The Federal Reserve System

Federal Reserve Bank of New York

January, 1935

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Foreword

This booklet was prepared under the auspices of the Federal Reserve Agents' Conference primarily to furnish banks and trust companies interested in membership in the Federal Reserve System with a brief summary, in non-technical language, of the essential facts regarding the System itself, and with a general outline of the requirements for membership. The need for a description of the Federal Reserve System on the part of the many individuals who are interested in learning the reasons for its establishment and in acquiring a general knowledge of its methods of operation was another consideration in the preparation of this booklet.

TABLE OF CONTENTS

	Page
Foreword	3
Origin of the Federal Reserve System	5
Defects of the Financial System Prior to the Passage of the Federal Reserve Act	5
Improvements Resulting from the Federal Reserve Act	6
What the Federal Reserve System Is	7
The Federal Reserve Board	7
The Federal Reserve Banks	10
The Member Banks	13
Facilities and Privileges of a Member Bank	14
The Federal Advisory Council	14
The Federal Open-Market Committee	15
The Work of the Federal Reserve Banks	15
Holding Reserves of Member Banks	16
Extension of Credit by Federal Reserve Banks	17
Currency	19
Exchange: Check Collection	24
Collection of Notes, Drafts, Bonds, Coupons, Etc	24
Exchange Drafts	24
Gold Settlement Fund	24
Fiscal Agency	26
Informational Services of the Federal Reserve System	26
Insurance of Deposits for Members of the Federal Reserve System	27
General Information Regarding Membership in the Federal Reserve System	28
Capital Required	28
Stock Subscription	29
Reserve Requirements	29
Voluntary Withdrawal	29
Examinations and Reports	30
Branches of Member Banks	30
Limitation on Interest Paid on Deposits	30
Miscellaneous Provisions	31
Conditions of Membership	31

The Federal Reserve System

Origin of the Federal Reserve System

The Federal Reserve System originated with the passage of the Federal Reserve Act, approved December 23, 1913, the purposes of which, as stated in the preamble, are: "To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." This act has been amended numerous times, and extensive changes have recently been made by the Banking Act of 1933 and the Gold Reserve Act of 1934.

Following the panic of 1907, Congress on May 30, 1908, created the National Monetary Commission to inquire into and report to Congress as to changes deemed necessary or desirable in the banking system of the United States. The banking and financial conditions of this and other countries were analyzed in an exhaustive way by the Commission, which rendered its report January 8, 1912. Movements for revision of the Federal banking system were promptly organized and culminated in the passage of the Federal Reserve Act.

Defects of the Financial System Prior to the Passage of the Federal Reserve Act

The report of the National Monetary Commission listed numerous defects in the then existing banking system, of which the more important were the following:

An inelastic currency which was not responsive to the needs of commerce, industry, and agriculture.

No instrumentality for the mobilization of the reserves of the banks of the country, with the result that in times of stress these reserves could be neither replenished nor used because of restrictive laws and the lack of a means of cooperative action among banks.

Lack of an established discount market for agricultural, industrial, and commercial paper, and of equality in credit facilities between different sections of the country, resulting in interest rates which fluctuated unduly, varied widely between various parts of the country, and in some areas were unreasonable.

An inefficient and costly system of domestic exchange or transfer of funds between different localities, reflected in indirect routing of checks to avoid "exchange" charges.

No instrumentality to deal effectively with international gold movements and other relationships in the foreign field.

The method of collecting and disbursing Government funds through the Sub-Treasury system, which resulted in the irregular withdrawal from and return of such funds to circulation and bank reserves.

Improvements Resulting from the Federal Reserve Act

The defects existing prior to the passage of the Federal Reserve Act have been greatly reduced under the Federal Reserve System by:

Establishment of an elastic currency system resulting in a more stable money market and in improved facilities for dealing with currency crises.

Providing an instrument of cooperative strength for all national banks and those State banks which may elect to become members of the System.

Greater effectiveness of bank reserves through concentration in Federal Reserve banks.

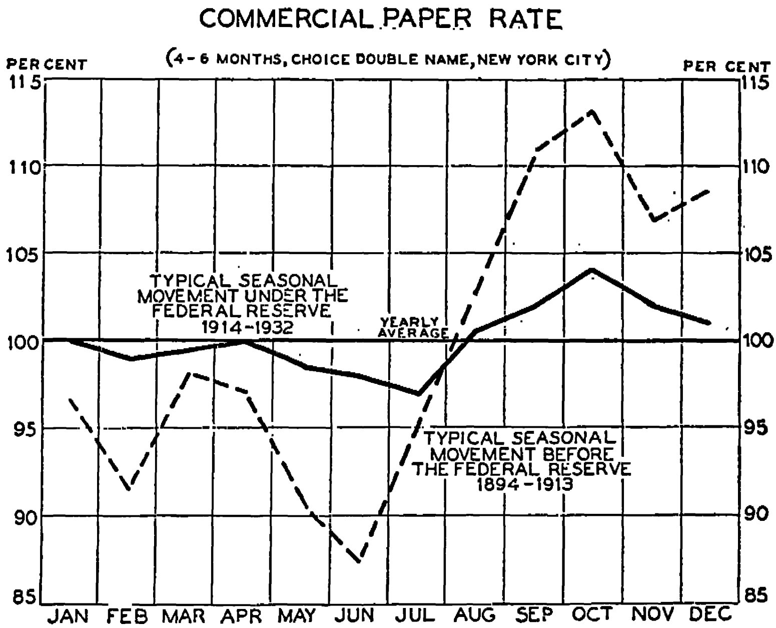
Creation of rediscount and direct borrowing facilities for member banks, and provision for mobilization of credit on a national scale through rediscounting between Federal Reserve banks themselves.

Providing a market at the Federal Reserve banks for, and thus increasing the liquidity of notes, drafts, bills of exchange, and bankers' acceptances. Seasonal fluctuations in certain typical money rates have been less pronounced since the establishment of the Federal Reserve System than was the case before, as the accompanying chart shows.

Providing clearing facilities on a national scale which save time and expense in the movement, collection, and transfer of funds.

Centralization of the fiscal agency operations of the United States Government.

Providing an agency to review the currency and credit needs of the nation in a broad way and to influence the volume of credit in the public interest in the light of the general domestic business situation as well as the international one.



What the Federal Reserve System Is

The Federal Reserve System comprises several elements including:

The Federal Reserve Board
Twelve Federal Reserve banks with 25 branches
Member banks, numbering more than 6,000.

Within the System, moreover, there are other organizations with specialized functions, such as the Federal Advisory Council and the Federal Open-Market Committee.

The Federal Reserve Board—The Federal Reserve Board, with headquarters in Washington, is the coordinating body which supervises the work of the Federal Reserve System. It is composed of eight members, two of which—the Secretary of the Treasury and the Comptroller of the Currency—are members ex-officio, while the other six are appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the six appointive members, the

President is required to have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and of the geographical divisions of the country; and no two appointive members may be from the same Federal Reserve district.

Among the more important duties of the Federal Reserve Board are the formulation, in cooperation with the Federal Reserve banks, of credit policies; the review and determination of discount rates charged by the Federal Reserve banks on their discounts and advances; and supervision of the open-market operations of the Federal Reserve banks. Such open-market operations are conducted under regulations adopted by the Federal Reserve Board with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

In connection with its supervision of Federal Reserve banks the Federal Reserve Board is also authorized to make examinations of such banks; to require statements and reports from such banks; to require the establishment or discontinuance of branches of such banks; to supervise the issue and retirement of Federal Reserve notes; and to exercise special supervision over all relationships and transactions of the Federal Reserve banks with foreign banks or bankers.

In addition to these important supervisory functions over the Federal Reserve banks, the Federal Reserve Board passes on applications

for the admission of State banks and trust companies to membership in the Federal Reserve System and on withdrawals therefrom;

for permits to holding company affiliates to vote the stock of member banks;

for permits covering certain relations between member banks and organizations dealing in securities;

for permits granted under authority of the provisions of the Clayton Anti-Trust Act relating to interlocking bank directorates;

for authority to national banks to exercise trust powers, to establish branches in foreign countries and dependencies or insular possessions of the United States, and to invest in the stock of banks or other corporations engaged in international or foreign banking.

Furthermore, the Board

- receives condition reports and earnings reports from State member banks and reports of their affiliates;
- issues regulations limiting the rate of interest which may be paid by member banks on time and savings deposits;
- prescribes rules and regulations under authority of the Securities Exchange Act of 1934 governing the margin requirements for credit extended on listed securities;
- maintains and operates the Gold Settlement Fund by which debits and credits between the various Federal Reserve banks arising out of their own transactions, those of their member banks, and those of the United States Government are settled in Washington without physical shipments of currency.

The Board is empowered

- to prescribe regulations relating to the formation and operation of corporations organized under Federal law to engage in international and foreign banking;
- to examine member banks and the affiliates of State member banks;
- to suspend a member bank from the use of the credit facilities of the Federal Reserve System whenever, in the judgment of the Federal Reserve Board, the bank is making undue use of bank credit for speculative purposes or for any other purpose inconsistent with the maintenance of sound credit conditions;
- to remove officers and directors of member banks for continued violations of law, or because of unsafe or unsound practices in conducting the business of their banks;
- to alter under certain circumstances the reserve requirements of member banks.

In exercising its supervisory functions over the Federal Reserve banks and member banks, the Federal Reserve Board promulgates regulations, pursuant to authority granted by the Federal Reserve Act, governing certain of the above-mentioned activities of Federal Reserve banks and member banks.

To meet its expenses and to pay the salaries of its members and its employes, the Board makes semi-annual assessments upon the Federal Reserve banks in proportion to their capital stock and surplus.

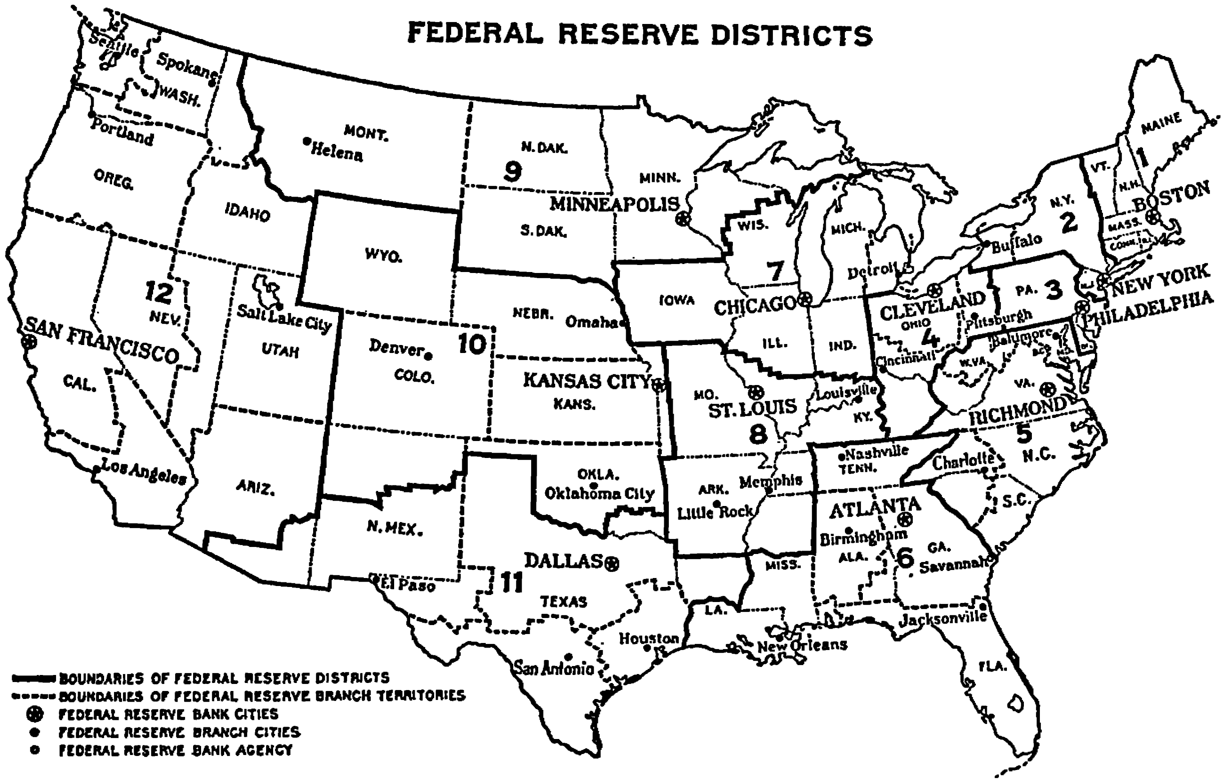
The Federal Reserve Banks—The country is divided geographically into twelve Federal Reserve districts, in each of which there is a Federal Reserve bank bearing the name of the city of its location. Ten of the Federal Reserve banks among them operate 25 branches, and one Federal Reserve bank has established two agencies, one of which is in Havana, Cuba. The territory included in each district and the locations of the Federal Reserve banks and branches are shown on the accompanying map.

The Federal Reserve districts and banks, with their branches, are as follows:

District Number	Location of Federal Reserve Bank	Location of Branch
1	Boston	....
2	New York	Buffalo, New York
3	Philadelphia	....
4	Cleveland	Cincinnati, Ohio Pittsburgh, Pennsylvania
5	Richmond	Baltimore, Maryland Charlotte, North Carolina
6	Atlanta*	Birmingham, Alabama Jacksonville, Florida Nashville, Tennessee New Orleans, Louisiana
7	Chicago	Detroit, Michigan
8	St. Louis	Little Rock, Arkansas Louisville, Kentucky Memphis, Tennessee
9	Minneapolis	Helena, Montana
10	Kansas City	Denver, Colorado Oklahoma City, Oklahoma Omaha, Nebraska
11	Dallas	El Paso, Texas Houston, Texas San Antonio, Texas
12	San Francisco	Los Angeles, California Portland, Oregon Salt Lake City, Utah Seattle, Washington Spokane, Washington

*In addition to the branches named, the Federal Reserve Bank of Atlanta has an agency at Savannah, Georgia, and another at Havana, Cuba.

FEDERAL RESERVE DISTRICTS



Each Federal Reserve bank was established pursuant to the provisions of the Federal Reserve Act and is under the general supervision of the Federal Reserve Board. The United States Government does not own any of the stock of the Federal Reserve banks, but all of the stock of each such bank is owned by its member banks.

Each Federal Reserve bank has a board of directors whose members are residents of the respective district and perform the usual duties of bank directors with some limitations fixed by the Federal Reserve Act. The bank's board of directors appoints its officers and employes, defines their duties, and fixes their salaries subject to the approval of the Federal Reserve Board.

The board of directors of each Reserve bank is composed of nine members, equally divided into three classes, designated Class A, Class B, and Class C. The member banks in each Federal Reserve district are divided by the Federal Reserve Board into three groups, and each group, consisting as nearly as possible of banks of similar size, chooses one Class A director and one Class B director. In other words, the member banks elect six of the nine directors. Class A directors must be representative of the stockholding banks and may be and usually are active executive officers of member banks. Class B directors may not be officers, directors, or employes of any bank and must be "actively engaged in their district in commerce, agriculture or some other industrial pursuit." The three Class C directors are appointed by the Federal Reserve Board and may not be either officers, directors, employes, or stockholders of any bank. One of the Class C directors is designated by the Federal Reserve Board as chairman of the board of directors and Federal Reserve agent. As Federal Reserve agent, he is the official representative of the Federal Reserve Board and is required to maintain a local office of the Federal Reserve Board on the premises of the bank. The Federal Reserve Board also designates another of the Class C directors as deputy chairman, who exercises the powers of the chairman when necessary. The terms of office of all directors are three years, so arranged that the term of one director of each class expires each year.

The various officers of a Federal Reserve bank have responsibilities divided among them in much the same manner as those in a commercial bank. The chief executive officer of a Federal Reserve bank is called the governor and his senior assistants, deputy governors.

Federal Reserve banks have certain powers of lending, investment, currency issue, deposit banking for banks and the United States Government, collection, safekeeping, and other functions which are described in the following sections.

The Federal Reserve banks derive their funds for loans, investments, and maintenance of cash reserve chiefly from the following sources:

1. Payments on capital stock by member banks.
2. Reserve deposits of member banks.
3. Deposits of other banks to establish check collection relations, and deposits of foreign banks.
4. Deposits of the United States Government.
5. The power to issue Federal Reserve notes and Federal Reserve bank notes.
6. Earnings set aside as surplus.

Federal Reserve banks are not operated for profit. It was the intention of Congress in enacting the Federal Reserve Act that the activities of the Federal Reserve banks be directed toward influencing credit conditions for the best interests of industry, agriculture, and commerce. Consequently, these banks in ordinary times have a large volume of non-earning assets and unused lending power. Since the Reserve banks hold the ultimate reserves of the banking system, it is important that the assets of these banks be at all times liquid and available to meet not only the seasonal demands of trade and industry but also unusual requirements that may arise in exceptional circumstances.

After all necessary expenses of a Federal Reserve bank have been paid or provided for, its stockholding member banks are entitled to receive an annual dividend of six per cent on the paid-in capital stock, which dividend is cumulative. In 1934 the paid-in stock of the Reserve banks held by the member banks totaled $147,000,000, and dividends paid on this stock in 1933 were $8,874,262. After dividend claims have been fully met, the net earnings are paid into the surplus fund of the Federal Reserve bank. In case of liquidation or dissolution of a Federal Reserve bank, any surplus remaining after payment of all debts, dividend requirements, and the paid-in value of its outstanding capital stock, is to be paid to the United States Government.

The Member Banks—All national banks in the continental United States are required by law to be members of the Federal Reserve System, and eligible State banks and trust companies may, with the approval of the Federal Reserve Board, become members. Pertinent information with respect to requirements which a bank must meet to become a member of the Federal Reserve System is given in another section.

About 40 per cent of the commercial banks in the United States were members of the System on June 30, 1934, and these member banks had resources amounting to about two-thirds of the total banking resources of all banks in the country and more than 85 per cent of the resources of all banks in the country exclusive of mutual savings banks. There were 6,375 active member banks on June 30, 1934, of which 5,417 were national banks and 958 were State banks. The State bank members ranged in size from banks with $25,000 capital to some of the largest banks in the United States.

Facilities and Privileges of a Member Bank—Among the privileges which a bank enjoys as a member of the Federal Reserve System are the following:

1. Rediscounting eligible paper and obtaining advances on promissory notes.
2. Obtaining currency and coin when needed.
3. Direct use of Federal Reserve check collection system.
4. Direct use of Federal Reserve non-cash collection service.
5. Transferring funds by telegraph.
6. Drawing drafts on Federal Reserve bank, including Federal Reserve exchange drafts, for which immediate credit at par may be obtained in thirty-seven Federal Reserve bank and branch bank cities.
7. Use of the emblem MEMBER FEDERAL RESERVE SYSTEM
8. Continuation, after July 1, 1937, of privilege of membership in the Federal Deposit Insurance Corporation.

The importance of these privileges to member banks is made clear in the discussion of the work of the Federal Reserve banks.

The Federal Advisory Council—The Federal Advisory Council is composed of twelve members, one from each Federal Reserve district, selected annually by the board of directors of the Federal Reserve bank of the district. The Council is required to meet in Washington at least four times each year, or oftener if called by the Federal Reserve Board, and may hold such other meetings in Washington or elsewhere as it may deem necessary. The Council acts in an advisory capacity, conferring directly with the Federal Reserve Board on general business and financial conditions and making recommendations concerning matters within the Board's jurisdiction and the general affairs of the System.

The Federal Open-Market Committee—The Federal Open-Market Committee is composed of one member from each Federal Reserve district, selected annually by the board of directors of each Federal Reserve bank. The Committee meets in Washington at least four times a year to make recommendations to the Federal Reserve Board with respect to the policy of the Federal Reserve banks in the purchase or sale of United States Government obligations, bankers' acceptances, and other paper which can be acquired in the open market by the Federal Reserve banks. The Federal Reserve banks may engage in open-market operations only in accordance with regulations of the Federal Reserve Board.

Decisions in regard to purchases and sales of United States Government obligations are made with reference to general credit conditions. When there is evidence of speculation or undue use of credit, the Reserve banks may sell securities in the open market and thus withdraw funds from the market. Member banks then would have either to curtail their own operations or borrow from the Reserve banks and thus become subject to the discount rate. On the other hand, when business is receding and credit demand is low, the Reserve banks may buy United States Government obligations in the open market and thereby place funds at the disposal of the market, thus enabling member banks to make additional loans or investments without having to borrow from the Reserve banks. Open-market operations, therefore, exert an important influence on the volume of credit available in the market, and on the cost of this credit, that is, on interest rates.

The Work of the Federal Reserve Banks

Among the principal functions of the Federal Reserve banks are holding the ultimate reserve of the banking system, supplying an elastic currency, making discounts for or loans to member banks, purchasing investments of the kinds and in the amounts permitted under the law, clearing and collecting checks for member banks, and acting as fiscal agents for the

Treasury. With some exceptions, it is from banks that Reserve banks receive deposits and to banks that they make loans, and their customers are their member banks. The relation of a member bank to the Federal Reserve bank of its district is similar in many respects to the relation of an individual to his bank.

Holding Reserves of Member Banks—Every member bank is required by law to keep with its Federal Reserve bank a sum which bears a specified relation to its deposits. This is known as its reserve and, among other things, is responsible for the name, "Reserve" banks. In the case of a member bank not located in a reserve city or central reserve city, $3 is required as a reserve for every $100 of time deposits and $7 for every $100 of net demand deposits. The reserve requirements for member banks located in reserve or central reserve cities are given on page 29. The Reserve banks themselves are required by law to maintain a reserve of 35 per cent in gold certificates or lawful money against their deposits.

The Federal Reserve banks may be thought of as a system of twelve reservoirs, each holding the reserve deposits of member banks and prepared to serve the credit needs of their respective districts. Credit available at Reserve banks is an assurance to a well managed bank of its capacity to render better service to its industrial, commercial, and agricultural customers.

A member bank's reserve account at the Reserve bank may be increased by depositing currency or checks, by transfers from a correspondent bank, by borrowing at the Federal Reserve bank, or by the sale to the Reserve bank of United States Government obligations, bankers' acceptances, or other paper eligible for purchase in the open market. Checks deposited, however, are not credited to the member bank's reserve account until sufficient time has elapsed for their collection by the Reserve bank of the district in which the drawee bank is located. The reserve balance may be checked against by the member bank, but any deficiency in the required balance must be restored.

No interest is paid on member bank reserve deposits. This is important. If interest were paid on such deposits, Reserve banks would need to operate at a profit and would necessarily have to keep their funds fully invested, thus placing them in direct competition with commercial banks. The public interest, however, requires that the operations of the Reserve banks be conducted with reference to the general condition of credit and business rather than to the need for earnings, and they are always so conducted.

