury operations. How effective this policy was is now a matter of history. As has already been pointed out, the Federal Reserve Banks became great bond-distributing organizations; firms and corporations, large and small, men and women in every walk of life, were urged to subscribe for bonds, and the credit facilities of the Federal Reserve Banks were placed at the disposal of member and nonmember banks in order that they might lend freely on bonds for which the subscribers were unable to pay. The public was urged to borrow and buy, and it was found after the close of the Victory loan in May, 1919, that more than 20,000,000 subscriptions had been received in response to this appeal.

But in addition to the appeal to borrow and buy there was also added the injunction to save and pay. To assist this process, during the 18 months when the war was in progress there was established a rigid control of such credits as were not essential, directly or indirectly, to the prosecution of the war, and the American people proved their ability to economize and to cooperate in the nation-wide policy of conservation. As a result of this control of nonessential credits, and of the cooperation of the banks and the public, the Treasury was able to float within a period of two years $25,000,000,000 of interest-bearing obligations without reducing the reserves of the Federal Reserve Banks below a point which in normal pre-war times would have been regarded as a very strong reserve for a central bank.

The combined reserves of the 12 Federal Reserve Banks on January 3, 1919, amounted to 51.3 per cent of their liability for deposits and note issues. Due partly to the gold embargo, this percentage was well maintained during all the period of uncertainty which preceded the flotation of the Victory loan and for some time thereafter, for not until July 9, after the gold embargo had been removed, did the reserves fall even fractionally below 50 per cent. On September 26 the reserves stood at 51 per cent, after which date they show a steady and continuous decline to 44.8 per cent on December 26.

Although the period of war financing did not terminate with the year 1918 and the Federal Reserve System was consequently under the continued strain of war finance, that strain had to be met without the aid of war restrictions. The safeguards afforded by these restrictions were removed, for it was impracticable to continue them in time of peace. There is no longer an embargo on exports of gold nor any regulation or control of foreign exchange, with the trifling exceptions already noted; the controls set up over exports and imports, production and consumption, with a view of conserving the national resources and reducing waste, have practically disappeared. As a result the problems of the Federal Reserve System have been greatly increased, more particularly the problem of controlling credit.

The Federal Reserve System has met the requirements of war and readjustment by expanding without, however, encroaching upon its legal reserves; it is capable, if need be, of expanding still further without having recourse to the emergency provisions of the act, and very much further by availing itself of those provisions. But the time has come for it to demonstrate its power to move in the opposite direction, and to prove its ability to do so without shock and with a minimum disturbance of business and industry.

Fortunately the condition of the Treasury is such that the Board can now feel free to inaugurate discount policies adjusted to peacetime conditions and needs. The large volume of Government bonds looking for permanent ownership during the year was, however, an important factor in the situation and retarded the adoption of a normal discount policy. Until the absorption of Liberty bonds is fairly complete the Federal Reserve System will be in a transition stage and normal banking policies can not be made entirely effective. The absorption by investors of Government bonds, as indicated by the figures cited earlier in this report, is a gratifying step in this direction. It should, however, be repeated that the time has come for the system, in the interest of commerce and business, to exercise ts power to regulate and control the credit situation.

The normal and traditional method of credit control has been the discount rate; its efficacy, however, presupposes normal conditions. An advance in rate operates under normal conditions not only to diminish the demand for credit by making certain activities unprofitable but as well to increase the supply of credit by attracting it from other centers or countries. The conditions that make this traditional control effective do not all exist at the present time. The United States stands almost alone as an important free gold market. Other countries are seeking and have obtained large credits in the United States, as is evidenced by the fact that our exports exceeded imports during the year by about four billions of dollars, and we have paid our adverse balances in gold. It should be recognized that credits extended to Europe create a demand for commodities that competes with the domestic demand and this competition is one of the potent causes of high prices. The demand for commodities from domestic as well as foreign sources is so far in excess of the supply that the increased cost of credit due to an advance in rates is absorbed in the price, and speculation, anticipating large profits, is not checked by any reasonable advance in rates of interest. These conditions are all adverse to an easy and effective operation of credit control by means of discount rates.

Nevertheless, the discount rate is an indispensable factor in the regulation and control of credit. When there are legal limitations on the rates member banks may charge, a high reserve bank rate has a restraining influence upon them and upon their customers.

Although there are no specific limitations imposed upon the amount of borrowings by member banks at the Federal Reserve Banks, there is a potential limitation provided for in the act. In that part of section 4 which relates to the duties of the board of directors of a Federal Reserve Bank there is the following: "Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims of other member banks."

Should all the member banks of a Federal Reserve Bank be borrowers, and should all ask for accommodations proportionate to those which may have been advanced to a few, the Federal Reserve Bank would not be able out of its own resources to meet the demand. Therefore it is possible to determine theoretically what a fair line of accommodation for any member bank would be; that is, what amount of accommodation can be granted "safely and reasonably * * * with due regard for the claims of other member banks."