Extension of Credit by Federal Reserve Banks—Credit is extended consistent with good judgment by Federal Reserve banks on those types of assets which Federal Reserve banks are permitted to acquire under the Federal Reserve Act. The original act contemplated that the type of earning assets acquired by Federal Reserve banks should be limited in general to Government obligations and paper of a self-liquidating nature. It was required that such paper, in the first instance, should grow out of actual commercial or agricultural transactions, including purchasing, carrying, or marketing goods, or out of one or more of the steps of the process of production, manufacture, or distribution of crops, live stock, or other commodities. Negatively stated, eligible paper could not, with limited exceptions, be paper representing permanent or fixed investments. Legislation of recent years has modified this general principle somewhat, but only to a limited extent.

The power of the Federal Reserve banks to extend credit is of great importance to the business public. The description of an actual case may best serve to show the character of credit facilities growing out of the establishment of Federal Reserve banks.

Let us take as an example a grocer in Austin, Texas, who wishes to buy 50 barrels of flour. At the moment his bank account is not sufficient to cover such a purchase, so he applies to his local bank for a loan. The bank, satisfied with the grocer's credit rating, makes him a 90-day loan on his note, and the grocer then buys the flour and sells it barrel by barrel. As his customers pay their bills, the grocer accumulates funds to retire his note. In ordinary circumstances a bank's resources are sufficient to meet its customers' requirements, but the grocer's application for a loan may reach his bank at a time when many other customers need business loans. If the bank expands its loans at this time, it will in turn be forced to borrow. Before the establishment of the Federal Reserve System the Austin bank in borrowing would have applied for a loan from some other bank with which it had an account. In ordinary circumstances, correspondents can meet requirements of this character coming from their bank customers. If, however, money happens to be scarce, the correspondent bank might not be in a position to expand its loans.

Since the passage of the Federal Reserve Act, the Austin bank, if a member of the Federal Reserve System, is in a much better position, since it has facilities to which it can turn—the Reserve Bank of Dallas. It may offer to the Reserve Bank of Dallas the grocer's note, together with other customers' paper. The Federal Reserve Bank of Dallas then examines the notes as to their eligibility under the law and as to their soundness and acceptability, and, if satisfied with the paper, rediscounts it and puts the Austin bank in funds.

The rate of interest charged the member bank by the Federal Reserve bank is called the "discount rate," which is a published rate applying uniformly to all member banks in the district on paper of like character. The discount rate is subject to review and determination by the Federal Reserve Board and is usually lower than the rate charged its customers by a member bank. The member banks' lending rate at any particular moment is determined, subject to State law, largely by custom and business conditions. On the other hand, the discount rate at a Federal Reserve bank is determined from time to time largely with reference to credit conditions. Discount rates are likely to be advanced when there is evidence of excessive growth of credit or the development of speculative activity and reduced when business is inactive and the demand for credit is low.

Later, when the grocer's note approaches maturity, the Federal Reserve bank sends it back to the Austin member bank and receives payment for it. The Austin bank in turn receives payment from the grocer and gives him back his note and thus the circle is completed. Meanwhile the grocer has been able to carry on his business. The Austin member bank, with the funds it borrowed from the Federal Reserve bank, has been able better to serve its customers than would have been the case if the reserve reservoir had not been available to draw upon.

Important types of lending operations in which the Federal Reserve banks may engage may be described in summary form. Reserve banks are authorized to discount for their member banks notes, drafts, bills of exchange, and bankers' acceptances of short maturities arising out of commercial, industrial, and agricultural transactions, and short-term paper secured by obligations of the United States. They are authorized to make advances to their member banks upon their promissory notes for periods not exceeding ninety days upon the security of paper eligible for discount or purchase and for periods not exceeding fifteen days upon the security of obligations of the United States and certain other securities.

Federal Reserve banks, in certain exceptional circumstances and under certain prescribed conditions, are authorized to make advances upon other kinds of security to groups of member banks, and until March 3, 1935, to individual member banks. They are authorized in unusual and exigent circumstances, when authority has been granted by a vote of at least five members of the Federal Reserve Board, to discount for individuals, partnerships, or corporations, under certain prescribed conditions, notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks; to make advances to individuals, partnerships, or corporations upon their promissory notes secured by direct obligations of the United States for periods not exceeding ninety days; under certain prescribed conditions, to grant credit accommodations to furnish working capital for established industrial or commercial businesses for periods not exceeding five years, either through the medium of financing institutions or, in exceptional circumstances, directly to such businesses, and to make commitments with respect to the granting of such accommodations; to purchase and sell in the open market bankers' acceptances and bills of exchange of the kinds and maturities eligible for discount, and obligations of the United States as well as a few other types of securities specifically designated by statute.

Currency—Currency in this country has become the "small change" of business. The greater part of the country's transactions are settled by check, and until the autumn of 1930, when banking disturbances resulted in hoarding of currency by the public, the amount of currency in circulation varied chiefly with the need for cash in making retail purchases and in paying wages.

The Federal Reserve banks are the principal currency reservoirs of the United States and their own note issues afford the elastic element in the American currency supply. Member banks obtain the currency that they pay out, except their own circulating notes in the case of national banks, from the Federal Reserve bank of their district. Nonmember banks usually obtain their currency from their correspondent banks, which are members of the Federal Reserve System and order the currency in turn from the Federal Reserve bank.

Currency transactions between a member bank and a Federal Reserve bank are much the same as those between an ordinary bank and its depositors. When an individual needs currency, he draws a check on his bank and cashes it. If he does not have a sufficient balance in the bank to obtain funds in this manner, he may be forced to borrow. Similarly, when a member bank requires currency to pay out to its customers, it in effect draws and cashes a check on its Federal Reserve bank. The member bank may find it necessary to borrow at the Federal Reserve bank for this purpose. Public demand for currency is, in fact, one of the principal factors in the demand for Federal Reserve credit.

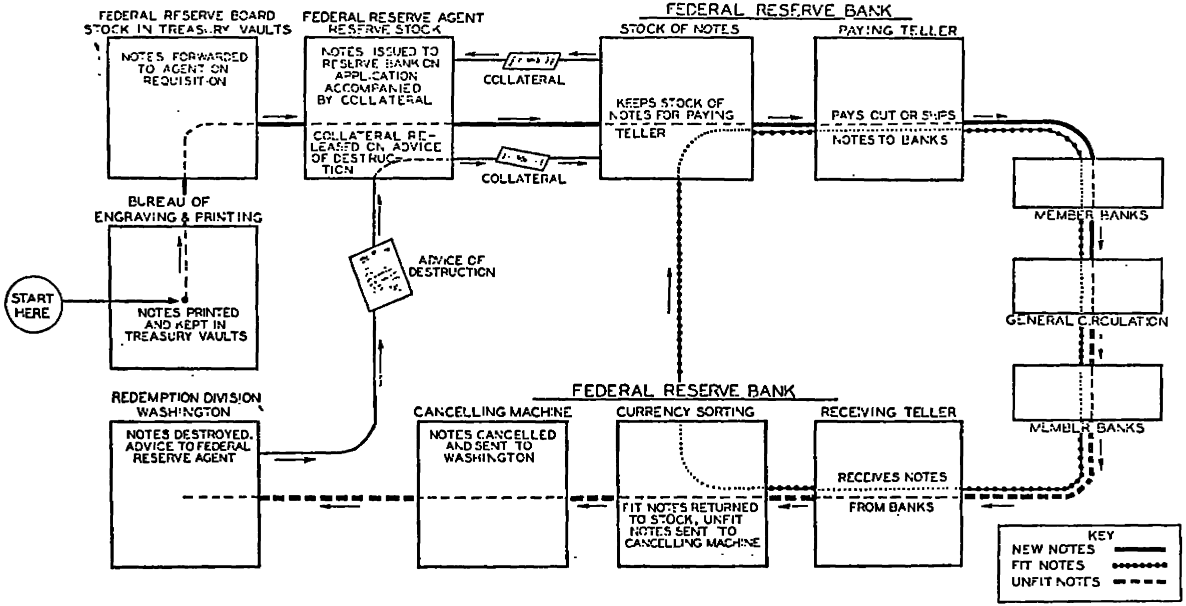
On the other hand, when an individual has more currency than he needs, he deposits it at his bank, perhaps paying off a loan. Likewise if a member bank is accumulating currency from its customers, it will return the currency to the Reserve bank for credit in its account, whether it consists of obligations of Federal Reserve banks or currency of other forms. The increase or decrease in the volume of currency in circulation does not depend upon the initiative of the Federal Reserve banks but upon the needs of the member banks. Their needs, in turn, are determined by the needs of their customers.

In order to be able to supply all calls for currency without delay, the Federal Reserve banks keep on hand large stocks of all denominations of currency and coin, and additional stocks of paper currency are maintained at the Bureau of Engraving and Printing in Washington, D. C.

As banks of issue, Federal Reserve banks may furnish two kinds of notes: Federal Reserve notes and Federal Reserve bank notes. Federal Reserve notes constitute the major portion of the money used in the United States today, more than $3,000,000,000 being in circulation on June 30, 1934. All Federal Reserve banks are permitted by law to issue Federal Reserve notes under certain conditions at the discretion of the Federal Reserve Board. These notes are obligations of the United States and are a first and paramount lien on all the assets of the issuing Federal Reserve bank. They are now legal tender for all public and private debts.

Any Federal Reserve bank may make application to its Federal Reserve agent for Federal Reserve notes. They are issued through the Federal Reserve agent against the security of gold certificates and of commercial and agricultural paper discounted or purchased by Federal Reserve banks, and, until March 3, 1935, or for such additional period not exceeding two years as the President may prescribe, when authorized by the

ISSUE AND RETIREMENT OF FEDERAL RESERVE NOTES



Federal Reserve Board, may also be secured by direct obligations of the United States. Every Federal Reserve bank is required to maintain reserves in gold certificates of not less than 40 per cent against its Federal Reserve notes in actual circulation and is also required to maintain reserves in gold certificates or lawful money of not less than 35 per cent against its deposits. A fund of 5 per cent in gold certificates must be maintained with the Treasurer of the United States for the redemption of its Federal Reserve notes, but this may be counted as part of the 40 per cent gold reserve.

The collateral pledged with the Federal Reserve agent by the Federal Reserve bank for Federal Reserve notes must not be less than the amount of notes applied for. The Federal Reserve agent is required daily to report the issues and retirements of Federal Reserve notes to the Federal Reserve Board, and the latter may at any time call upon the Federal Reserve bank for additional security to protect Federal Reserve notes issued to it.

Every Federal Reserve bank is required to redeem in lawful money its own Federal Reserve notes and the notes issued by other Federal Reserve banks, but it may not place the notes of other Federal Reserve banks in circulation again under a penalty of a tax of 10 per cent upon the face value of the notes so paid out. It is required to return promptly to every other Federal Reserve bank for credit or redemption the notes of such other Federal Reserve bank, or, upon direction of that bank, to forward them to the Treasurer of the United States for retirement. Badly worn and mutilated notes are canceled and forwarded by the Federal Reserve bank receiving them to Washington for destruction. Notes which are still fit for use may be returned by a Federal Reserve bank to the custody of its Federal Reserve agent, and the former is then entitled to the return of an equivalent amount of collateral. Returned notes may again be obtained from the Federal Reserve agent on the presentation of collateral as required for the issue of new notes. The costs of engraving, printing, issuing, and retiring Federal Reserve notes, together with insurance and shipping costs, are paid by the Federal Reserve banks.

Federal Reserve bank notes are the obligations of the Federal Reserve bank procuring them and are redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. They are issued against the security of direct obligations of the United States in an amount equal to the face value of such obligations and against the security of notes, drafts, bills of exchange, and bankers' acceptances in an amount equal to not more than ninety per cent of the estimated value thereof. Each Federal Reserve bank maintains on deposit in the Treasury of the United States in lawful money a redemption fund equal to five per cent of its liability on Federal Reserve bank notes in actual circulation, or such additional amount as may be required by the Treasurer of the United States with the approval of the Secretary of the Treasury, and is required to pay a tax of one-fourth of one per cent each half year upon the average amount of its Federal Reserve bank notes in circulation. No such Federal Reserve bank notes may be issued after the President shall have declared by proclamation that the emergency recognized by him in his proclamation of March 6, 1933, has terminated, unless such notes are secured by the deposit of bonds of the United States of certain classes which are eligible as security for national bank notes. Only a small amount of Federal Reserve bank notes is now in circulation.

The facilities provided by the Federal Reserve System for borrowing on sound assets to obtain currency represent one of the most important improvements made in the American financial system by the Federal Reserve Act. Previously, when there was a sudden increase in demand for currency, a large supply was difficult to obtain: first, because facilities for issuing sufficient currency to meet emergency demands did not exist; and second, because there was no central pool from which banks could borrow, while in times of banking difficulty large scale sales of investments or borrowing from other banks was impossible. Inflexibility of the currency was one of the principal causes of the panics of 1873, 1893, and 1907, when many banks suspended payments to depositors, notwithstanding the fact that they were in possession of sound assets. The Federal Reserve System established an elastic currency system, which made it possible to meet the unprecedented withdrawals of cash in the years 1930-1933.

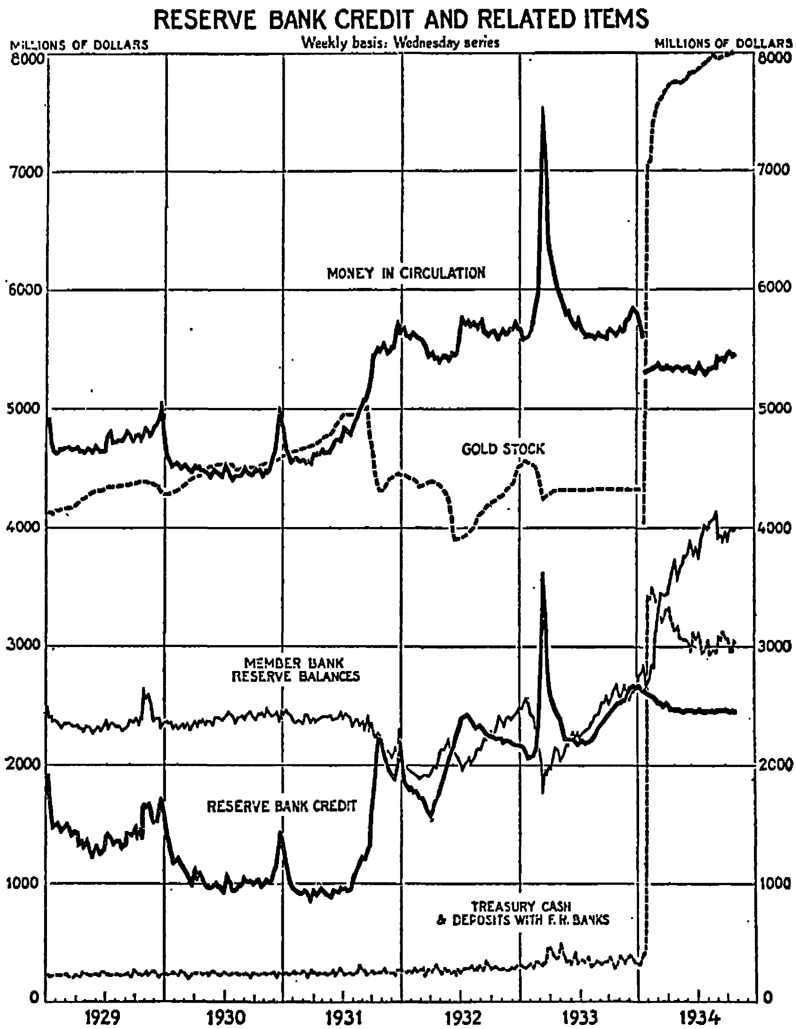
The demand for currency is one of the principal sources of the demand for Reserve bank credit. This is shown by the chart on page 25, on which one line represents the total of credit extended by Reserve banks from January 1929 through October 1934; a second line, volume of money in circulation; a third line, stock of monetary gold; and a fourth line, reserve balances of member banks. The close relationship of Reserve bank credit and currency is at once evident, particularly in the similarity of the ordinary monthly changes that are repeated year after year.

Exchange: Check Collection—Under regulations prescribed by the Federal Reserve Board, the twelve Federal Reserve banks act as a nation-wide clearing house for their member banks and for such nonmember banks as maintain appropriate balances with the Reserve banks. Out-of-town checks drawn on banks in the same Federal Reserve district deposited with a Federal Reserve bank are usually sent directly to places where payable and as a rule directly to banks on which drawn. Checks drawn on banks in another Federal Reserve district, however, are ordinarily sent to the Reserve bank of that district for presentation. Direct forwarding and settlement through the gold settlement fund of inter-district items have reduced materially the average time formerly required to collect out-of-town checks under the old indirect routing. The more prompt availability of the proceeds of checks represents an important saving to business and banking in this country, since upwards of 90 per cent of all commercial transactions are settled by checks. Moreover, checks are collected by the Federal Reserve banks without payment of the old "exchange" charge, that is, a charge made by the bank on which the check is drawn; and this is another saving to commerce.

Collection of Notes, Drafts, Bonds, Coupons, Etc.—The Federal Reserve banks also collect miscellaneous items such as notes, drafts, bonds, coupons, etc., collection being made through direct routing and presentation in much the same manner as checks.

Exchange Drafts—A member bank which has occasion to furnish customers with drafts on places where it has no account against which it can draw may arrange to draw what is called an exchange draft on its own Federal Reserve bank for an amount not exceeding $50,000, which will be accepted at any other Federal Reserve bank or branch for immediate credit, subject to final payment by the member bank's own Federal Reserve bank.

Gold Settlement Fund—Member banks wishing to create balances or pay funds in another part of the country may do so by means of wire transfers through their Reserve banks without loss of time and, if transfers are for multiples of $100, at no cost to member banks except where made for the benefit of a designated customer, when a charge is made for the cost of the telegram. The transfers are accomplished by means of wire advices from the sending to the receiving Federal Reserve



bank and through the medium of the gold settlement fund, deposited in Washington by the twelve Federal Reserve banks. The leased telegraphic wire system connecting the various Federal Reserve banks facilitates this service. Each Federal Reserve bank advises the Federal Reserve Board daily by wire of its credits to each of the other eleven Reserve banks and their branches, whether those credits arise from the wire transfers mentioned here or from other transactions, and appropriate entries are made in the books of the gold settlement fund. The daily settlement between the Reserve banks through this fund contributes to saving time in realizing on the proceeds of checks payable in other Federal Reserve districts.

Fiscal Agency—The Reserve banks act as fiscal agents of the Government in the issue, transfer, exchange, conversion, or redemption of United States Government obligations, and in the administration of special deposit accounts of the Government in member and nonmember banks. Functions formerly performed by the Sub-Treasuries of the United States in connection with the exchange and redemption of money for the public are handled now by the Reserve banks. They are also called upon to serve as fiscal agents for various agencies established by the Government, as for example, the Reconstruction Finance Corporation. The Fiscal Agency Department of a Federal Reserve bank is a convenience to banks and the public having occasion to deal with the Government in these matters.

Informational Services of the Federal Reserve System—Important work is carried on in the Federal Reserve Board as well as in the Federal Reserve banks in the collection and analysis of banking, financial, and business data of national as well as international scope. Accurate and current information of this character is essential to the officials of the System who are responsible for the System's credit policies. The material thus assembled is made public as far as possible for the benefit of member banks and business in general.

The official publication of the Federal Reserve Board, the Federal Reserve Bulletin, is issued monthly and is supplied free of charge to all member banks, and at a subscription rate of $2.00 per year to cover printing costs, to the general public. It is a source for statistical material dealing with general business conditions, the operations of the Federal Reserve banks and member banks, money market developments in this country, and foreign banking data, including exchange rates, gold holdings of central banks and governments, reports of central banks, and similar material.

A monthly review of business conditions in its district is issued by each Federal Reserve bank. These reviews are based in part on reports received from firms representing the major lines of industry, and are designed to include the type of information currently useful to bankers in their lending activities. In addition to the monthly reviews of business conditions, a large amount of statistical matter for the use of officers and directors is prepared in each Federal Reserve bank. Several of the Reserve banks maintain libraries which are open to the public, affording access to collections of well-selected books, pamphlets, and current periodicals on economic and financial subjects.

Insurance of Deposits for Members of the Federal Reserve System—All licensed members of the Federal Reserve System were required by law to participate, effective January 1, 1934, in a plan of deposit insurance administered by the Federal Deposit Insurance Corporation. A temporary insurance fund was provided which insured each depositor of a participating bank in an amount not in excess of $2,500 between January 1 and June 30, 1934, and in an amount not in excess of $5,000 between July 1, 1934, and July 1, 1935, except in the case of certain mutual savings banks. Nonmember banks were permitted to participate upon meeting certain requirements.

The permanent plan of insurance becomes effective July 1, 1935. The right to participate after that date in the case of both banks which are members of the Federal Reserve System and those not members depends on whether their assets are adequate to enable them to meet all of their liabilities to depositors and other creditors. Beginning July 1, 1937, only members of the Federal Reserve System will be eligible for participation. Under the permanent plan the net amount due to the owner of any claim arising out of a deposit liability of a closed bank shall equal 100 per cent of such net amount not exceeding $10,000, and 75 per cent of the amount, if any, by which such net amount exceeds $10,000 and does not exceed $50,000, and 50 per cent of the amount, if any, by which such net amount exceeds $50,000.

The working funds of the Federal Deposit Insurance Corporation are derived from three sources: The United States Treasury subscribed for stock in the amount of $150,000,000; the Federal Reserve banks subscribed for an amount equal to one-half of their surplus as of January 1, 1933, approximately $139,000,000; and under the temporary plan all participating banks are subject to assessment based upon the total amount of their insured deposit liabilities. Under that plan, participating banks were assessed in the first instance one-half of one per cent of the amount of their insured deposits, although only one-half of such assessment was called. The Corporation has the power to levy in all for the needs of the temporary fund total assessments of not more than one per cent of the aggregate of insured deposits.

General Information Regarding Membership in the Federal Reserve System

As stated above, all national banks are required to become members of the Federal Reserve System. In the case of State institutions interested in becoming members, applications are addressed to the Federal Reserve agent at the Federal Reserve bank in the district in which the applicant bank is located. The Federal Reserve agent investigates the condition of the bank and makes recommendations to the Federal Reserve Board, which must pass on each application for membership.

In acting upon the application of a State institution for membership, the Federal Reserve Board is required by law to consider specifically:

1. The financial condition of the applying bank.
2. The general character of its management.
3. Whether powers authorized in its charter or by State law and exercised by it are consistent with the purposes of the Federal Reserve Act.

Some of the important statutory provisions regarding membership are outlined below.

Capital Required—To be eligible for membership in the Federal Reserve System, a State bank or trust company, including Morris Plan banks and other incorporated banking institutions engaged in similar business but excepting mutual savings banks having no capital stock, must have a paid-up unimpaired capital sufficient to entitle it to become a national bank in the place where it is situated, except that this requirement does not apply to certain State banks and trust companies having a capital of not less than $25,000.

A mutual savings bank having no capital stock must, to be eligible, have surplus and undivided profits not less than the amount of capital required to organize a national bank in the same place.

The minimum capital requirements with respect to new national banks are as follows:

In cities having population of:—	Capital required
6,000 or less	$ 50,000
Over 6,000 but not over 50,000	100,000
Over 50,000	200,000
Except that in the outlying districts of a city of over 50,000, where the State laws permit the organization of State banks with a capital of $100,000 or less, national banks may, with the approval of the Comptroller of the Currency, have a capital of not less than $100,000.	

Stock Subscription—An applying bank is required to subscribe for stock in the Federal Reserve bank of the district in an amount equal to 6 per cent of its paid-up capital and surplus, except that a mutual savings bank must subscribe for an amount of stock equal to six-tenths of one per cent of its total deposits. Only one-half of the par value of the stock is paid, the other half remaining subject to call by the Federal Reserve Board. Upon the amount paid in, the Reserve bank pays cumulative dividends at the rate of 6 per cent per annum.

Reserve Requirements—A member bank must maintain with its Federal Reserve bank as a reserve balance a certain proportion of its deposits. This proportion varies according to the class of the deposit and the location of the bank as follows:

Member banks:—	Net demand deposits	Time deposits
(a) In central reserve cities	13%	3%
(b) In reserve cities	10%	3%
(c) Elsewhere	7%	3%

If located in an outlying district of a reserve city, however, a member bank may, upon approval of the Federal Reserve Board, have its reserve requirements reduced to those specified in (c), and, if located in an outlying district of a central reserve city, may, with the approval of the Federal Reserve Board, have its reserve requirements reduced to those specified in (b) or (c).

The law provides that no new loans may be made or dividends paid by a member bank if its reserve is deficient. A penalty prescribed by the Federal Reserve Board may be assessed if there is a deficiency in a bank's reserve. Penalties are computed on the basis of the average daily net deposit balances for semi-weekly, weekly, or semi-monthly periods for banks located in Federal Reserve and branch cities, reserve cities, and elsewhere, respectively.

Voluntary Withdrawal—Any State member bank or trust company may withdraw from membership after six months' written notice has been given to the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of Federal Reserve bank stock, and, in exceptional circumstances, such six months' notice may be waived by the Board. The law provides, however, that no Federal Reserve bank shall, except upon express authority of the Federal Reserve Board, cancel within the same calendar year more than 25 per cent of its capital stock on account of such voluntary withdrawals during that year.

Examinations and Reports—National banks and their affiliates are examined by the Comptroller of the Currency and copies of the reports are furnished the Reserve bank. State member banks and their affiliates are examined by the Federal Reserve banks, and whenever the directors of a Federal Reserve bank approve examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners for the Federal Reserve bank. The Federal Reserve Board deems it desirable to have, at least, one regular examination of each State member bank, including its trust department, made during each calendar year by examiners for Federal Reserve banks either independently or jointly with State banking authorities. The laws of some States authorize the acceptance of the reports of examiners for the Federal Reserve banks in lieu of examinations by State examiners.

A State member bank is required to furnish its Federal Reserve bank semi-annual reports of earnings and dividends and not less than three reports of condition each year, including reports of its affiliates other than member banks. A national bank sends to its Federal Reserve bank copies of similar reports which it submits to the Comptroller. A member bank must also furnish its Reserve bank with periodical reports of daily net deposit balances for reserve computation purposes.

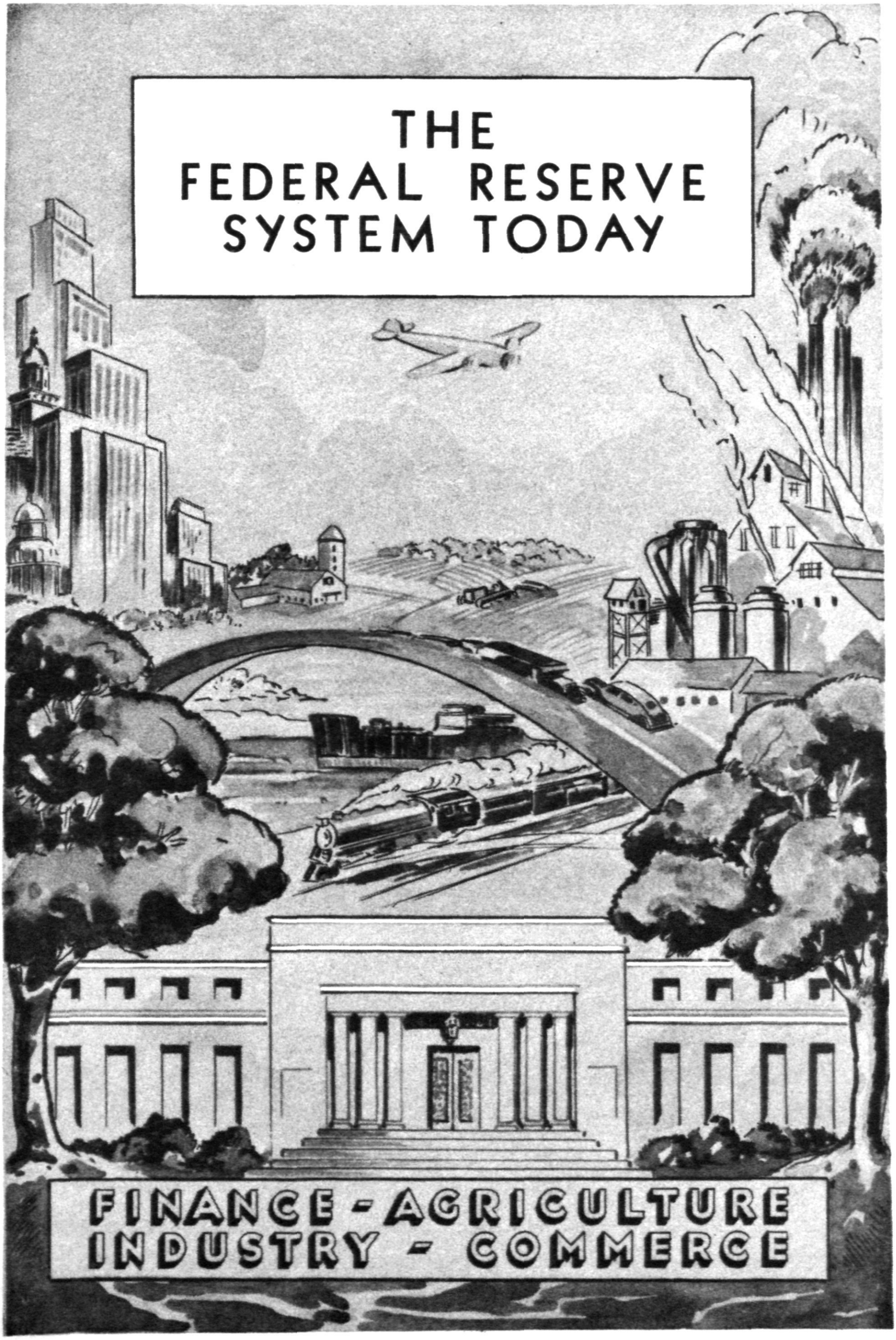
Branches of Member Banks—A national bank, with the approval of the Comptroller of the Currency, may establish and operate branches within the State in which it is located if the State law specifically authorizes State banks to do so. A national bank establishing such branches, however, must comply with certain specified capital requirements. Under certain conditions also and with the consent of the Federal Reserve Board, a national bank may establish branches in foreign countries, dependencies, or insular possessions of the United States. State member banks may operate branches on the same conditions and subject to the same limitations as those applicable to national banks.

Limitation on Interest Paid on Deposits—No member bank of the Federal Reserve System may pay interest on any deposit which is payable on demand with certain specified exceptions; and the Federal Reserve Board, in accordance with a requirement of the law, limits by regulation the rate of interest which may be paid by member banks on time and savings deposits.

Miscellaneous Provisions—There are a number of other provisions of Federal law relating to different aspects of operations of national banks as well as State banks which become members of the Federal Reserve System. Each member bank must have not less than 5 nor more than 25 directors. There are provisions prohibiting loans to a bank's own executive officers; providing for the removal of any director or officer for violation of law or for continued unsafe or unsound banking practices; limiting the degree to which directors, officers, or employes of member banks may serve other banks or securities organizations; and imposing penalties with respect to embezzlements, false entries, and similar matters.

Other important provisions prohibit member banks from lending on or purchasing their own stock; prohibit payment of unearned dividends; limit activities with respect to purchasing, selling, underwriting, and holding investment securities and stock; regulate the relation of a member bank to holding company affiliates; prohibit affiliation with any organization engaged principally in the issue, underwriting, or distribution of securities; limit loans on stock or bond collateral; limit loans to or investments in stock of affiliates; and limit the investment in bank premises.

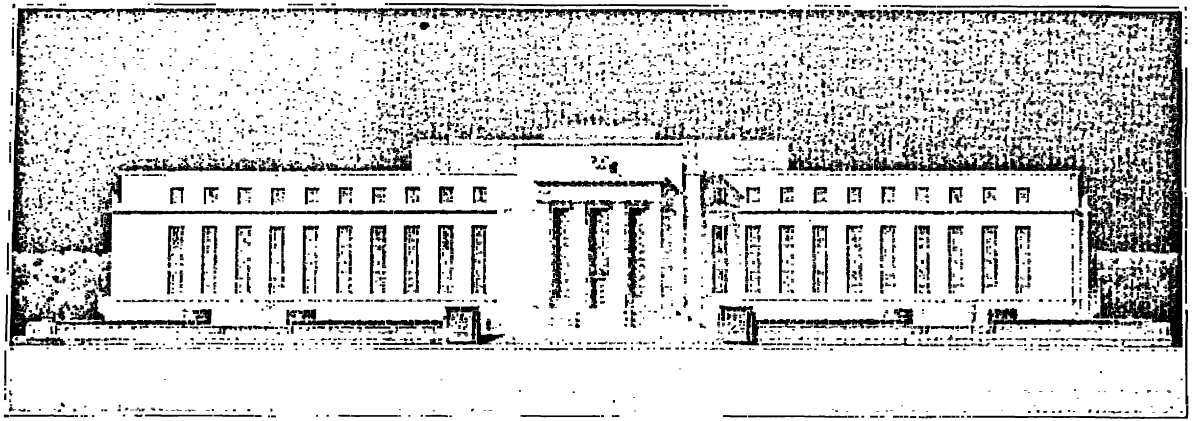
Conditions of Membership—The Federal Reserve Board prescribes for each State institution applying for membership conditions to which the institution must agree before it is admitted to the System. These conditions are designed to maintain sound conditions in member banks and to insure that powers exercised after their admission will be consistent with the provisions of the Federal Reserve Act. Furthermore, the Board prescribes such special conditions in each case as may be determined after consideration of all of the circumstances involved to be desirable to correct unsatisfactory conditions in the bank or to prevent the exercise of powers which the bank might have under its charter or under State law that are not consistent with the purposes of the Federal Reserve Act and are considered undesirable in a commercial banking institution. The Federal Reserve agent in each district is prepared to furnish on request full information as to the procedure to be followed and forms to be used in applying for membership.


THE
FEDERAL RESERVE
SYSTEM TODAY
FINANCE - AGRICULTURE
INDUSTRY - COMMERCE

THE FEDERAL RESERVE SYSTEM TODAY

Federal Reserve Bank of New York

March 1936



Architect's Drawing of New Building of the Board of Governors of the Federal Reserve System, Washington, D. C.

FOREWORD

This booklet was prepared under the auspices of the Federal Reserve Agents' Conference primarily to give the essential facts regarding the System itself, and to furnish banks with a general outline of the requirements for membership.

TABLE OF CONTENTS

	Page
Foreword	3
The Federal Reserve System Today	6
Board of Governors of the Federal Reserve System	6
Federal Open Market Committee	8
The Federal Reserve Banks	10
The Member Banks	14
Federal Advisory Council	14
The Work of the Federal Reserve Banks	15
Holding Reserves of Member Banks	15
Extension of Credit by Federal Reserve Banks	19
Credit Facilities for Member Banks	22
Credit Facilities for Others	23
Open-Market Investments	24
Currency	24
Interdistrict Settlement Fund	30
Check Collection	31
Collection of Notes, Drafts, Bonds, Coupons, etc.	33
Wire Transfers of Funds	33
Fiscal Agency	33
Informational Services of the Federal Reserve System	34
General Information Regarding Membership in the Federal Reserve System	35
Capital Required	36
Stock Subscription	36
Reserve Requirements	37
Voluntary Withdrawal	37
Examinations and Reports	38
Branches of State Member Banks	38
Limitation on Interest Paid on Deposits	39
Miscellaneous Provisions	39
Conditions of Membership	39

THE FEDERAL RESERVE SYSTEM TODAY

The Federal Reserve System was created by the Federal Reserve Act, approved December 23, 1913. The twelve Reserve banks opened their doors for business on November 16, 1914.

Coming into existence within a few months after the outbreak of the World War, the System has been faced throughout its history with problems of operation and of policy arising from abnormal economic and financial conditions throughout the world. In surmounting resultant difficulties and notably in helping the Government to finance its participation in the World War, the System met successive tests of its strength and soundness. Both in the period of rapid expansion during the war and in the subsequent contraction during the post-war depression of 1920 and 1921, the System's adaptability to changing conditions and its capacity for meeting demands upon its resources were put to a severe test.

In the succeeding eight years, the System was confronted with changed but no less difficult conditions. A steady flow of gold from abroad furnished a basis for a vast expansion of credit which was sufficient not only to meet all legitimate needs of trade, but also to finance speculative activity in the securities markets, in real estate, and in other fields. The collapse of this speculative boom was followed by a period of world-wide business and industrial stagnation of unprecedented severity, culminating in the almost complete paralysis of this country's banking machinery. During the depression, the System cushioned the decline by an easy money policy and, upon the reopening of the banks after the proclamation of the national banking holiday, the System actively cooperated in the rehabilitation of the banking structure and in the restoration of economic and financial confidence.

Experience gained during two decades of the System's operations afforded a valuable basis for further adapting its functions and administration to serve the public interest. With the passage of the Banking Act of 1935, the System's responsibilities were broadened and more clearly defined and allocated. The act embodied numerous changes, some of which were fundamental in character, reflecting a broader conception of the System's place in the nation's economic life than existed when it was established. Machinery for the formulation and execution of open-market policies was simplified and responsibility for open-market operations, as well as for discount rates and reserve requirements, was clearly fixed with a view to enlarging the System's ability to maintain sound credit conditions and to serve the needs of trade and industry.

The Federal Reserve System Today

The Federal Reserve System comprises several parts, including:

1. The Board of Governors of the Federal Reserve System.
2. The Federal Open Market Committee.
3. Twelve Federal Reserve banks with 25 branches.
4. Member banks, numbering about 6,500.
5. Federal Advisory Council.

Board of Governors of the Federal Reserve System—Broad supervisory powers are vested in the Board of Governors of the Federal Reserve System which has its offices in Washington. The Board of Governors is composed of seven members appointed by the President with the advice and consent of the Senate. In selecting these seven members, the President is required to have due regard to a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country. No two members may be from the same Federal Reserve district.

Among the many responsibilities of the Board of Governors, those concerning the credit policies of the System are the most important. The discount rates charged by the Reserve banks, which are established by the boards of directors of these banks, are subject to the review and determination of the Board of Governors. The Board may, within certain limitations and in order to prevent injurious credit expansion or contraction, change the requirements as to reserves to be maintained by member banks against deposits. After March 1, 1936, each member of the Board of Governors will also be a member of the Federal Open Market Committee, which is charged with the responsibility of determining policy in connection with purchases and sales of bills and securities in the open market—an operation which is discussed more fully in a later paragraph. Actions along these lines must be taken with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors is authorized to regulate the amount of credit that may be initially extended and subsequently maintained by brokers, banks, and others on any security (with certain exceptions) registered on a national securities exchange. Certain other powers have been conferred upon the Board which are likewise designed to enable it to prevent an undue diversion of funds into speculative operations.

In connection with its supervision of Federal Reserve banks, the Board of Governors is also authorized to make examinations of such banks; to require statements and reports from them; to require the establishment or discontinuance of their branches; to supervise the issue and retirement of Federal Reserve notes; and to appoint some of the directors of each Reserve bank and to approve the appointment of the chief executive officers, as described in later paragraphs.

In connection with its supervision of member banks, the Board is authorized among other things (1) to pass on the admission of State banks and trust companies to membership in the Federal Reserve System and on the termination of membership of such banks; (2) to examine member banks and receive condition reports from State member banks and their affiliates; (3) to limit by regulation the rate of interest which may be paid by member banks on time and savings deposits; (4) to issue voting permits to holding company affiliates of member banks entitling them to vote the stock of such banks at any or all meetings of shareholders of the member banks; (5) to regulate interlocking relationships between member banks and organizations dealing in securities or, under the Clayton Antitrust Act, between member banks and other banks; (6) to remove officers and directors of a member bank for continued violations of law or unsafe or unsound practices in conducting the business of such bank; (7) to suspend member banks from the use of the credit facilities of the Federal Reserve System for making undue use of bank credit for speculative purposes or for any other purpose inconsistent with the maintenance of sound credit conditions; (8) to pass on applications of State member banks to establish out-of-town branches; (9) to pass on applications of national banks for authority to exercise trust powers or to act in fiduciary capacities; (10) to grant authority to national banks to establish branches in foreign countries or dependencies or insular possessions of the United States, or to invest in the stock of banks or corporations engaged in international or foreign banking; (11) to supervise the organization and activities of corporations organized under Federal law to engage in international or foreign banking. In exercising its supervisory functions over the Federal Reserve banks and member banks, the Board of Governors promulgates regulations governing certain of the activities of Federal Reserve banks and member banks.

To meet its expenses and to pay the salaries of its members and its employees, the Board makes semi-annual assessments upon the Federal Reserve banks in proportion to their capital stock and surplus.

The Board of Governors is required under the Banking Act of 1935 to keep a complete record of its actions on all questions of policy together with the votes taken and the reasons underlying such actions, and to include this record in its annual report to Congress.

Federal Open Market Committee — Federal Reserve banks are authorized to buy and sell in the open market bonds and short-term obligations of the United States, bankers' acceptances, and other assets listed in a later paragraph. Such purchases and sales may only be made in accordance with the direction and regulation of the Federal Open Market Committee.

Effective March 1, 1936, the Federal Open Market Committee consists of the seven members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks who are to be elected annually. One member is elected by the boards of directors of the Federal

Reserve Banks of Boston and New York, one by the Federal Reserve Banks of Philadelphia and Cleveland, one by the Federal Reserve Banks of Chicago and St. Louis, one by the Federal Reserve Banks of Richmond, Atlanta, and Dallas, and one by the Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco.

Decisions in regard to open-market purchases and sales are made with reference to general credit conditions. When there is evidence of undue use of bank credit, or indications of heavy speculative demands for credit that are tending to create unsound conditions, the Reserve banks, under the direction of and regulations adopted by the Federal Open Market Committee, may sell securities in the open market, payment for which results in a reduction in the reserve deposits of member banks in their Federal Reserve bank. In order to prevent injurious credit expansion, the Board of Governors may also, with certain limitations, increase reserve requirements. The sale of securities in the open market or the increase of reserve requirements would normally have the effect of requiring member banks either to curtail their own operations or borrow from the Reserve banks. The Federal Reserve banks may exert further pressure on borrowing banks by raising discount rates, with the approval of the Board of Governors, making it more expensive for member banks to borrow.

On the other hand, when business is receding and credit demand is low, the Reserve banks, under the direction and regulations of the Open Market Committee, may buy securities in the open market and thereby increase the reserve deposits of member banks, thus enabling them to make additional loans or investments without having to borrow from the Reserve banks. Open-market operations, therefore, exert an important influence on the volume of credit available to business and investors and on interest rates, that is, on the cost of this credit.

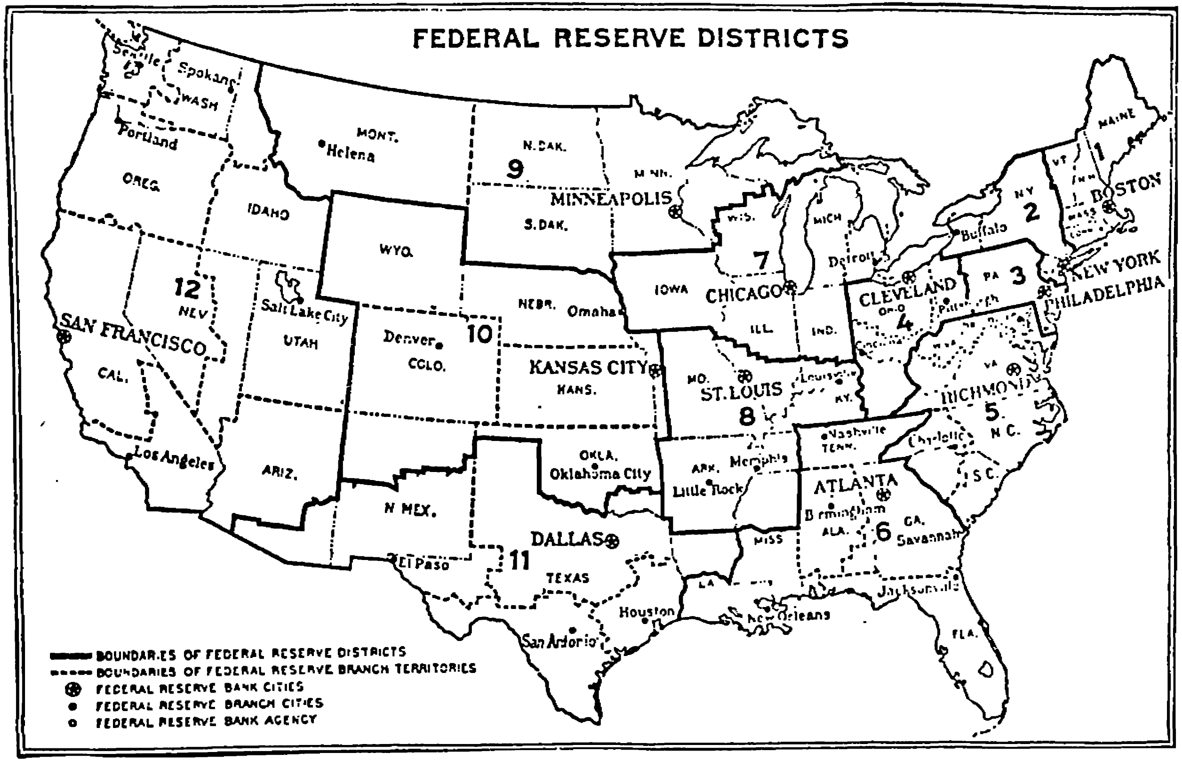
Under the Banking Act of 1935, a complete record is kept of the actions taken by the Federal Open Market Committee upon questions of policy, together with the votes taken and the reasons underlying the Committee's actions. This record will be published in the Annual Report of the Board of Governors of the Federal Reserve System.