Any attempt, however, to control credit by the application of this rule is subject to serious administrative difficulties. If the paper offered is eligible and good, it would be better for a reserve bank to grant accommodation at a price rather than to refuse it entirely, but the act, subdivision (d), section 14, provides that a Federal Reserve Bank shall have power to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with a view of accommodating commerce and business. There is no authority, however, for establishing graduated rates based upon the total borrowings of a member bank, and consequently when it becomes necessary to advance the discount rate in order to curb the demands of those banks rediscounting with the Federal Reserve Banks in very large amounts, the same rate would have to apply to the moderate requirements of other member banks who may rediscount with the Federal Reserve Banks infrequently and never excessively. Thus the application of rate advances as a corrective or deterrent to certain banks tends to raise the level of current rates to all.

The Board, therefore, recommends to Congress that an additional power be granted it, by adding to subdivision (d), section 14, a proviso that each Federal Reserve Bank may, with the approval of the Federal Reserve Board, determine by uniform rule, applicable to all its member banks alike, the normal maximum rediscount line of each member bank and that it may submit for the review and determination of the Federal Reserve Board graduated rates on an ascending scale to apply equally and ratably to all its member banks rediscounting amounts in excess of the normal line so determined. In this way, in the opinion of the Board, it would be possible to reduce excessive borrowings of member banks and to induce them to hold their own large borrowers in check without raising the basic rate. The Federal Reserve Banks would thus be provided with an effective method of dealing with credit expansion more nearly at the source than is now practicable and without unnecessary hardship to banks and borrowers who are conducting their affairs within the bounds of moderation.

The expansion of credit set in motion by the war must be checked. Credit must be brought under effective control and its flow be once more regulated and governed with careful regard to the economic welfare of the country and the needs of its producing industries.

Deflation, however, merely for the sake of deflation and a speedy return to "normal"—deflation merely for the sake of restoring security values and commodity prices to their prewar levels without regard to other consequences, would be an insensate proceeding in the existing posture of national and world affairs.

It must never be forgotten that productive industry is profoundly affected by credit conditions. Modern business is done on credit One of its life-giving principles is credit. The mood and temper of the business community are deeply affected by the state of credit and may easily be disturbed by ill-considered or precipitate action. A system of credit control must always be judged by what it does to maintain a healthy condition of mind on the part of all sections and classes of the producing community. The ultimate test of the functioning of a credit system must be found in what it does to promote and increase the production of goods. True in general, the truth of this observation deserves to be particularly emphasized in the present deranged state of world industry and world trade when production is the crying need of the hour everywhere.

Too rapid or too drastic deflation would defeat the very purpose of a well-regulated credit system by the needless unsettlement of mind it would produce and the disastrous reaction that such unsettlement would have upon productive industry.

Radical and drastic deflation is not, therefore, in contemplation, nor is a policy of further expansion. Either course would in the end lead only to disaster and must not be permitted to develop. The credit situation in the United States is at bottom sound and safe. Our economic and financial position is essentially strong. There need be no occasion for apprehension as to our ability to effect the transition from war-time to peace-time conditions if reasonable safeguards against the abuse of credit are respected. There is, however, no need for precipitate action or extreme measures. Extremes must be avoided, the process of adjusting the volume of credit to a normal basis should be effected in an orderly manner, and its rapidity must be governed by conditions and circumstances as they develop. Much will depend upon the cooperation of the business and general community. Indeed without such cooperation progress can be neither rapid nor substantial. Much will depend also upon the rapidity with which the unabsorbed portion of the outstanding issues of war securities passes into the hands of permanent holders. As the national debt is thus absorbed and as it is reduced through the operation of the sinking fund, the loan accounts of the banks should be reduced correspondingly until the proper balance between the volume of credit and the volume of concrete things, which credit helps to produce and which are the normal basis of credit, is restored. This equilibrium, it can not be too frequently or too emphatically stated, can be restored only by speeding up the processes of production, by the orderly distribution of goods, by the avoidance of wasteful consumption, and by the increased accumulation of savings. These are the fundamental economic processes upon which the proper functioning of the Federal Reserve Banks must depend. The Federal Reserve System can do much to assist these processes but it can not of itself and alone compel them. Efficacious action along these lines involves the intelligent and earnest cooperation of the business and general community. While the Federal Reserve Board will always be mindful of the interdependence of credit and industry and of the influence exerted on prices by the general volume of credit, the Board nevertheless can not assume to be an arbiter of industry or prices. Its primary duty, as the guardian of the Nation's ultimate banking reserve, is to see that the banks under its supervision function effectively and properly as reserve banks.

By direction of the Federal Reserve Board.

W. P. G. Harding,
Governor.

The Speaker of the House of Representatives.