The Federal Reserve Banks — The country is divided into twelve Federal Reserve districts, in each of which there is a Federal Reserve bank bearing the name of the city of its location. There are also in operation 25 branches of Federal Reserve banks and 2 agencies, as listed below:

District Number	Location of Federal Reserve Bank	Location of Branch
1	Boston	
2	New York	Buffalo, New York
3	Philadelphia	
4	Cleveland	Cincinnati, Ohio Pittsburgh, Penna.
5	Richmond	Baltimore, Maryland Charlotte, N. C.
6	Atlanta*	Birmingham, Alabama Jacksonville, Florida Nashville, Tennessee New Orleans, Louisiana
7	Chicago	Detroit, Michigan
8	St. Louis	Little Rock, Arkansas Louisville, Kentucky Memphis, Tennessee
9	Minneapolis	Helena, Montana
10	Kansas City	Denver, Colorado Oklahoma City, Okla. Omaha, Nebraska
11	Dallas	El Paso, Texas Houston, Texas San Antonio, Texas
12	San Francisco	Los Angeles, California Portland, Oregon Salt Lake City, Utah Seattle, Washington Spokane, Washington

* In addition to the branches named, the Federal Reserve Bank of Atlanta has an agency at Savannah, Georgia, and operates another agency for the System at Havana, Cuba.

The Federal Reserve banks are under the general supervision of the Board of Governors of the Federal Reserve System. The capital of the Federal Reserve banks is supplied by the member banks, each of which is required to subscribe to the capital stock of its respective Reserve bank in an amount related to its own paid-up capital and surplus.


FEDERAL RESERVE DISTRICTS
BOUNDARIES OF FEDERAL RESERVE DISTRICTS
BOUNDARIES OF FEDERAL RESERVE BRANCH TERRITORIES
FEDERAL RESERVE BANK CITIES
FEDERAL RESERVE BRANCH CITIES
FEDERAL RESERVE BANK AGENCY
1
BOSTON
2
NEW YORK
Buffalo
3
PHILADELPHIA
4
CLEVELAND
5
RICHMOND
Charlotte
6
ATLANTA
Birmingham
Savannah
Jacksonville
Nashville
New Orleans
7
CHICAGO
Detroit
8
ST. LOUIS
Louisville
Memphis
Little Rock
9
MINNEAPOLIS
Helena
10
KANSAS CITY
Omaha
Denver
Oklahoma City
11
DALLAS
El Paso
Houston
San Antonio
12
SAN FRANCISCO
Seattle
Spokane
Portland
Salt Lake City
Los Angeles
MAINE
VT
N.H.
MASS
N.Y.
PA
OHIO
VA
N.C.
S.C.
GA.
FLA.
ALA.
MISS
LA
TENN.
KY.
IND.
ILL.
MICH
WIS.
IOWA
MO.
ARK.
MINN.
N. DAK.
S. DAK.
NEBR.
KANS.
OKLA.
TEXAS
MONT.
WYO.
COLO.
N. MEX.
IDAHO
UTAH
ARIZ.
WASH
OREG.
NEV
CAL.

Each Federal Reserve bank has a board of nine directors whose members are residents of the respective district and are required to administer the affairs of the Federal Reserve bank fairly and impartially. The terms of office of all directors are three years, so arranged that the term of one director of each class expires each year. Six of the nine directors are elected by the member banks of the district. These six include: three Class A directors, who must be representative of the member banks and who are usually active officers of member banks; and three Class B directors, who may not be officers, directors, or employees of any bank, but who must be actively engaged in their district in commerce, agriculture, or industry. For the election of directors, member banks are divided into three groups according to size of capital and surplus—small banks, medium-size banks, and large banks. Each group of member banks elects one Class A director and one Class B director.

The remaining three directors, who are called Class C directors, are appointed by the Board of Governors of the Federal Reserve System and may not be either officers, directors, employees, or stockholders of any bank. One of the Class C directors is designated by the Board of Governors of the Federal Reserve System as chairman of the board of directors and Federal Reserve agent. As Federal Reserve agent, he is the official representative of the Board of Governors and is required to maintain a local office of that body on the premises of the Federal Reserve bank. He administers such parts of banking law as are delegated to him, maintains a stock of Federal Reserve notes, and holds the collateral for such notes when issued. Examiners appointed with the approval of the Board of Governors of the Federal Reserve System examine State member banks. The Federal Reserve Agent keeps himself fully informed of the condition of all member banks, and issues periodical reviews of banking and business conditions in his district.

Looking at the make-up of a Reserve bank board of directors in another way, Class A directors represent lenders of funds, Class B directors represent borrowers, and Class C directors represent the interests of the general public.

The chief executive officer of a Federal Reserve bank, effective March 1, 1936, is the president who, together with the first vice-president, is appointed for a term of 5 years by the board of directors with the approval of the Board of Governors of the Federal Reserve System. Other officers may be appointed by the board of directors of the Federal Reserve bank.

The Federal Reserve banks derive their funds for advances to member banks and for open-market purchases principally from the power conferred upon them by Congress to receive deposits and also to issue Federal Reserve notes. The principal sources of deposits of the Reserve banks are the member banks, which are required to keep with the Reserve banks reserve balances bearing a specified percentage relationship to the member banks' own deposit liabilities, and the United States Government.

The Reserve banks must hold a 40 per cent reserve in gold certificates against Federal Reserve notes in circulation and a 35 per cent reserve in gold certificates or other lawful money against deposits. When deposits with the Reserve banks are made in the form of gold certificates or lawful money, they add to the reserves of the Reserve banks and consequently increase their lending power by approximately two and one-half times the amount of the deposit. Deposits at the Reserve banks, however, may also be obtained by member banks through borrowing from the Reserve banks, or as a result of open-market purchases by these banks. Deposits obtained in these ways do not add to the reserves of the Reserve bank, or to their lending power, but, on the contrary, utilize some of the reserves and consequently absorb some of their lending power.

Federal Reserve banks are not operated for the purpose of making profits. It was the intention of Congress in enacting the Federal Reserve Act that the activities of the Federal Reserve banks be directed toward influencing credit conditions for the best interests of industry, agriculture, and commerce. Consequently, these banks in ordinary times have a large volume of cash assets and unused lending power. Since the Reserve banks hold the ultimate reserves of the banking system, it is important that the lending power of these banks be at all times adequate to meet not only the seasonal demands of trade and industry but also unusual requirements that may arise in exceptional circumstances.

After all necessary expenses of a Federal Reserve bank have been provided for, its stockholding member banks are entitled to receive a cumulative annual dividend of six per cent on the paid-in capital stock. On December 31, 1935, the paid-in stock of the Reserve banks held by the member banks totaled $130,512,000, and dividends paid on this stock in 1935 were $8,504,974. After dividend claims have been fully met, the net earnings are paid into the surplus fund of the Federal Reserve bank, which strengthens the position of the bank and increases its ability to serve the public. More than one-fourth of the aggregate net earnings of the Reserve banks since their organization was paid to the Government as a franchise tax, approximately one-fourth was paid in dividends to member banks, nearly one-fourth, under act of Congress, was contributed to the capital of the Federal Deposit Insurance Corporation, and a fourth remains in the surplus accounts of the Reserve banks. In case of liquidation or dissolution of a Federal Reserve bank, any surplus remaining after payment of all debts, dividends, and the par value of its capital stock is to be paid to the United States Government.

The Member Banks—All national banks in the continental United States are required by law to be members of the Federal Reserve System, and eligible banks and trust companies operating under State charters may, with the approval of the Board of Governors of the Federal Reserve System, become members. Pertinent information with respect to membership in the Federal Reserve System is given in a later section.

About 40 per cent of the commercial banks in the United States were members of the System on December 31, 1935, and these member banks had resources amounting to about four-fifths of the total banking resources of all commercial banks in the country. There were 6,387 member banks on December 31, 1935, of which 5,386 were national banks and 1,001 were State banks. The State bank members ranged in size from banks with $25,000 capital to some of the largest banks in the United States.

The relation of a member bank to the Federal Reserve bank of its district is similar in many respects to the relation of an individual to his bank. It is chiefly from member banks that Reserve banks receive deposits and to member banks that they make loans and supply currency.

Federal Advisory Council—The Federal Advisory Council is composed of twelve members, one from each Federal Reserve district, selected annually by the board of directors of the Federal Reserve bank of the district. The Council is required to meet in Washington at least four times each year, or oftener if called by the Board of Governors of the Federal Reserve System, and may hold such other meetings in Washington or elsewhere as the Council may deem necessary. The Council acts in an advisory capacity, conferring directly with the Board of

Governors of the Federal Reserve System on general business and financial conditions and making recommendations concerning matters within the Board's jurisdiction and the general affairs of the System.

The Work of the Federal Reserve Banks

Among the principal functions of the Federal Reserve banks are holding the basic reserves of the banking system, issuing Federal Reserve notes, making discounts for or advances to member banks, purchasing and selling investments of the kinds permitted under the law, making direct loans to business and industry under certain conditions, clearing and collecting checks for member banks, safekeeping of securities for member banks outside of Reserve bank and branch cities, and acting as fiscal agents for the United States Treasury.

Holding Reserves of Member Banks—Every member bank is required by law to keep on deposit with its Federal Reserve bank a sum which bears a specified relation to its deposits. This is known as the member bank's reserve and, among other things, is responsible for the name, "Reserve" banks. Reserves required on time deposits are $3 per $100 in all classes of banks, while reserves required on demand deposits at the time this pamphlet was prepared were 13 per cent in central reserve city banks, 10 per cent in reserve city banks, and 7 per cent in other banks, known as "country banks."

Changes in the volume of reserve balances carried by member banks with the Reserve banks are one of the most important indicators of credit conditions. Since member banks are required to hold a prescribed minimum proportion of reserves in relation to their deposit liabilities, and since in ordinary times banks do not carry a larger amount of idle funds, changes in the volume of reserve balances ordinarily correspond to proportionate changes in deposits held by member banks. When member bank reserves increase because of gold imports or through purchases by the Reserve banks in the open market, the banks tend to increase their loans and investments, and consequently their deposits, until their volume is as large as the new reserve balances are permitted to support. On the other hand, if reserve balances are diminished through gold exports, sales of securities by the Reserve banks in the open market, or through a domestic demand for currency, member banks must either liquidate some of their loans and investments or borrow from the Reserve banks in order to bring their reserves up to the minimum required by law.

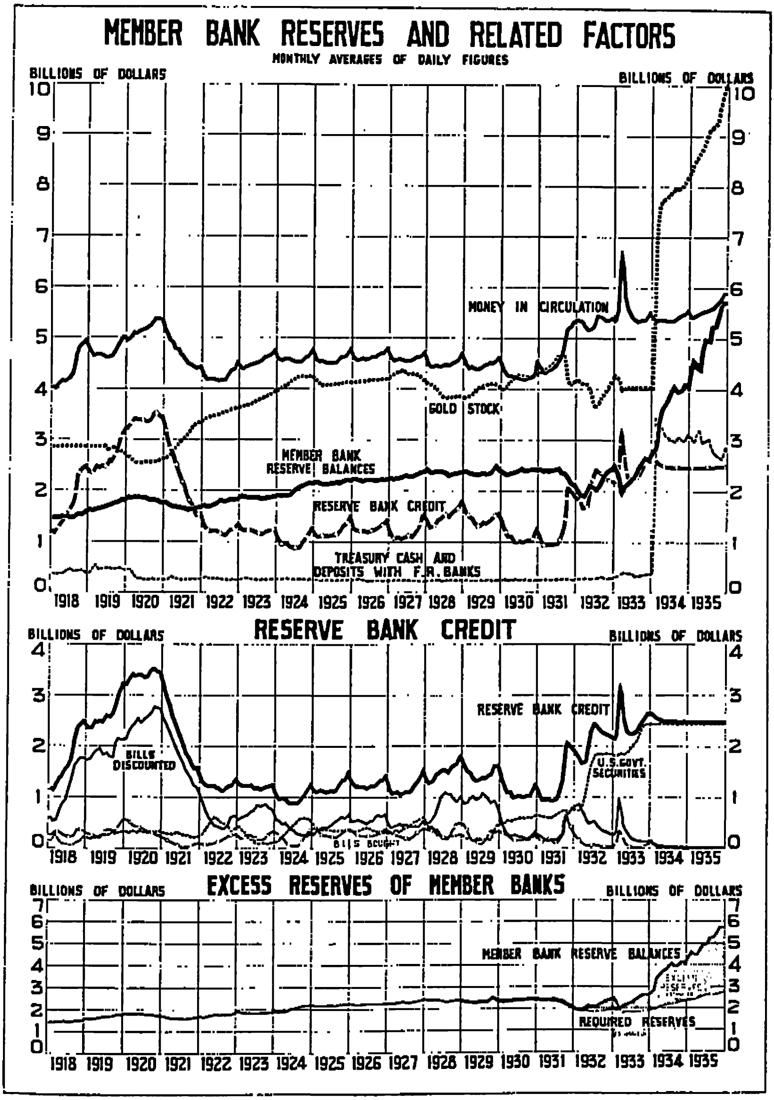
Since the reserves constitute only a fraction of the deposits that they are permitted to support, changes in reserves tend to be accompanied by changes in member bank deposits of several times the amount of the change. It is for this reason that reserve balances are sometimes referred to as "high power dollars."

The lower portion of the accompanying chart shows the course of member bank reserve balances from 1918 to 1935. Prior to 1932 these balances rarely exceeded the reserves required by law. Periods when reserve balances increased were periods when member banks were increasing their own loans and investments and deposits. Periods when member bank reserves diminished were periods when bank credit, as measured either by loans and investments or by deposits, declined. Increases in reserves, therefore, were indicative of periods of credit expansion, and decreases in reserves of periods of credit liquidation or contraction.

Not only changes in the volume of reserves of member banks are significant, but also the means that bring about these changes. If increases in reserves are caused by gold imports or open-market operations by the Reserve banks, they come to the member banks without causing them to borrow money, and consequently they result in a tendency on the part of the banks to find outlets for the new funds. In these circumstances credit conditions are easy and interest rates tend to decline. If, however, the member banks, in order to have the required amount of reserves, must borrow from the Reserve banks, then they are likely to make efforts to get out of debt, and may sell investments or call loans. Credit conditions become tight and interest rates advance.

For these reasons, the Reserve banks can exert an important influence on credit conditions by increasing or decreasing the volume of member bank reserves by buying or selling securities in the open market.

Since 1932 the demand for bank credit by business has been inactive, while reserves of member banks have been greatly increased, first, through open-market operations by the Reserve banks, and later through large imports of gold from abroad. As a consequence, member bank reserve balances with the Federal Reserve banks have been much larger than the minimum


MEMBER BANK RESERVES AND RELATED FACTORS
MONTHLY AVERAGES OF DAILY FIGURES
BILLIONS OF DOLLARS
MONEY IN CIRCULATION
GOLD STOCK
MEMBER BANK RESERVE BALANCES
RESERVE BANK CREDIT
TREASURY CASH AND DEPOSITS WITH F.R. BANKS
1918 1919 1920 1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935
RESERVE BANK CREDIT
BILLIONS OF DOLLARS
RESERVE BANK CREDIT
BILLS DISCOUNTED
U.S. GOVT. SECURITIES
BILLS BOUGHT
1918 1919 1920 1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935
EXCESS RESERVES OF MEMBER BANKS
BILLIONS OF DOLLARS
MEMBER BANK RESERVE BALANCES
REQUIRED RESERVES
1918 1919 1920 1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935

required by law. These reserves above legal requirements are known as excess reserves. The continued expansion of these excess reserves was in accordance with the Federal Reserve System's policy of easy money pursued for the purpose of lowering prevailing money rates and encouraging the recovery of business.

Some of the principal factors, changes in which influence the volume of member bank reserve balances, are also shown on the chart.* Gold stock and Reserve bank credit may be considered as primary sources of reserve funds. If other factors do not change, additions to the country's gold stock increase bank reserves and ease conditions in the money market, while reductions in gold stock have the opposite effect. Like effects follow increases or decreases of Reserve bank credit. The principal components of Reserve bank credit are shown in the middle section of the chart and comprise bills discounted for member banks, bills bought in the open market by the Reserve banks, and holdings of United States Government securities by the Reserve banks. As already indicated, it makes a difference whether changes in reserves are caused by open-market purchases by the Reserve banks, or reflect borrowing by member banks from the Reserve banks.

"Money in circulation" and "Treasury cash and deposits with Federal Reserve banks," which are also shown on the chart, are sometimes spoken of as factors making use of reserve funds. Increases and decreases in these work in the opposite direction from changes in gold and Reserve bank credit. A member bank needing currency to meet customers' demands may get it from a Reserve bank and have the amount charged to its reserve account. On the other hand, a member bank with surplus currency on hand may deposit it, receiving credit in its reserve account. Additions to funds withdrawn by the Treasury from the banks and held on deposit with the Federal Reserve banks or as cash in the Treasury vaults result in a decrease in reserve balances of member banks or an increase in their borrowings, while disbursements of such funds by the Treasury have the opposite effect.

The Federal Reserve banks may be thought of as a system of twelve reservoirs, each holding the reserve deposits of member banks and prepared to make loans to meet the credit needs

* A full discussion of the derivation of this chart and the significance of its constituent items may be found in the Federal Reserve Bulletin, July 1935, and in "Money Rates and Money Markets in the United States," by Winfield W. Riefler, Harper & Brothers, Publishers, 1930.

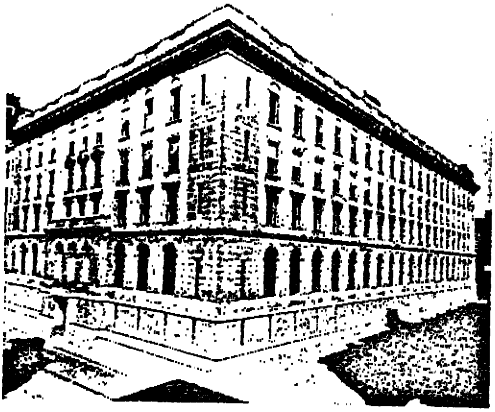
of its respective district. Facilities for borrowing on sound assets at its Reserve bank are an assurance to a well-managed bank of its capacity to render better service to its industrial, commercial, and agricultural customers.

In actual practice, a member bank's reserve account at the Reserve bank may be increased by depositing currency or checks, by transfers from a correspondent bank, by borrowing at the Reserve bank, or by the sale to the Reserve bank of bankers' acceptances, or under certain circumstances, by the sale to the Reserve bank of Government securities or other assets which the Reserve banks may purchase. The reserve balance may be checked against by the member bank, but any deficiency in the required balance must be restored.

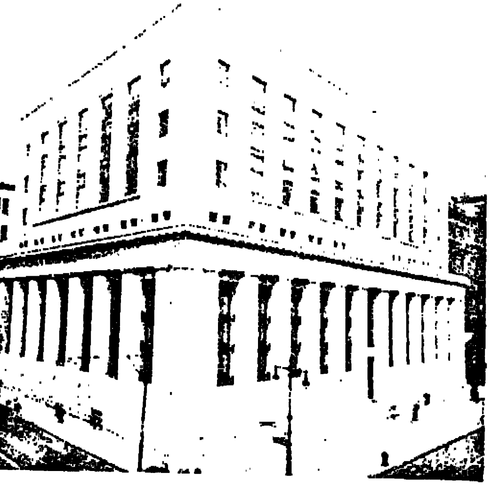
No interest is paid on member bank reserve deposits. If interest were paid on such deposits, Reserve banks would need to be so operated as to earn the interest and would have to keep their funds more fully invested, thus competing directly with commercial banks for loans and investments. Since the public interest requires that the operations of the Reserve banks be conducted with reference to the general condition of credit and business rather than to the need for earnings, the Reserve banks are not permitted to pay interest on deposits.

Extension of Credit by Federal Reserve Banks—The power of the Reserve banks to extend credit is of great importance to the business public. Let us take as an example a grocer in Austin, Texas, who wishes to buy a carload of flour. At the moment his bank account is not sufficient to cover such a purchase, and so he applies to his local bank for a loan. The bank, satisfied with the grocer's credit rating, makes him a 90-day loan on his note, and the grocer then buys the flour. As he sells it and his customers pay their bills, the grocer accumulates funds to retire his note.

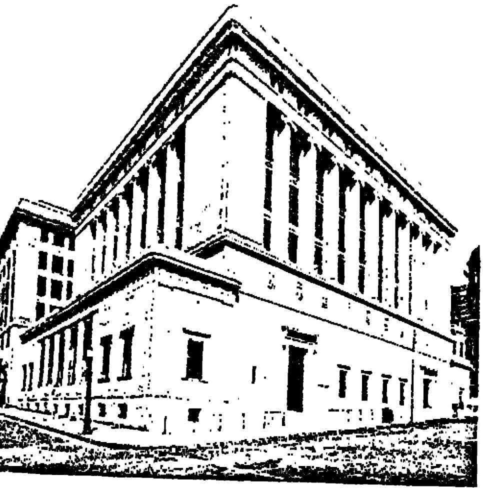
In ordinary circumstances, a bank's resources are sufficient to meet its customers' requirements, but the grocer's application for a loan may reach his bank at a time when many other customers need business loans. If the bank expands its loans at this time, it may in turn be forced to borrow. Before the establishment of the Federal Reserve System the Austin bank would have applied for a loan from some other bank with which it had an account. Usually, correspondent banks can meet requirements of this character coming from their bank customers. However, the correspondent bank similarly might not be in a position to expand its loans.



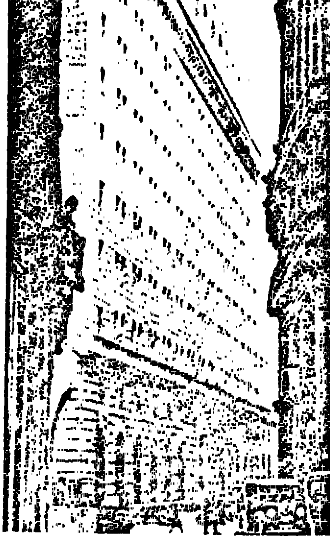
BOSTON



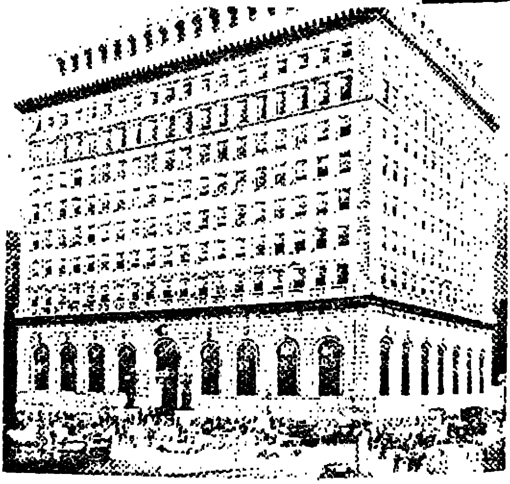
PHILADELPHIA



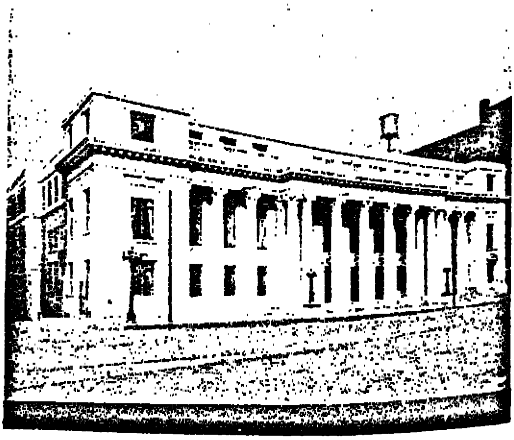
RICHMOND



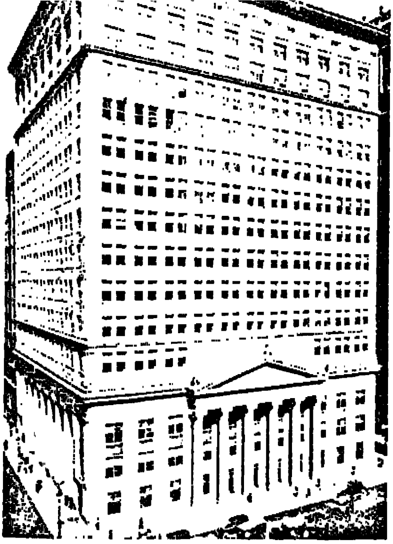
NEW YORK



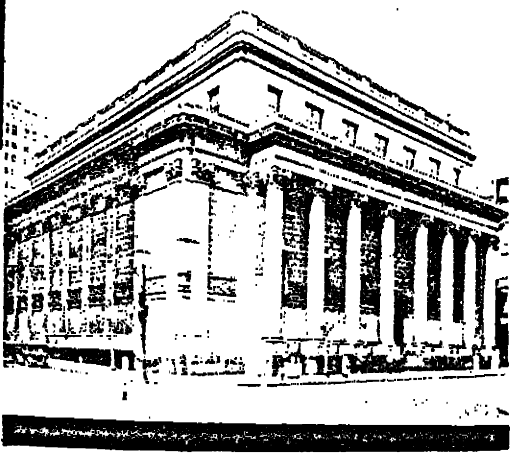
CLEVELAND



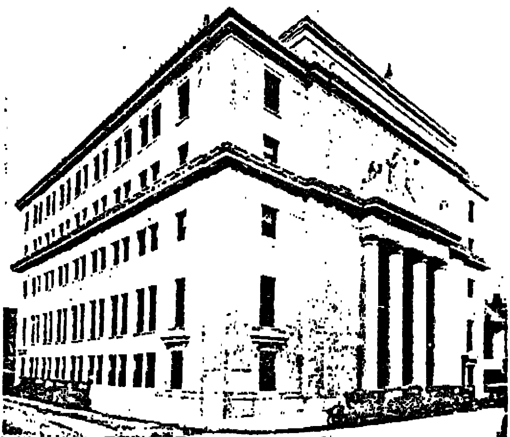
ATLANTA



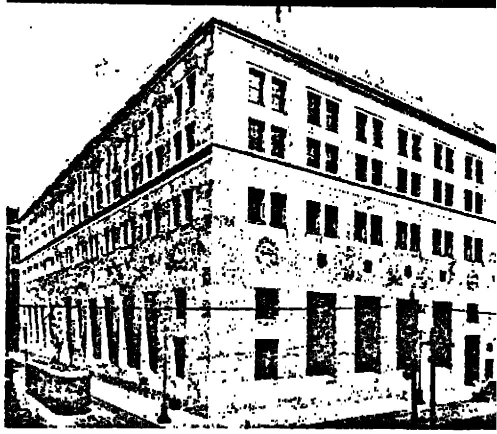
CHICAGO



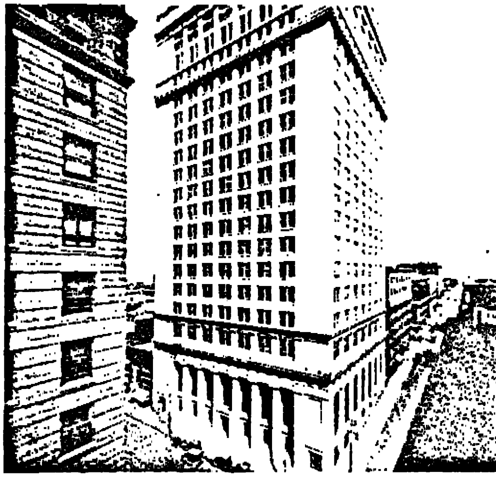
MINNEAPOLIS



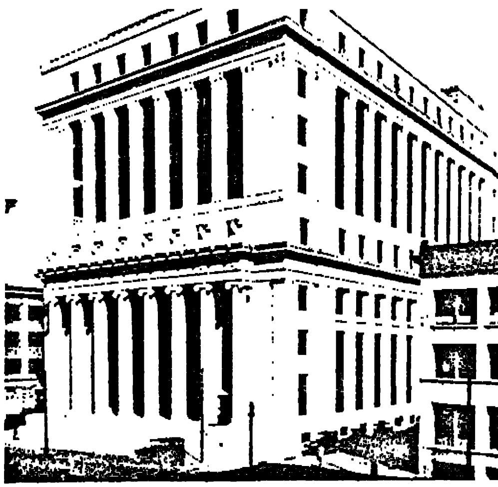
DALLAS



ST. LOUIS



KANSAS CITY



SAN FRANCISCO

Since the passage of the Federal Reserve Act, the Austin bank, if a member of the Federal Reserve System, is in a much more secure position, since it can always turn to the Reserve Bank of Dallas. It may offer to the Reserve bank the grocer's note. The Reserve bank then examines the note as to its eligibility under the law and as to its soundness, and, if satisfied with the loan, resdiscounts it and places the proceeds in the reserve account of the Austin bank.

Later, when the grocer's note matures and is paid, it is returned to him and thus the circle is completed. Meanwhile, the grocer has been able to carry on his business. The Austin member bank, with the funds it borrowed from the Reserve bank, has been better able to serve its customers than would have been the case if the reserve reservoir had not been available to draw upon.

The rate of interest charged the member bank by the Reserve bank is called the "discount rate." The discount rate for each class of paper is required to be established every fourteen days by each Reserve bank, or oftener if deemed necessary by the Board of Governors of the Federal Reserve System, and is subject to review and determination by the Board of Governors. Such rate is applied uniformly to all member banks in the district on paper of like character and is usually lower than the rate charged its customers by a member bank.

The member bank's lending rate at any particular moment is determined, subject to State law, largely by custom and business conditions. On the other hand, the discount rate at a Reserve bank is determined largely with reference to credit conditions. Discount rates are advanced when there is evidence of excessive growth of credit or the development of speculative activity and reduced when business is inactive and the demand for credit is low.

Federal Reserve banks may borrow from each other by rediscounting loans which they have made.

Important types of credit extension in which the Federal Reserve banks may engage are described below in summary form:

Credit Facilities for Member Banks — Reserve banks are authorized to discount for their member banks eligible paper which consists of notes, drafts, bills of exchange, and bankers' acceptances of short maturities arising out of commercial, industrial, and agricultural transactions, and short-term paper secured by obligations of the United States. They are authorized to make advances to their member banks upon the promissory notes of the latter for periods not exceeding ninety days upon the security of paper eligible for discount or purchase and for periods not exceeding fifteen days upon the security of obligations of the United States and certain other securities.

Federal Reserve banks may also make advances to member banks on other kinds of security, namely, upon any assets of the member bank whether otherwise eligible or not, which will secure the loan to the satisfaction of the lending Reserve bank. Such loans may have a maturity of not more than four months and bear interest at a rate of not less than ½ of 1 per cent per annum higher than the highest discount rate at the time in effect at such Reserve bank. Under certain prescribed conditions, advances may also be made to groups of member banks upon collateral other than eligible paper.

Credit Facilities for Others—Federal Reserve banks may make working capital loans direct to established industrial or commercial businesses which are unable to secure needed credit from their usual sources. These loans may be for periods not exceeding five years. Federal Reserve banks may also participate with member banks or other financial institutions in making such loans. A third form of this Federal Reserve bank assistance to industry is for a member or nonmember bank to make the loan, first protecting itself by securing a commitment from the Federal Reserve bank. The commitment binds the Federal Reserve bank to take over the loan at the request of the lending bank and to assume an agreed proportion of any loss, in no case exceeding 80 per cent of the loan.

Federal Reserve banks may also make advances to individuals, partnerships, or corporations upon their notes secured by direct obligations of the United States for periods not exceeding ninety days. In unusual and exigent circumstances, the Board of Governors of the Federal Reserve System may authorize a Federal Reserve bank under certain conditions to discount for individuals, partnerships, or corporations notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks. Federal Reserve banks may discount short-term agricultural paper for Federal Intermediate Credit banks.

Open-Market Investments—Federal Reserve banks, in accordance with the direction and regulations of the Federal Open Market Committee, may purchase and sell in the open market bankers' acceptances, cable transfers, and bills of exchange of the kinds and maturities eligible for discount, and direct obligations of the United States or obligations which are fully guaranteed by the United States as to principal and interest, as well as certain short-term obligations of Federal Intermediate Credit banks, of National Agricultural Credit Corporations, and of States in the continental United States and political subdivisions thereof. These operations are an important phase of the System's credit-extension activities.

Currency—Currency in this country has become the "small change" of business. The greater part of the country's transactions is settled by check, and except when banking disturbances have resulted in hoarding of currency by the public, the amount of currency in circulation has varied chiefly with the need for cash in making retail purchases and in paying wages.

The Federal Reserve banks are the principal currency reservoirs of the United States, and their own note issues afford the elastic element in the American currency supply. Member banks obtain the currency that they pay out from the Federal Reserve bank of their district. Nonmember banks usually obtain their currency from their correspondent banks, which are members of the Federal Reserve System and order the currency in turn from the Federal Reserve bank.

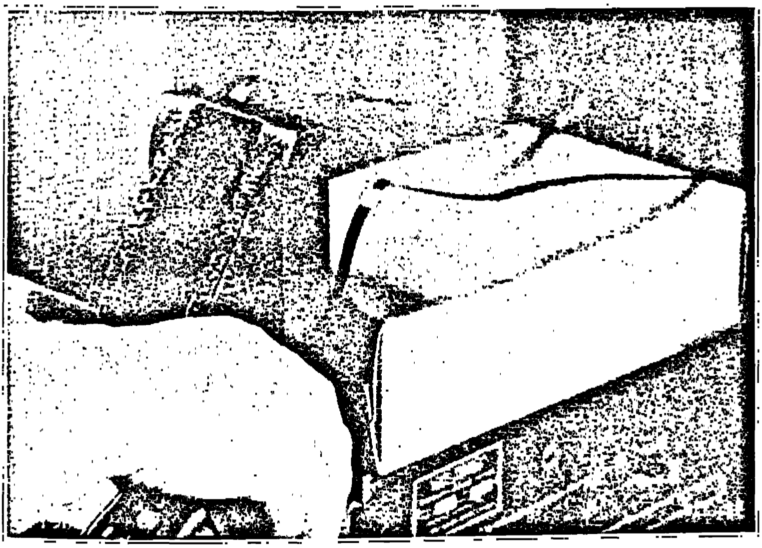
Currency transactions between a member bank and a Federal Reserve bank are much the same as those between an ordinary bank and its depositors. When an individual needs currency, he draws a check on his bank and cashes it. If he does not have a sufficient balance in the bank to obtain funds in this manner, he may be forced to borrow. Similarly, when a member bank requires currency to pay out to its customers, it in effect draws and cashes a check on its Federal Reserve bank. The member bank may find it necessary to borrow at the Federal Reserve bank for this purpose.

On the other hand, when an individual has more currency than he needs, he deposits it at his bank, perhaps paying off a loan. Likewise, if a member bank decides that it has more currency than it needs, it will return the surplus currency to the Reserve bank for credit to its account. Thus, the increase or decrease in the volume of currency in circulation does not depend upon the initiative of the Federal Reserve banks but upon the needs of the member banks. Their needs, in turn, are determined by the needs of their customers.

The entire cost of shipping currency to and from member banks is paid by the Federal Reserve banks.

In order to be able to supply all calls for currency without delay, the Federal Reserve banks keep on hand large stocks of all denominations of currency and coin. Additional stocks of paper currency are also maintained at the Bureau of Engraving and Printing in Washington, D. C.

As banks of issue, the Federal Reserve banks have had outstanding both Federal Reserve notes and Federal Reserve bank notes. Federal Reserve notes constitute the major portion of the currency used in the United States today, about $3,700,000,000 being in circulation during December 1935. Federal Reserve bank notes, however, have been issued only under special conditions. The amount outstanding at any time has been relatively small and those issued during the 1933 banking emergency are rapidly disappearing from circulation.



A cardboard carton of currency being strapped for shipment by a Reserve bank to a member bank. Steel bands are placed around each package while it is compressed between the jaws of the machine.

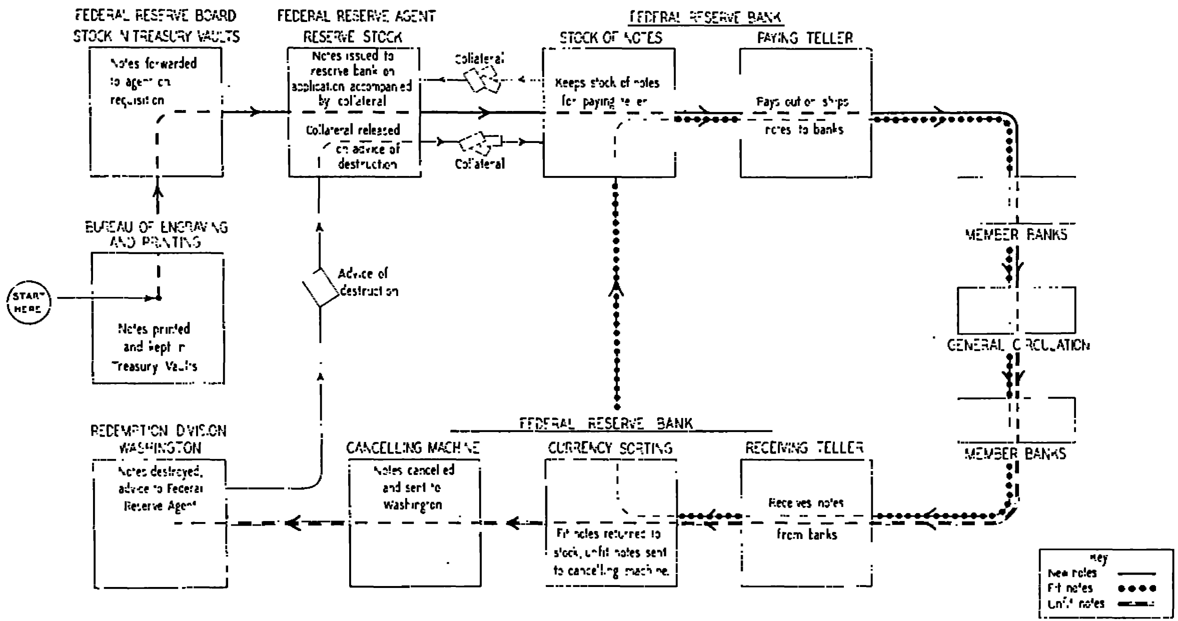
Federal Reserve notes are obligations of the United States and are a first and paramount lien on all the assets of the issuing Federal Reserve bank. They are legal tender for all public and private debts.

Any Federal Reserve bank may make application to its Federal Reserve agent for Federal Reserve notes. They are issued by the Federal Reserve agent against the security of gold certificates and of commercial and agricultural paper discounted or purchased by Federal Reserve banks, and, until March 3, 1937, may also be secured by direct obligations of the United States when authorized by the Board of Governors of the Federal Re-

The packages shown in the above illustration are new and used Federal Reserve notes being issued by the Federal Reserve agent to the Federal Reserve bank.

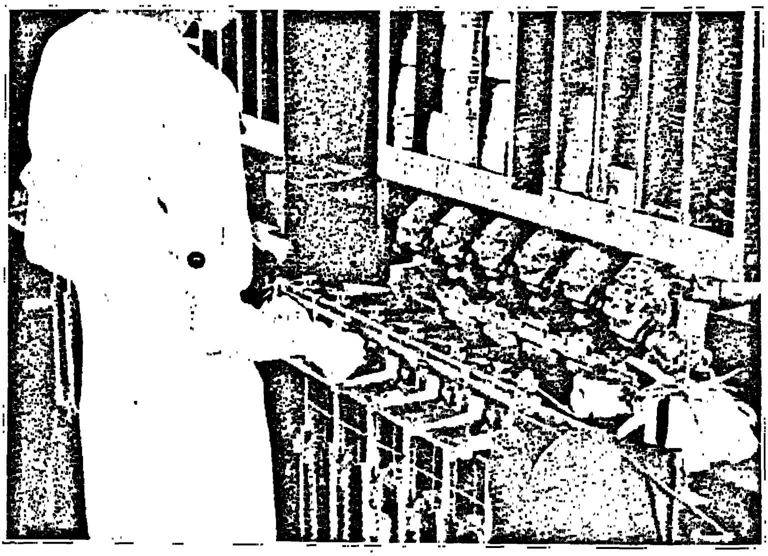
serve System. Every Federal Reserve bank is required to maintain reserves in gold certificates of not less than 40 per cent against its Federal Reserve notes in circulation. A small fund in gold certificates is maintained with the Treasurer of the United States for the redemption of its Federal Reserve notes, but this may be counted as part of the 40 per cent reserve.

ISSUE AND RETIREMENT OF FEDERAL RESERVE NOTES



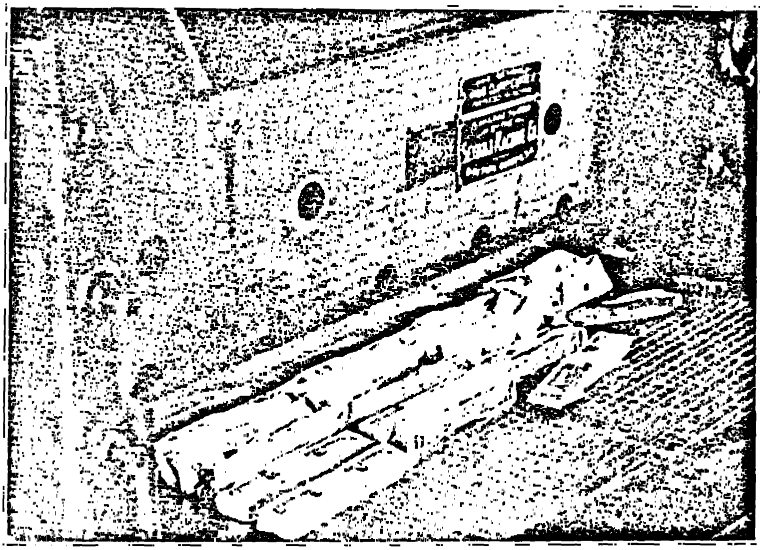
The collateral pledged with the agent by the Reserve bank for Federal Reserve notes must not be less than the amount of notes applied for. The Board of Governors of the Federal Reserve System may at any time call upon the Federal Reserve bank for additional security to protect Federal Reserve notes issued to it.

Every Reserve bank is required to redeem in lawful money its own Federal Reserve notes and the notes issued by other Reserve banks, but it may not place the notes of other Federal Reserve banks in circulation again under a penalty of a tax of 10 per cent upon the face value of the notes so paid out. It is required to return promptly to every other Reserve bank the notes of such other Reserve bank, or, upon direction of that bank, to forward them to the Treasurer of the United States for retirement. Badly worn and mutilated notes are canceled and returned by the Federal Reserve bank receiving them to Washington. Notes which are still fit for use may be returned by a Reserve bank to the custody of its Federal Reserve agent, and the former is then entitled to the return of an equivalent amount



Currency returned to the Reserve banks is sorted by machines of the type shown in this illustration.

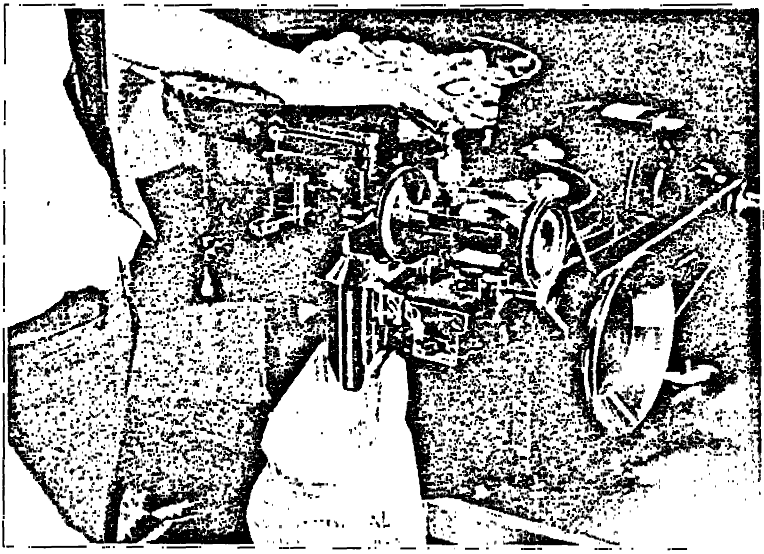
of collateral. Returned notes may again be obtained from the agent on the presentation of collateral as required for the issue of new notes. The costs of engraving, printing, issuing, and retiring Federal Reserve notes, together with insurance and shipping costs, are paid by the Reserve banks.



Currency which returns to the Reserve banks unfit for further use, is cut in two by this machine and the two halves sent in separate shipments to Washington.

The facilities provided by the Federal Reserve System for borrowing on sound assets to obtain currency represent one of the most important improvements made in the American financial system by the Federal Reserve Act. Previously, when there was a sudden increase in the demand for currency, a large supply was difficult to obtain: First, because facilities for issuing sufficient currency to meet emergency demands did not exist; and second, because there was no central pool from which banks could borrow, while in times of banking difficulty large-scale sales of investments or borrowing from other banks was impossible. The impossibility of increasing the supply of currency was one of the principal causes of the panics of 1873, 1893, and 1907, when many banks suspended payments to depositors, notwithstanding the fact that they owned sound assets of the types on which the Federal Reserve banks now extend credit. The Federal Reserve System established an elastic currency system, which made it possible to meet the unprecedented withdrawals of cash in the years 1930-1933.

The demand for currency is one of the principal sources of the seasonal demand for Reserve bank credit. This is shown by the chart on page 17, on which one line represents the total of credit extended by Reserve banks from January 1918 through December 1935, and a second line, volume of money in circulation. The close relationship of the seasonal fluctuations in Reserve bank credit and in currency is at once evident.



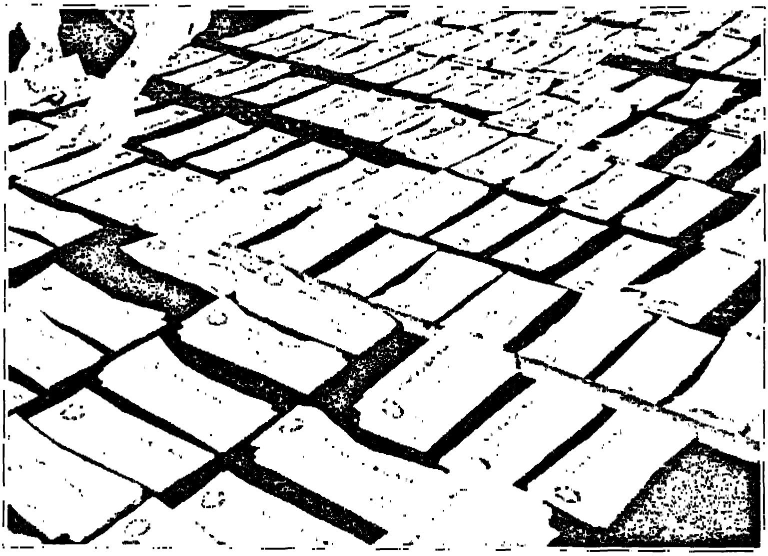
A coin-counting machine in a Reserve bank. In 1934 nearly $300,000,000 of coin was received and counted at the twelve Reserve banks.

Interdistrict Settlement Fund—Each Federal Reserve bank has a deposit of gold certificates with the Board of Governors at Washington. The sum of the twelve deposits is called the Interdistrict Settlement Fund, which was created to assist Federal Reserve banks in settling their transactions with each other. Private or leased wires connect all Federal Reserve banks and branches, and at the close of each day the Reserve banks wire to Washington the total of the amounts that they owe the other Reserve banks. The Interdistrict Settlement Fund combines these figures and transfers sums from one bank's account in the fund to another's account to pay the net amount of these interbank transactions. In this way check collections, transfers of funds for member banks and the Treasury, Federal Reserve bank investments, and an enormous mass of other interdistrict business are transacted merely by bookkeeping entries and without physical shipments of currency. In 1935, business totaling $91,000,000,000 was handled through the Interdistrict Settlement Fund.

Check Collection—Under regulations prescribed by the Board of Governors of the Federal Reserve System, the twelve Federal Reserve banks act as a nation-wide clearing house for their member banks and for such nonmember banks as maintain appropriate balances with the Reserve banks. For these banks the Federal Reserve banks will collect checks drawn on all banks in the United States which do not deduct an "exchange charge" for paying checks on themselves received through the mail. Out-of-town checks drawn on banks in the same Federal Reserve

Bundles of incoming checks being opened in the mail department of a Reserve bank.

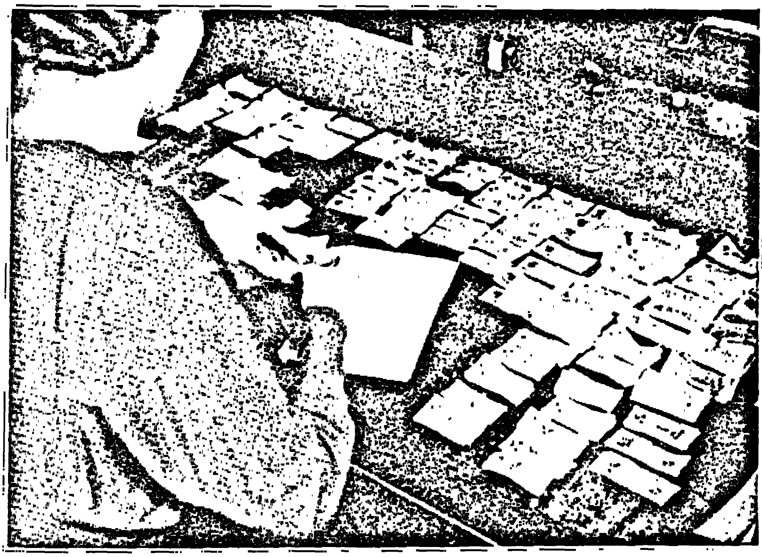
district deposited with a Reserve bank are usually sent directly to the banks on which drawn. Checks drawn on banks in another Federal Reserve district, however, are ordinarily sent to the Reserve bank of that district for presentation. This payment between Federal Reserve banks for the proceeds of check collections is made by telegraph through the Interdistrict Settlement Fund. Direct forwarding of checks and settlement of interdistrict items through the Interdistrict Settlement Fund have reduced materially the average time formerly required to collect out-of-town checks under the old indirect routing practice. Since upwards of 90 per cent of all commercial transations are settled by checks, the more prompt availability of the proceeds of checks represents an important saving to business and banking in this country. Moreover, checks are collected by the Federal Reserve banks without payment of the old "exchange charge" and this represents a large saving to commerce.



Sorting U. S. Treasury checks in a Reserve bank. Each pile of checks is drawn for a different purpose and by a different disbursing officer of the Government.

Collection of Notes, Drafts, Bonds, Coupons, etc.—The Federal Reserve banks also collect miscellaneous items such as notes, drafts, bonds, coupons, etc., collection being made through direct routing and the use of the Interdistrict Settlement Fund in much the same manner as checks.

Wire Transfers of Funds—Member banks wishing to create balances or pay funds in another part of the country may do so by means of wire transfers through their Reserve banks without loss of time and, if transfers are for multiples of $100, at no cost to member banks except where made for the benefit of a designated customer, when a charge is made for the cost of the telegram. These transfers are accomplished by means of wire advices from the sending to the receiving Federal Reserve bank, and payment is made through the medium of the Interdistrict Settlement Fund.



A clerk in a Federal Reserve bank counting coupons from various U. S. Treasury securities after redemption by the Reserve bank as Fiscal Agent for the Government.

Fiscal Agency—The Reserve banks act as fiscal agents of the Government in the issue, transfer, exchange, conversion, and redemption of United States Government securities, and in the administration of special deposit accounts of the Government in member and nonmember banks. Functions formerly performed by the Sub-Treasuries of the United States in connection with the exchange and redemption of money for the public are handled now by the Reserve banks. They are also called upon to serve as fiscal agents for various agencies and corporations established by the Government, as for example, the Reconstruction Finance Corporation. The Fiscal Agency Department of a Federal Reserve bank is a convenience to banks and the public having occasion to deal with the Government in these matters.

Informational Services of the Federal Reserve System—Important work is carried on by the Board of Governors of the Federal Reserve System as well as at the Reserve banks in the collection and analysis of financial and business data of local, national, and international scope. Accurate and current information of this character is essential to the officials of the System who are responsible for national credit policies. The material thus assembled is made public as far as possible for the benefit of member banks and business in general.

The official publication of the Board of Governors of the Federal Reserve System, the Federal Reserve Bulletin, is issued monthly and is supplied free of charge to all member banks, and at a subscription rate of $2.00 per year to cover printing costs, to the general public. It is a source for statistical material dealing with general business conditions, the operations of the Federal Reserve banks and member banks, money market developments in this country, and foreign banking data, including exchange rates, gold holdings of central banks and governments, reports of central banks, and similar material.

A monthly review of business conditions in his district is issued by each Federal Reserve agent. These reviews are based in part on reports received from banks and from firms representing the major lines of industry, and are designed to include the type of information currently useful to bankers in their lending activities. In addition to the monthly reviews of business conditions, a large amount of statistical matter for the use of officers and directors is prepared at each Federal Reserve bank. Several of the Reserve banks maintain libraries which are open to the public, affording access to collections of well-selected books, pamphlets, and current periodicals on economic and financial subjects.

General Information Regarding Membership in the Federal Reserve System

Among the privileges which a bank enjoys as a member of the Federal Reserve System are the following:

1. Facilities for rediscounting eligible paper and obtaining advances on promissory notes.
2. Obtaining currency and coin promptly when needed.
3. Direct use of Federal Reserve check collection facilities.
4. Direct use of Federal Reserve non-cash collection service.
5. Transferring funds by telegraph.
6. Drawing drafts on Federal Reserve bank.
7. Safekeeping of securities by the Federal Reserve bank for member banks located outside of Federal Reserve bank and branch cities.
8. Use of the emblem MEMBER FEDERAL RESERVE SYSTEM
9. Member bank deposits are automatically insured by the Federal Deposit Insurance Corporation up to $5,000 for any one depositor.

As stated above, all national banks in the continental United States are required to become members of the Federal Reserve System. In the case of State banking institutions interested in becoming members, applications should be addressed to the Federal Reserve agent at the Reserve bank in the district in which the applicant is located. The Federal Reserve agent investigates the condition of the bank and makes recommendations to the Board of Governors of the Federal Reserve System, which must pass on each application for membership.

In acting upon the application of a State institution for membership, the Board gives special consideration to:

(1) The financial history and condition of the applying bank and the general character of its management;

(2) The adequacy of its capital structure and its future earnings prospects;

(3) The convenience and needs of the community to be served by the bank; and

(4) Whether its corporate powers are consistent with the purposes of the Federal Reserve Act.

Some of the important statutory provisions regarding membership are outlined below.

Capital required—To be eligible for admission to membership in the Federal Reserve System, a State bank or trust company, including Morris Plan banks and other incorporated banking institutions engaged in similar business but excepting mutual savings banks having no capital stock, must have a paid-up, unimpaired capital sufficient to entitle it to become a national bank in the place where it is situated, except that this requirement does not apply to certain State banks and trust companies having a capital of not less than $25,000.

After the year 1941 the above requirement may be waived by the Board of Governors of the Federal Reserve System with respect to the State banks and trust companies having average deposits of $1,000,000 or more, which after that year are required to be members of the Federal Reserve System, in order to have the benefits of deposit insurance.*

A mutual savings bank having no capital stock must, to be eligible, have surplus and undivided profits of not less than the amount of capital required to organize a national bank in the same place.

The minimum capital requirements with respect to new national banks are as follows:

In cities having population of:	Minimum Capital Required
6,000 or less	$ 50,000
Over 6,000 but not over 50,000	100,000
Over 50,000 (except as stated below)	200,000
In an outlying district of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of $100,000 or less	100,000

Stock Subscription—An applying bank is required to subscribe for stock in the Federal Reserve bank of the district in an amount equal to 6 per cent of its paid-up capital and surplus (including capital notes and debentures sold to the Reconstruction Finance Corporation), except that a mutual savings bank

* Savings banks, mutual savings banks, Morris Plan banks and other incorporated banking institutions engaged only in business similar to that transacted by Morris Plan banks, State trust companies doing no commercial banking business, and banks located in Hawaii, Alaska, Puerto Rico, or the Virgin Islands, are not required to become members of the Federal Reserve System in order to have deposit insurance.

must subscribe for an amount of stock equal to six-tenths of one per cent of its total deposits. Only one-half of the par value of the stock is paid, the other half remaining subject to call by the Board of Governors of the Federal Reserve System. Upon the amount paid in, the Reserve bank pays cumulative dividends at the rate of 6 per cent per annum.

Reserve Requirements—A member bank must maintain with its Federal Reserve bank as a reserve balance a certain proportion of its deposits. This proportion varies according to the class of the deposit and the location of the bank, as follows:

Member Banks:	Net Demand Deposits*	Time Deposits
(a) In central reserve cities	13%	3%
(b) In reserve cities	10%	3%
(c) Elsewhere	7%	3%

* Gross demand deposits less balances due from other banks and cash items in process of collection payable immediately upon presentation in the United States.

If located in an outlying district of a reserve city, however, a member bank may, upon approval of the Board of Governors of the Federal Reserve System, have its reserve requirements reduced to those specified in (c), and, if located in an outlying district of a central reserve city, may, with the approval of the Board of Governors of the Federal Reserve System, have its reserve requirements reduced to those specified in (b) or (c).

The Board of Governors of the Federal Reserve System may, in order to prevent injurious credit contraction or expansion, change the requirements for reserves of member banks located in reserve and central reserve cities or of those located elsewhere or of all member banks, but such reserves shall not be less than the percentages of deposits shown in the above schedule nor more than twice such percentages.

The law provides that no new loans may be made nor any dividends paid by a member bank if its reserve is deficient. Penalties which are prescribed by the Board of Governors of the Federal Reserve System are assessed for deficiencies in a bank's reserves. Deficiencies are computed on the basis of the average daily net deposit balances for semi-weekly, weekly, or semi-monthly periods for banks located in Federal Reserve and branch cities, reserve cities, and elsewhere, respectively.

Voluntary Withdrawal—Any State member bank or trust company may withdraw from membership after six months' written notice has been given to the Board of Governors of the

Federal Reserve System, upon the surrender and cancellation of all of its holdings of Federal Reserve bank stock, but, in exceptional circumstances, such six months' notice may be waived by the Board in individual cases. The law provides, however, that no Federal Reserve bank shall, except upon express authority of the Board, cancel within the same calendar year more than 25 per cent of its capital stock on account of such voluntary withdrawals during that year.

Examinations and Reports—National banks and their affiliates are examined by the Comptroller of the Currency and copies of the reports are furnished the Reserve bank. State member banks and their affiliates are examined by examiners appointed with the approval of the Board of Governors of the Federal Reserve System; and, whenever the directors of a Federal Reserve bank approve examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners so appointed and approved. The Board of Governors of the Federal Reserve System deems it desirable to have at least one regular examination of each State member bank, including its trust department, made during each calendar year by a Federal Reserve bank's examiners either independently or jointly with State banking authorities. The laws of some States authorize the acceptance of the reports of examiners for the Federal Reserve banks in lieu of examinations by State examiners.

A State member bank is required to furnish its Federal Reserve bank semi-annual reports of earnings and dividends and not less than three reports of condition each year, including reports of its affiliates (with certain exceptions), and to publish such reports of condition. A national bank sends to its Federal Reserve bank copies of similar reports which it submits to the Comptroller of the Currency. A member bank must also furnish its Reserve bank with periodical reports of daily net deposit balances for reserve computation purposes.

Branches of State Member Banks—State member banks may establish and operate branches on the same conditions and subject to the same limitations as those applicable to national banks, subject to the provisions of the laws of the State in which they are located, and subject also to the approval of the Board of Governors of the Federal Reserve System with respect to the establishment of out-of-town branches. The Board's approval is not required for branches within the city, town, or village in which the parent bank is situated.

Limitation on Interest Paid on Deposits—No member bank of the Federal Reserve System may pay interest on any deposit which is payable on demand, with certain specified exceptions; and the Board of Governors of the Federal Reserve System is required by law to limit by regulation the rate of interest which may be paid by member banks on time and savings deposits.

Miscellaneous Provisions—There are a number of other provisions of Federal law relating to different aspects of operations of national banks as well as State banks which become members of the Federal Reserve System. Each member bank must have not less than 5 nor more than 25 directors. There are provisions regulating loans to a bank's own executive officers; providing for the removal of any director or officer for violation of law or for continued unsafe or unsound banking practices; limiting the degree to which directors, officers, or employes of member banks may serve other banks or securities organizations; and imposing penalties with respect to embezzlements, false entries, and similar matters.

Other important provisions prohibit member banks from lending on or purchasing their own stock; prohibit payment of unearned dividends; limit activities with respect to purchasing, selling, underwriting, and holding investment securities and stock; regulate the relation of a member bank to holding company affiliates; prohibit affiliation with any organization engaged principally in the issue, underwriting, or distribution of securities; limit loans on stock or bond collateral; limit loans to or investments in stock of affiliates; and limit the investment in bank premises.

Conditions of Membership—The Board of Governors of the Federal Reserve System prescribes for each State institution applying for membership conditions to which the institution must agree before it is admitted to the System. These conditions are designed to maintain high standards in member banks and to insure that powers exercised after their admission will be consistent with the provisions of the Federal Reserve Act.

The Federal Reserve agent in each district is prepared to furnish on request full information as to the procedure to be followed and forms to be used in applying for membership.

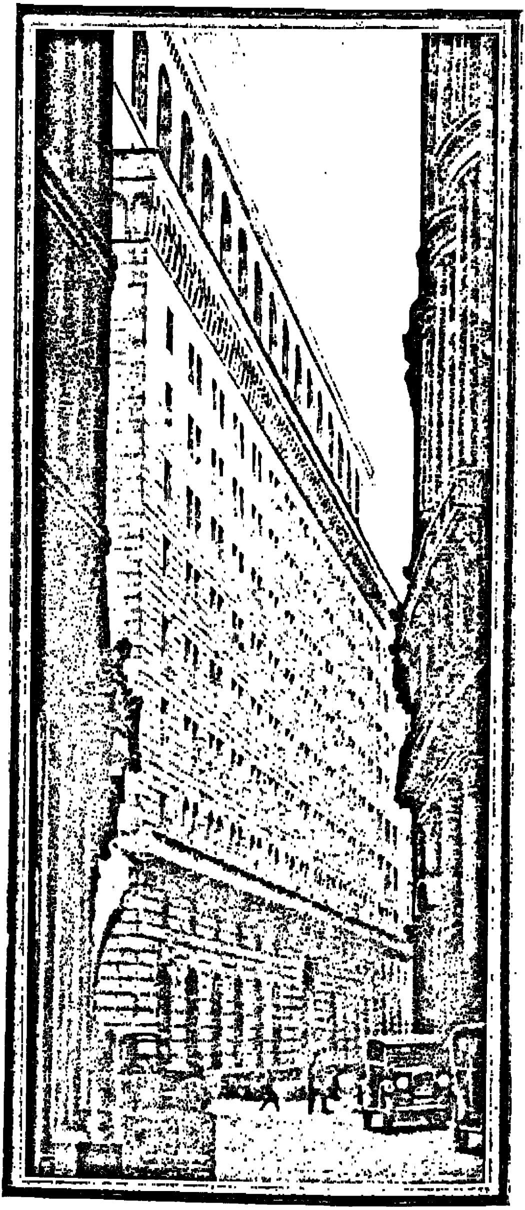
In its more than twenty years of operation and development, the Federal Reserve System has become an integral part of American business and finance. Through the Interdistrict Settlement Fund it has made possible the more efficient, less costly, and speedier handling by member banks of check collections and transfers of funds. It has provided an elastic and adequate supply of currency, a concentration of bank reserves for greater usefulness, and an efficient fiscal agency for the Treasury. The ability of member banks to borrow on business paper which provides a ready market for the loans of customers, large and small, has tended to equalize the credit supply in all parts of the country, to eliminate seasonal credit strain, and give greater assurance that member banks can supply the credit requirements of their communities. Machinery has been set up to provide a national credit policy administered in the public interest and to insure unified action by the banking system in carrying out this policy.

The First Ten Years
of the
Federal Reserve Bank of New York

Its growth and services

1924

The First Ten Years
of the
Federal Reserve Bank of New York



Photograph of Liberty and Nassau Street corner of the new bank building

The First Ten Years
of the
Federal Reserve Bank
of New York

The Bank and the System

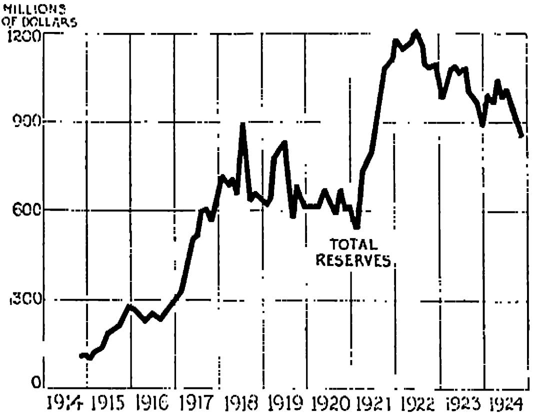
The Federal Reserve Bank of New York is the largest of the 12 Federal Reserve Banks and carries on about one-third of their aggregate operations. It first opened its doors for business ten years ago, on November 16, 1914.

The Federal Reserve Banks perform for the banks of the country much the same service that the banks themselves perform for their customers. They receive deposits from banks; they furnish the currency and coin which banks require; they collect checks; they transfer funds; and in addition they do much financial service for the United States Government.

By bringing together in their vaults the previously scattered gold reserves of the member banks, and by their power to issue currency backed by these reserves and by commercial paper, the Reserve Banks are able to provide currency and credit to meet the country's fluctuating needs for currency and credit. When active business presses the banks of the country for funds, or when the banks face a money stringency such as in the past sometimes led to panics, they borrow at the Federal Reserve Banks. When business is less active and funds flow back to the banks, they repay their borrowings at the Reserve Banks. The Federal Reserve system gives the country elastic currency and credit, adapted to the changing needs of commerce, industry and agriculture.

Size of the System's Operations

Naturally the operations of the Reserve Banks are much larger in volume than the operations of commercial banks. Their customers are not individuals but banks, each with its own thousands of customers. The money which these customers use, the Government securities they buy, many of the checks they draw, and a part of the commercial paper upon which they borrow pass through the Reserve Banks. In 1923, for example, the 12 Reserve Banks received and counted between three and four billion separate pieces of currency and coin with a value of more than 10 billion dollars; they handled for collection 700 million checks valued at more than 200 billion dollars; they issued, redeemed, or exchanged more than 100 million United States certificates, notes, or bonds valued at eight billion dollars.



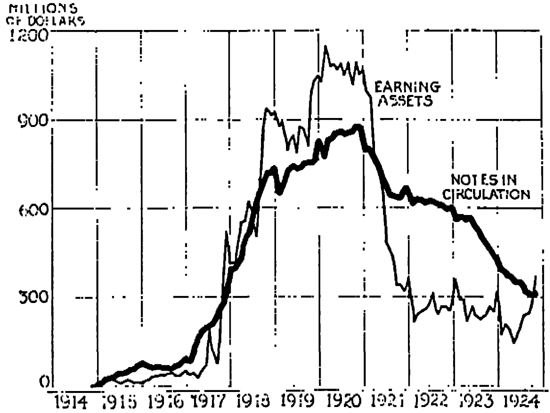
Growth of the Bank's Reserves

Opening of the New York Bank

When the Federal Reserve Bank of New York began operations in November 1914, it had a staff of 7 officers and 85 other employees, consisting largely of workers lent to the new organization by neighboring New York City banks. The first quarters were a small rented building at 62 Cedar Street. In succeeding weeks the temporary employees were gradually replaced by a permanent staff which consisted on January 1, 1915, of 5 officers and 36 other employees. The first activity of the bank was taking into custody the funds which all National banks in the district were required by law to maintain with it as reserve. There was no considerable expansion in duties or in personnel until 1917.

War Expansion

The World War put to the test the mechanism of the Reserve Banks for currency and credit elasticity. Banks borrowed billions from the Reserve Banks, and these billions provided funds whereby the war was financed, wages paid, war materials bought, and loans made to France, England and Italy. While many other countries made vast issues of irredeemable paper money, the Reserve Banks met new needs for currency in the United States by issuing Federal Reserve notes, secured by gold and commercial paper, and always redeemable.



Loans and Note Circulation, End of Each Month

As bankers for the Government the Reserve Banks handled Government war disbursements and receipts and the sale of 21 billion dollars of Liberty bonds and Victory notes and 42 billions of short-time loans.

Located at the country's principal money center, the Federal Reserve Bank of New York felt the full impact of war and post-war demands. Its loans rose to well over a billion dollars, its currency issues to 900 million, its distribution of war securities to 25 billion, and the number of employees increased to three thousand.

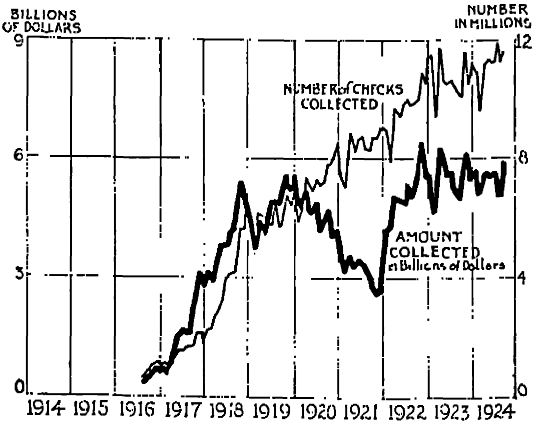
Development of Regular Services

In addition to emergency war services there grew up as natural developments of the system, both during the war and after it, a series of activities, more permanent in their nature.

Side by side with the emergency issue of currency were developed the day to day functions of the Reserve Banks as currency banks. Practically all of the bills and coin in circulation in this country reaches the users through the Reserve Banks, and is from time to time presented to those banks for redemption. The receiving, counting, wrapping, and shipping of currency have come to assume large proportions.

Saving Time, Expense, and Hazard

Check collection in the United States had long been unorganized and was each year imposing on business and agriculture a burden of expense and inconvenience. The 12 Federal Reserve Banks and their 23 branches, with a central jointly owned gold fund in Washington for the settlement of accounts between districts, formed



Checks Collected Each Month

A Section of the Transit Division Where 378 Clerks in Three Shifts Handle Checks 24 Hours Each Day

an effective organization for the transfer of funds about the country and the rapid, direct and economical routing and collection of checks. The transfer of funds by telegraphic advice and book settlement largely replaced expensive and dangerous shipments and reshipments of currency and coin by express. The Federal Reserve check collection system cut in half the average time required to collect checks, and greatly reduced the cost.

As the exigencies of war finance passed, more of the activities of the Reserve Banks centered in these ordinary services. By the end of December 1921, about 95 per cent. of the employees of the New York Reserve Bank were engaged in work aside from the lending functions.

Volume of Operations

The gold reserve of the Federal Reserve Bank of New York amounts to one-tenth of all the monetary gold in the world and compares with the largest amount ever held by a European central bank; yet it is about a third of the gold held by the 12 Federal Reserve Banks combined.

Making Loans and Investments

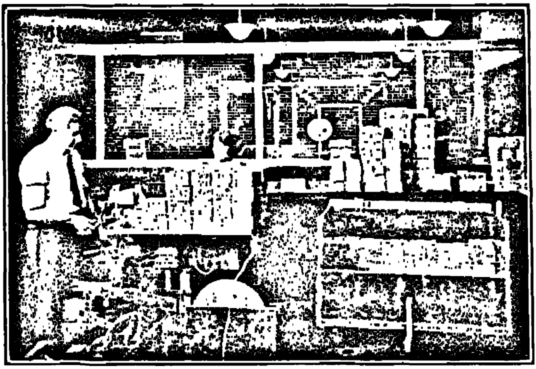
Even in recent years when the amounts of loans and investments of the bank have been much smaller than during the war period, loan and investment transactions have totaled more than 20 billion dollars a year. The 1923 figures were:

DISCOUNTS AND ADVANCES TO MEMBER BANKS:	
Number of items handled..........	72,000
Amount..........................	$17,952,000,000
ACCEPTANCES AND GOVERNMENT OBLIGATIONS purchased from time to time during the year for the account of this bank and other Federal Reserve Banks.	
Amount..........................	$3,528,000,000

In 1920 when the post-war business and price expansion reached its highest point the amount of bills discounted during the year was 50 billion dollars. The dollar amounts run to very large figures because loans are made for such short periods, 12 days on the average. The loans made by the bank thus turn over 30 times a year and are completely liquid, a necessary condition in a bank which is the custodian of reserve funds.

Supplying Coin and Currency

Every year there flows through the money department of the bank, to be counted and sorted, retired from circulation, or to be paid out again, a sum of money which in the aggregate turnover is larger by a billion dollars than all the money in



Compressing and Binding Money with Electrically Welded Steel Bands

Two Tons of Coin at the Door of One of the Twenty-two Coin Counting Rooms

circulation in the United States at any one time. The average employee doing this work sorts, inspects, counts and wraps every day 10,000 separate bills. The average employee counting coin handles in a year an average weight of 200 tons. The volume of 1923 transactions was as follows:

PAPER CURRENCY PAID OUT, RECEIVED, OR REDEEMED:	
Individual notes counted and re-counted	477,000,000
Amount paid and received	$5,807,207,000
COIN PAID OUT OR RECEIVED, a service previously performed largely by the Subtreasury, but now entirely in the hands of the Federal Reserve Bank.	
Number of coins counted	816,000,000
Tons of coins counted	4,300
Amount paid out and received	$228,800,000

Collecting Checks, Drafts, Notes, and Coupons

Each year there are drawn in the United States checks with a total value of about 600 billion dollars. About one-third of these checks, or most of the out-of-town checks, totaling 200 billion dollars, passes through the Federal Reserve collection system, and one-third of this amount, or 65 billion dollars, is handled by the Federal Reserve Bank of New York. Thus the employees of the check department of the bank handle in the course of their daily work more than one-tenth (in value) of all the checks that are drawn each day in the United States. An average day's work is 400 thousand separate checks, or about one thousand checks a day for each employee engaged in handling checks. For this work a force is employed continuously day and night to secure all possible speed in collection. Totals for 1923 for both cash and non-cash items follow:

CASH ITEMS, mostly checks, handled for banks in all parts of the country:	
Number of items	128,400,000
Amount	$65,518,000,000
NON-CASH ITEMS, handled for collection, including drafts, notes, and coupons:	
Number of items	2,177,000
Amount	$1,921,000,000

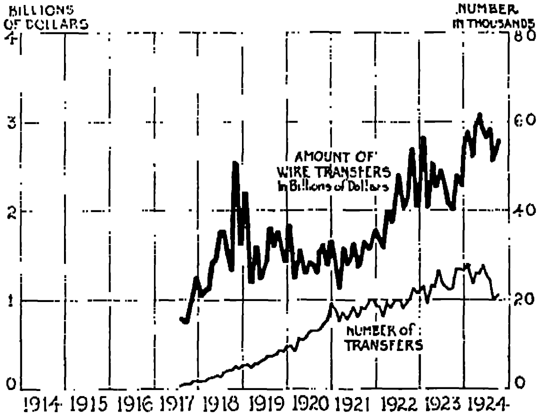
In addition to handling checks and other collection items, the Reserve Bank facilitates the collection of large amounts of other checks presented through local clearing houses, by settling collection balances on the Reserve Bank books instead of by cash.

The Bank's Branch Postoffice Which Receives Mail Direct from and Dispatches Direct to the Mail Trains

In transferring funds to and from other districts, in addition to settlements for check and note collections, the bank transfers by telegraph, settling through the Gold Settlement Fund in

Washington, a sum of money greater each year than the total cost of the World War to the United States, as indicated by these 1923 figures:

Telegraphic transfers of funds to all parts of the country. This service is performed over the telegraph wires of the Federal Reserve system, and is used by the Treasury Department and member banks:	
Number of transfers	284,000
Amount	$28,031,000,000



Funds Transferred by Telegraph Each Month

In Connection with Government Loans

The task of selling, redeeming and exchanging Government war issues has grown less since the war but still involves large operations, as 1923 figures show:

United States Government securities (including bonds, notes, and certificates of indebtedness) issued, redeemed or handled in connection with conversion, exchange, or registration:	
Number of items	2,260,000
Amount	$4,281,000,000
Coupons paid on Government securities:	
Number of coupons	17,684,000
Amount	$337,344,000

In addition to these operations for the Treasury, the bank performs a large amount of other work for the Government connected with the issuance and redemption of currency, the collection of checks, the custody, purchase and sale of securities, the transfer of funds, etc.

A Wholesale Bank

The great volume of operations arises from the fact that the Reserve Bank deals not with individuals, but with banks and with the Government. It handles money, checks, credit instruments and securities not in retail, but in wholesale volume. The mechanical equipment required for the work of the Reserve Bank is correspondingly larger than is required by the commercial bank. The equipment includes, for example, 400 adding machines, 286 adding typewriters, 65 bookkeeping machines, 20 coin counting and wrapping machines, a bindery for daily reports, more than 400 standard typewriters, and about 150 other machines of various special types for canceling currency, endorsing checks, masecrating and baling waste paper, banding money, etc.

Bank Premises

For nearly 10 years the bank occupied at different times rented quarters, on Cedar Street, on Wall Street, in the Equitable Building, and in various other buildings in the vicinity. At one time eight floors of the Equitable Building were occupied in whole or in part, with additional space elsewhere, and 13 vaults were in use in six separate buildings. These working conditions were uneconomical, dangerous to health and morale because of overcrowding, and unsafe in view of the amounts of funds handled. The vault arrangements, for example, made necessary hundreds of transfers of cash and securities daily through the streets and corridors of office buildings.

The first step toward] the construction of a bank building was the adoption by the board of

In the Coupon Collection Division Showing the Desks Specially Designed for Coupon Handling

directors on October 24, 1917, of a resolution looking toward the purchase of a site and the erection of a building.

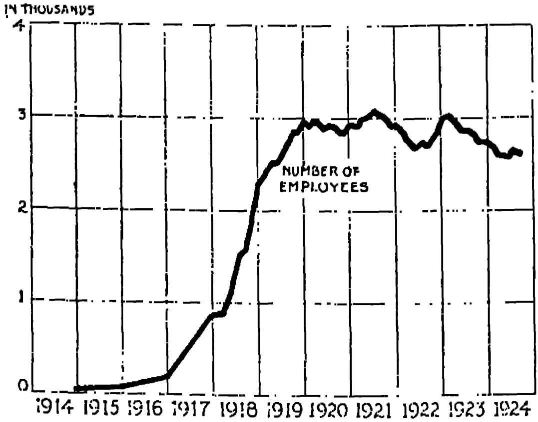
Actual building operations were postponed by reason of the concentration of the nation on war activities in 1917 and 1918, and later by prohibitive costs for building undertakings. In June 1918, a plot of land extending from Liberty Street to Maiden Lane and running eastward from Nassau Street, and from February to June 1919, additional parcels, making a total area of 46,000 square feet, were purchased and in May 1921, the demolition of the buildings occupying this site was begun. On May 31, 1922, the cornerstone was laid, and early in June 1924, the eighth floor of the building was occupied by certain departments of the bank.

The Bank's New Building

The new building is 14 stories above ground and 5 stories below ground, including the vaults, which occupy parts of 3 stories at the western end of the building. The exterior is Indiana limestone and Ohio sandstone, characterized by color markings, which lend variety to the exterior, but was less expensive than similar stone without such markings. In the construction of the interior the purpose has been to secure dignity and simplicity, with the maximum of utility and convenience. Every feature of the building has received exhaustive study. In the case of the vaults, for example, a new type of construction was designed and adopted after thorough tests by various types of drilling implements and explosives. As a result the vaults are not only exceptionally secure, but cost less than half as much to build as the usual construction.

Provision for the Staff

Ample provision has been made in the building for the welfare of the bank's 2,500 employees. There are cafeteria arrangements and rest rooms for men and women employees, ample locker facilities, a complete artificial ventilating system, provision for medical service, and space adapted for activities under the auspices of the employees' organization, known as the Federal Reserve Club.



The Staff of the Bank

The building can house a staff of 5,000 people—twice as many as the present staff. For more than 50 years the volume of operations of American banks has been increasing at the rate of about 7 per cent. a year; they double in size about every

10 years. In planning a building for the Federal Reserve Bank, it was wise to prepare for a rate of increase in operations somewhat proportionate to the rate of increase of banking in the country as a whole. While constructed for the particular needs of the Federal Reserve Bank, the typical floors can be used also for commercial purposes, and space not required immediately will be rented.

Earnings and Expenses

The Federal Reserve Banks are owned by the banks which are members of the Federal Reserve system. Thus all the stock of the Federal Reserve Bank of New York is owned by the 850 member banks in New York State, northern New Jersey, and Fairfield County, Connecticut. These member banks elect, from the bankers and business men of the district, 6 of the 9 directors who determine the policies of the bank; the other 3 directors are appointed by the Federal Reserve Board in Washington, which is charged with general supervision of the operations of the Federal Reserve system. The board of directors thus represents business, finance and government. The Federal Reserve Bank, while not a Government institution, is under the supervision of a governmental body, acts as fiscal agent for the Government and performs currency functions delegated by the Government.

Not Operated for Profit

The Federal Reserve Bank is organized and operated not for the purpose of making profits, but, as the title of the Federal Reserve Act states, "to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Accordingly, the provisions of the Federal Reserve Act dealing with earnings are so framed as to make the public interest the sole consideration determining its policy. The Act provides that the member banks shall be entitled to a 6 per cent. annual dividend on the paid-in-capital stock. Earnings beyond expenses and dividends are to be paid into a surplus fund until that fund equals the subscribed capital of the bank, and beyond that amount 10 per cent. of net earnings in excess of expenses and dividends is paid each year into a surplus fund. All remaining net earnings are paid to the United States Government as a franchise tax which takes the place of the tax on note issues which governments customarily levy when they delegate the note issuing power. These provisions relieve Federal Reserve policy from any pressure for profits and make public service the sole aim.

Earnings Related to Lending Activity

The earnings of the bank since its inception have responded directly to its use as a seasonal or emergency institution. The heaviest earnings reflected the large borrowings of the war and post-war years. Under more normal conditions the bank has earned little, if any, beyond its expenses and dividends. At times when earnings have been particularly heavy the Government has received as a franchise tax a large portion of those earnings.

Notwithstanding an increasing volume of operations the bank has been able in recent years, through improvements in organization and management, and increasing efficiency on the part of individual workers, to decrease the number of employees by about one-eighth. This decrease in the staff and other economies have been reflected in a decrease in the current expenses.

The future growth of the bank will depend on the growth of banking in the Second District and on the demands of business and agriculture, through the banks, for Reserve Bank service.

The Federal Reserve Today

Its Relations with Business

An Address by Pierre Jay
before the Chamber of Commerce of the United States

May 20, 1925

There has been a fundamental change during the past ten years in the general atmosphere under which American business is carried on. Business used to be conducted in an atmosphere of fear—fear of financial stringencies and currency panics. Since the establishment of the Reserve System business is conducted in an atmosphere of confidence.

Leonard P. Ayres, Vice President of the Cleveland Trust Company, speaking before the Chamber of Commerce of the United States.

The Federal Reserve Today

AMERICAN institutions are judged not alone by their accomplishments, but also by the picture which people form of them in their minds. Few Americans have any picture of the Reserve Banks, because relatively few come in direct contact with them. To most people they are merely an idea because they do not deal directly with the public but deal only with the banks. Because of this remoteness I want to try to give you a picture of what we are, how we are organized and controlled, and what we have been trying to do, through the banks, for the business men and farmers of the country.

Physical Organization

In the first place, far from being a mere idea, we are a fairly robust physical organization. The system consists of 12 banks with 23 branches, or 35 offices in all, covering every section of the country. These banks are not governmental bodies but private corporations owned by the member banks who are their stockholders. Most of the Reserve Banks are housed in their own buildings, built with their own money, not that of the government. They have an aggregate staff of 10,500 clerks and officers and 108 directors. To the latter should be added the 160 directors of branches. These directors, officers, and clerks operate the banks and their branches under the Federal Reserve Act and subject to the general supervision of the Federal Reserve Board, composed of 8 members and its staff, sitting continuously in Washington.

What the Reserve Banks Do

Most of you here, I imagine, have never been inside a Federal Reserve Bank. Many of you, perhaps, have never met an officer of a Reserve

Bank. But every day, in ways of which you are probably unconscious, you have contact with the operations of the Reserve Banks.

Currency

Look over the paper money in your pocketbook and you will find that many of the bills it contains are Federal Reserve notes issued through Federal Reserve Banks. Not only that, but probably every coin or bill that you carry has been handled by a Reserve Bank. For the Reserve Banks have taken over the functions of the old subtreasuries and practically all the money used in the United States is furnished through them. Banks return their worn or surplus money to the Reserve Banks, which in turn issue them clean money. There is a huge daily flow of currency into and out of the Reserve Banks. During the year this aggregates over $10,000,000,000, or more than twice the amount of currency in circulation in the country. To handle so large a volume smoothly and to provide against emergencies, the Reserve Banks carry a large reserve supply of currency in Washington and at their 35 offices. Practically no bank is distant more than 24 hours, and the vast majority of banks are distant only overnight, from one of these currency depots. Thus currency shortages are provided against and currency panics, like that of 1907, are eliminated. But the Reserve Banks do more than handle the mechanics of the flow of currency; their credit operations also give elasticity to its volume. The amount of money in circulation now increases at certain seasons and decreases at other seasons in accordance with business and agricultural requirements.

Check Collections

The next time you receive your canceled checks back from your bank, if you will examine the indorsements you will find that a large part of all the checks you sent out of town carry the indorsement of one or more Reserve Banks. Indeed, the Reserve Banks now collect practically all out-of-town checks; over two million of them every day.

They have cut in half the time and expenses of collecting such checks, thereby greatly reducing any risks which business men run in accepting them in payment of invoices. As a result the vast majority of country checks are now paid at par and are so generally acceptable that most business concerns receive them readily and no longer require payment of their invoices in New York or other city funds.

Transfer of Funds

In the same way, the Reserve Banks' system for transferring funds by telegraph and at par from any member bank to any other member bank in the country has eliminated the domestic exchange markets which formerly used to flourish, together with the premiums they used to charge for such transfers which acted as barriers to the free flow of funds throughout the country. Last year about $98,000,000,000 was thus transferred over our wires. A number of the large business concerns are effecting great economies through using these facilities.

Discounting Paper

Of course, our rediscounting of business and agricultural paper is the most important thing we do, through our member banks, for business. For thereby member banks may augment their own resources at times to extend credit to their customers or obtain currency for them. Some of you may have noticed, when you took up your notes at your bank, that they had at one time been indorsed over to a Federal Reserve Bank. This means that your bank borrowed for a time at its Reserve Bank on the security of your note, and during this time your note was part of the security behind Federal Reserve currency. In making these rediscounts the smallest bank in the district gets exactly the same rate as the largest bank and the same is true of the actual notes themselves. In the New York district, the largest note we have rediscounted was $147,000,000, and the smallest $2.81. There are about 9,600 member banks. At the peak of the war borrowing, some 7,500 of them borrowed. During the last three years, a period of greatly reduced borrowing, about 6,000 member banks borrowed each year, seasonally or occasionally, showing the extent to which member banks call upon their Reserve Banks for a few days, weeks, or months for loans to maintain the reserves which the law requires them to keep. It is through such borrowing that the country ~~bank~~ now enjoys elastic credit conditions as well as an elastic currency.

Mobilization of Gold

Our whole currency and bank credit system, of course, is based upon the pooling of the gold reserves of the country. Lack of this was formerly the great weakness in our banking structure. Our gold reserves were scattered in the vaults of 27,000 individual banks and there was no way they could be brought together for the common use in times of need. Besides, their use as a basis for credit was largely influenced by competition and a desire for profits on the part of the 27,000 banks. No one was directly responsible for *general credit conditions.* When panics and emergencies arose, emergency leadership had to be developed. Other countries had their banks of issue which gave continuous leadership to banking policy but it was only in the stress of a panic that banking leadership and unity of action could be achieved in the United States.

An American Banking Policy

The creation of the Reserve system gave the opportunity for the first time for the development of an American banking policy. The gold reserves were diverted from the 27,000 individual banks, devoting their attention largely to profit-making, into 12 new institutions, the Federal Reserve Banks, created for the primary purpose of administering these reserves, not for profit, but in the public interest. This was a great measure of centralization of responsibility. Yet compared to the centralized systems of other countries it seemed almost decentralization. It was an essentially American plan. Just before the Federal Reserve Banks opened, President Wilson said in a letter to Senator Underwood:

> "No group of bankers anywhere can get control. . . . No one part of the country can concentrate the advantages and conveniences of the system upon itself for its own selfish advantage. . . . I think we are justified in speaking of this as a democracy of credit. Credit is at the disposal of every man who can show energy and assets. Each region of the country is set to study its own needs and opportunities and the whole country stands by to assist. It is self-government as well as democracy."

Local Self-Government

The principle of local self-government prevails throughout. While no bank or group or section can get control of the Reserve system, on the other hand the Reserve system itself in no way attempts to control the individual banks which are its members. No Reserve Bank says to any of its member banks what loans they shall or shall not make to their customers. Member banks are as free in all respects as they were before, but the system gives them improved facilities for transacting their customers' business and adds a factor of safety to their operations which they never before enjoyed. In the same way each Reserve Bank in dealing with its member banks is quite autonomous. No one from Washington or from any other district ever tells a Reserve Bank how much or how little it shall lend to a member bank.

Coordination in Credit Policy

Yet there are certain countrywide functions of the Reserve Banks in which uniformity is necessary, such as their system of collecting checks, of transferring funds by telegraph, and of effecting the daily settlement of balances between the

12 districts. A certain coordination, but not uniformity, of credit policy is also necessary. Therefore the law provides that the Federal Reserve Board shall finally determine the discount rate initiated in each district, so that no Reserve Bank may extend credit at a rate entirely out of line with general conditions. For the same reason coordination of policy is also necessary in dealing in acceptances and government securities in the money markets. Much confusion would arise if each of the Reserve Banks acted entirely independently.

These things, the discount rate, the rate for the purchase of bankers acceptances, and the dealings in short United States Government securities, are the expressions of Federal Reserve credit policy. I shall not attempt to discuss the aim and application of this policy in recent years beyond saying that, as I have sensed it, it has been directed toward steadying general credit conditions in the face of the heaviest inflow of gold any country has ever experienced. But I think you might be interested in knowing who decide these things and the considerations by which their decisions are guided, particularly as you will find that business men and business welfare play a large part in these decisions.

Who Decide Policies?

At each Federal Reserve Bank the discount rate is initiated by its directors, in consultation with its officers. This rate, as I have said, is subject to the review and determination of the Federal Reserve Board. Let us take the personnel of the Board first. The Act provides that the Secretary of the Treasury and the Comptroller of the Currency shall be members ex-officio and that of its six appointed members not more than one shall come from any one Federal Reserve District. Also that they must represent fairly the financial, agricultural, industrial, and commercial interests of the country. The occupations of the present six appointees, before appointment, were banker, farmer, merchant, newspaper publisher, lawyer, economist; a widely diversified group.

Business Men Predominate

Coming now to the nine directors which each Federal Reserve Bank has, the member banks elect six of these, of which three *may* be bankers and three *must* be actively engaged in commerce, agriculture or industry in the district. The remaining three are appointed by the Federal Reserve Board. Of the 108 present directors of the 12 banks 12 are the chairmen of the boards, men of banking experience devoting their entire time to the Reserve Banks; 36 are active bankers, but many of them also engaged in business or agriculture; while the remaining 60, constituting the majority, at present have the following occupations:

19 manufacturers	2 lawyers
13 merchants	2 railroads
4 farmers	1 contractor
3 lumbermen	1 public utilities
3 insurance	1 mining
3 investment bankers	1 quarrying
3 retired business men	1 banker
2 publishers	1 vacancy

Here again, the business directors of the banks are a widely diversified group, and comprise many of the leading men of the various districts. For example, the five business men on our board in New York are:

William L. Saunders, chairman Ingersoll Rand Drill Co.,

Clarence M. Woolley, chairman American Radiator Co.,

Samuel W. Reyburn, president Lord & Taylor,

Theodore F. Whitmarsh, president F. H. Leggett & Co.,

Owen D. Young, chairman General Electric Co.

The same is true of the branch directors, whose jurisdiction in credit matters, however, is limited to passing on loans to member banks in the territories served by the branches.

In each of the 12 districts it is men of this type, the majority of them drawn from the district, familiar with its conditions and having its interests at heart, who are responsible for the management and control of the Reserve Bank of the district and the loans it makes to the banks of the district.

Transactions in bankers acceptances and short government securities in the open market are coordinated through a committee of Reserve Bank officers appointed by the Federal Reserve Board and acting under the approval and authority of the directors of those Reserve Banks which may from time to time participate in such transactions.

Impartial Decisions

The board of directors meets weekly, fortnightly or monthly, as their custom may be, together with the governor of the bank and some of its principal officers. In passing upon its lending and other relations with the member banks the philosophy of the Reserve Bank is quite different from that of the commercial bank. There is no question of getting or retaining customers; there are no special arrangements for particular customers. The law specifically prohibits "discrimination in favor of or against any member bank." The smallest borrows at the same rate as the largest. In establishing the discount rate and making other decisions relating to credit, the directors have before them statistical information gathered by the Reserve Board and the Reserve Banks which, when supplemented by their own active contacts, is perhaps as complete information about credit and business conditions as is anywhere available.

What Considerations Guide Policy?

What are the principles on the basis of which the directors approach decisions on Federal Reserve credit policy? The Federal Reserve Act says that discount rates shall be fixed "with a view of accommodating commerce and business."

The Federal Reserve Board has laid down the principle "that the time, manner, character and volume of open market investments purchased by Federal Reserve Banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchase or sales upon the general credit situation."

These are the considerations upon which, in the light of the best available information, credit policy is based. You will note that the earnings of the Reserve Banks and the earnings of member banks are not among the considerations. The accommodation of business, using business in its largest sense, and the general credit situation, are the considerations.

The Gold Standard

The past ten years, which measure the life of the Reserve Banks, have been among the most abnormal, from a credit point of view, in the history of the world. Credit decisions have been most difficult to make. The first seven years were abnormal on account of the war and the readjustments which followed it. The last three years have been more normal, yet the constant inflow of gold has maintained an abnormal credit background. And through practically the entire ten years the free movement of gold has been suspended and the foreign exchanges have been unstable and depreciated. The absence of free international gold movements, which used to operate fairly automatically to balance credit disparities between the nations, has added greatly to the difficulties of the Reserve system in steadying credit conditions. Fluctuating and depressed exchanges have also added greatly to the difficulties of our commerce with other nations, increasing the uncertainties and hazards, and decreasing the purchasing power of other countries, for our surplus foodstuffs and raw materials which they must buy and we must sell. Indeed, at no time since the armistice have our governmental bodies, our bankers, our business men and our farmers ceased to urge the stabilization of the exchanges as an essential prerequisite to the development of our foreign trade.

British Gold Resumption

Three weeks ago, however, the British Government took a step which goes a long way toward removing these difficulties and uncertainties. They announced on April 28 that a free gold market had been reestablished in London.

The British Chancellor in the course of his announcement said:

> "Our exchange with the United States for some time has been stable, and is at the moment buoyant. We have no immediate heavy commitments across the Atlantic. We have entered a period on both sides the Atlantic when political and economic stability seems to be more assured than it has been for some years. If this opportunity were missed it might not recur soon, and the whole finance of the country would be overloaded during that period by the important factor of uncertainty. Now is the appointed time."

This decision is momentous for them, for us and for the entire world. Momentous because it points clearly to the gradual resumption of the gold standard throughout the world. Equally momentous also because, as the Chancellor indicates, failure to take the decision would have pointed to a further unlimited period of unsettlement, uncertainty, and impaired purchasing power abroad.

Federal Reserve Cooperation

In connection with this decision, the Bank of England requested Federal Reserve cooperation in a material way. For the reasons I have just indicated, we welcomed an opportunity which combined assistance to the Bank of England, our agent and correspondent, with the discharge of our domestic responsibility to the general credit situation. We arranged, in conjunction with other

Reserve Banks, to place $200,000,000 gold at the disposal of the Bank of England for two years, if desired.

It is our hope that this may prove an effective aid toward general resumption of gold payments. And it is our belief that in no way could the system accommodate American commerce and business more thoroughly than by assisting such a general resumption.

An Influence for Stability

Now, having quoted from a letter written by President Wilson just before the Reserve system was inaugurated, expressing his conception of what the system should be, may I close by quoting from a letter written by President Coolidge seven months ago, on the tenth anniversary of the system, and giving his view of the effect of the system's operations upon the monetary stability we have been discussing. The President said:

> "That the business of the country has been able, after the disorganizing influences of war, to adjust itself so readily to the new conditions and prepare a sound basis for orderly development is due in no small measure to the stabilizing influence of the Federal Reserve system. While the credit and currency systems of many countries have remained since the war in a state of chaos and instability which is deadly to economic development, our own country has already made the necessary readjustments and reached a degree of strength and stability that insures healthful business expansion."

Fifteen Years

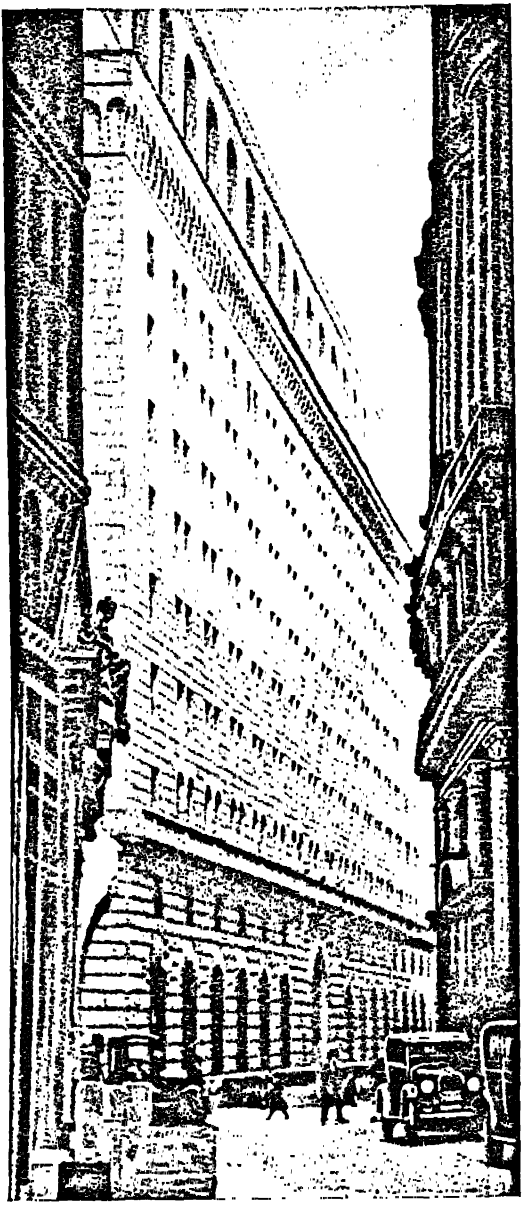
of the

Federal Reserve Bank of New York

Its growth and services

1930

Fifteen Years
of the
Federal Reserve Bank
of New York



Photograph of Liberty and Nassau Street corner
of the Federal Reserve Bank building

Fifteen Years
of the
Federal Reserve Bank
of New York

The Bank and the System

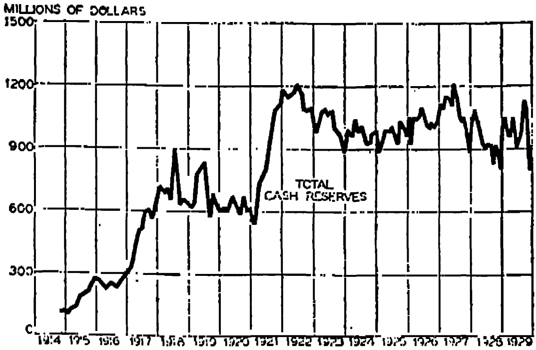
The Federal Reserve Bank of New York is the largest of the 12 Federal Reserve Banks and carries on about one-third of their aggregate operations. It first opened its doors for business on November 16, 1914.

The Federal Reserve Banks perform for the banks of the country much the same service that the banks themselves perform for their customers. They receive deposits from banks; they furnish the currency and coin which banks require; they collect checks; they transfer funds; they make loans; and in addition they are fiscal agents for the United States Government.

By bringing together in their vaults the previously scattered gold reserves of the member banks, and by their power to make loans and to issue currency backed by these reserves and by commercial paper, the Reserve Banks are able to ensure currency and credit to meet the country's fluctuating needs. When active business presses the banks of the country for funds, or when the banks face a money stringency such as in the past sometimes led to panics, they borrow at the Federal Reserve Banks. When business is less active and funds flow back to the banks, they repay their borrowings at the Reserve Banks. The Federal Reserve System gives the country elastic currency and credit, adapted to the changing needs of commerce, industry, and agriculture. It provides, moreover, a means of regulating somewhat the volume of credit to prevent excesses or deficiencies of credit.

Size of the System's Operations

The operations of the Reserve Banks tend to be larger than the operations of commercial banks. Their customers are not individuals but banks, each with its own thousands of customers. The money which these customers use, the Government securities they buy, many of the checks they draw, and a part of the commercial paper upon which they borrow pass through the Reserve Banks. In 1929, for example, the 12 Reserve Banks received and counted between five and six billion separate pieces of currency and coin with a value of close to 16 billion dollars; they handled for collection 925 million checks valued at more than 367 billion dollars; they issued, redeemed, or exchanged almost two million United States certificates, notes, or bonds valued at about seven billion dollars.



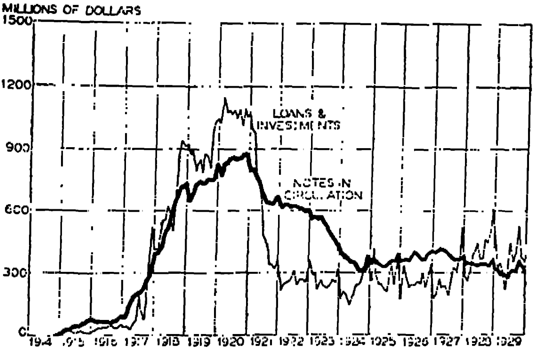
Growth of the New York Bank's Reserves

Opening of the New York Bank

The Federal Reserve Bank of New York began operations in November 1914, with a staff of 7 officers and 85 other employees, consisting largely of workers lent to the new organization by neighboring New York City banks. The first quarters were a small rented building at 62 Cedar Street. In succeeding weeks the temporary employees were gradually replaced by a permanent staff which consisted on January 1, 1915, of 5 officers and 36 other employees. The first activity of the bank was taking into custody the funds which all National banks in the district were required by law to maintain with it as reserve. Other functions of the bank developed gradually. There was no considerable expansion in duties or in personnel until 1917, but in these early years a groundwork for later growth was laid by the working out of principles and methods of operations. A branch office was opened in Buffalo in 1919.

War Expansion

The World War put to the test the mechanism of the Reserve Banks for currency and credit elasticity. Banks borrowed billions from the Reserve Banks, and these billions provided funds whereby the war was financed, wages paid, war materials bought, and loans made to France, England, and Italy.



Loans and Note Circulation, Federal Reserve Bank of New York

As bankers for the Government the Reserve Banks handled Government war disbursements and receipts and the sale of 21 billion dollars of Liberty bonds and Victory notes and 42 billions of short-time loans.

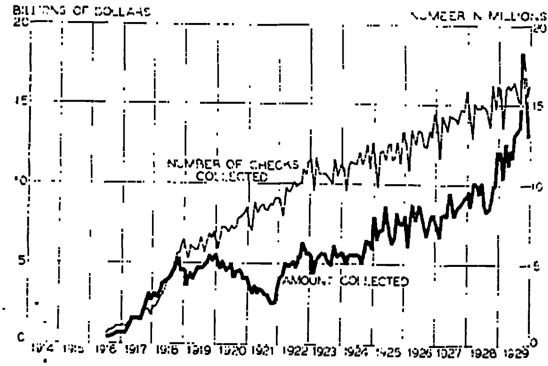
Located at the country's principal money center, the Federal Reserve Bank of New York felt the full impact of war and post-war demands. Its loans rose to well over a billion dollars, its currency issues to 900 million, its distribution of war securities to 25 billion, and the number of employees increased to three thousand.

Development of Regular Services

In addition to emergency war services other activities, more permanent in their nature, were greatly expanded during and following the war period.

Side by side with the emergency issue of currency were developed the day to day functions of the Reserve Banks as currency banks. They gradually took over from the Subtreasury the payment and redemption of Government currency and issues of Federal Reserve notes increased as prices rose. As a result of these changes a very large proportion of all the bills and coin in circulation in this country now reach the users through the Reserve Banks, and are from time to time redeposited in those banks.

Check collection in the United States had long been unorganized and was each year imposing on business and agriculture a burden of expense and inconvenience. The 12 Federal Reserve Banks and their 25 branches, with a central jointly owned gold fund in Washington for the settlement of accounts between districts, formed an effective organization for the transfer of funds about the country and the rapid, direct, and economical routing and collection of checks. The transfer of funds by telegraphic advice and book settlement has largely replaced expensive and



Checks Collected Each Month through the Federal Reserve Bank of New York

A Section of the Transit Division Where 330 Clerks in Three Shifts Handle Checks 24 Hours Each Day

dangerous shipments and reshipments of currency and coin by express. The Federal Reserve check collection system has cut in half the average time required to collect checks, and greatly reduced the cost.

Volume of Operations

The gold reserve of the Federal Reserve Bank of New York amounts to about 900 million dollars or about one-twelfth of the monetary gold in the world; it is close to a third of the gold held by the 12 Reserve Banks combined.

Making Loans and Investments

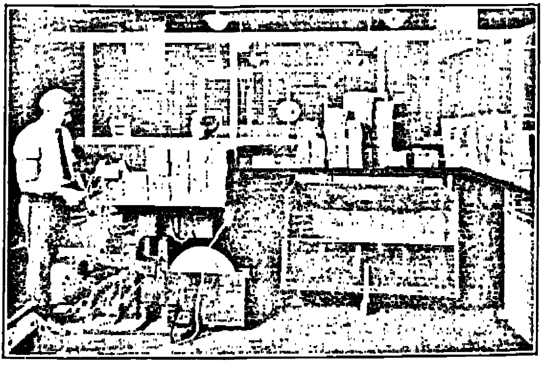
In recent years, when the amounts of loans and investments of the bank have been much smaller than during the war period, loan and investment transactions have totaled more than 23 billion dollars a year. The 1929 figures were:

Discounts and Advances to Member Banks:	
Number of items handled	50,000
Amount	$23,602,000,000
Acceptances and Government Obligations purchased from time to time during the year for the account of this bank and other Federal Reserve Banks:	
Amount	$5,853,000,000

In 1920, when the post-war business and price expansion reached their highest points, the amount of bills discounted during the year was 50 billion dollars. The dollar amounts ran to large figures because loans are made for such short periods, 7 days on the average. The loans made by the bank thus turn over about 50 times a year and are completely liquid, a necessary condition in a bank which is the custodian of reserve funds.

Supplying Coin and Currency

Every year there flows through the money department of the bank, to be counted and sorted, retired from circulation, or to be paid out again, a sum of money which in the aggregate turnover is larger by a billion dollars than all the money in circulation in the United States at any one time. Each employee doing this work sorts, inspects, counts, and wraps every day, with the help of specially designed machines, from 20,000 to 30,000 separate bills. The average employee counting coin handles in a full working day nearly a ton of coin. The volume of 1929 transactions was as follows:



Compressing and Binding Money with Electrically Welded Steel Bands

Two Tons of Coin at the Door of One of the Twenty-two Coin Counting Rooms

PAPER CURRENCY HANDLED:	
Individual notes received and counted......................	710,000,000
Amount received and counted.....	$5,286,000,000
COIN HANDLED, a service previously performed largely by the Sub-treasury, but now entirely in the hands of the Federal Reserve Bank:	
Number of coins received and counted......................	1,574,000,000
Tons of coins received............	8,685
Amount received and counted.....	$821,000,000

Collecting Checks, Drafts, Notes, and Coupons

Each year there are drawn in the United States checks with a total value of 800 to 1,000 billion dollars. About one-third of these checks, or most of the out-of-town checks, totaling 300 to 350 billion dollars, passes through the Federal Reserve collection system, and around one-third of this amount, or 100 to 150 billion dollars, is handled by the Federal Reserve Bank of New York. Thus the employees of the check department of the bank handle in the course of their daily work more than one-tenth (in value) of all the checks that are drawn each day in the United States. An average day's work is 600 thousand separate checks, or about twelve hundred checks a day for each employee engaged in handling checks. For this work a force is employed continuously day and night to secure all possible speed in collection. Totals for 1929 for both cash and non-cash items follow:

Cash Items, mostly checks, handled for banks in all parts of the country:	
Number of items	190,400,000
Amount	$156,642,000,000
Non-Cash Items, handled for collection, including drafts, notes, and coupons:	
Number of items	2,600,000
Amount	$2,690,000,000

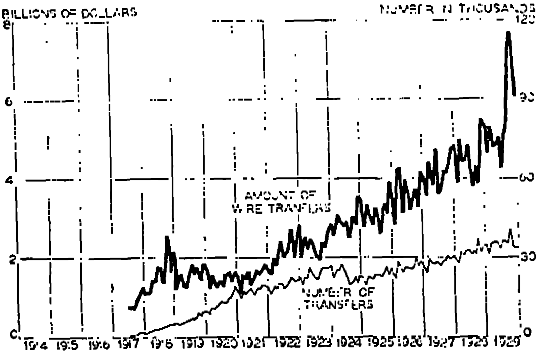
In addition to handling checks and other collection items, the Reserve Bank facilitates the collection of large amounts of other checks presented through local clearing houses, by settling collection balances on the Reserve Bank books instead of by cash.

The Bank's Branch Post Office Which Receives Mail Direct from and Dispatches Direct to the Mail Trains

In transferring funds to and from other districts, in addition to settlements for check and note collections, the bank transfers by telegraph, settling through the Gold Settlement Fund in Washington, a sum of money greater each year than the total cost of the World War to the United States, as indicated by these 1929 figures:

TELEGRAPHIC TRANSFERS OF FUNDS to all parts of the country. This service is performed over the telegraph wires of the Federal Reserve System, and is used by the Treasury Department and member banks:

Number of transfers..............	445,000
Amount..........................	$67,426,000,000



Funds Transferred by Telegraph Each Month

In Connection with Government Loans

The task of selling, redeeming, and exchanging Government issues has grown steadily less since the war, but still involves large operations, as 1929 figures show:

UNITED STATES GOVERNMENT SECURITIES (including bonds, notes, bills, and certificates of indebtedness) issued, redeemed, or handled in connection with conversion, exchange, or registration:

Number of items.................	514,000
Amount..........................	$3,155,000,000

COUPONS PAID ON GOVERNMENT SECURITIES:

Number of coupons..............	5,567,000
Amount.........................	$237,610,000

In addition to these operations for the Treasury, the bank performs a large amount of other work for the Government connected with the issuance and redemption of currency, the collection of checks, the custody, purchase and sale of securities, the transfer of funds, etc.

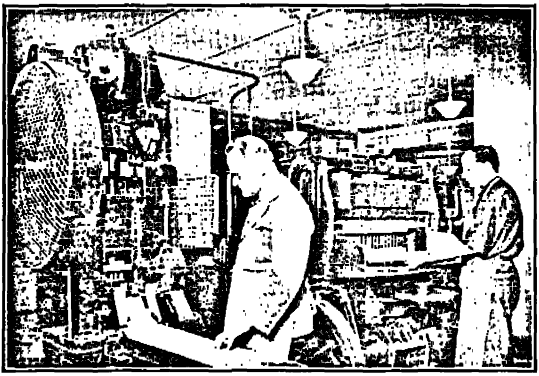
In the Coupon Collection Division, Showing the Desks Specially Designed for Coupon Handling

A Wholesale Bank

The great volume of operations arises from the fact that the Reserve Bank deals not with individuals, but with banks and with the Government. It handles money, checks, credit instruments, and securities not in retail, but in wholesale volume. The mechanical equipment required for the work of the Reserve Bank is correspondingly larger than is required by the commercial bank. The equipment includes, for example, 619 adding machines, 79 adding typewriters, 62 accounting machines, 18 calculating machines, 124 machines for counting paper money, 40 machines for counting and wrapping coin, 94 check endorsers, 390 standard typewriters, a bindery for daily reports, and about 62 other machines of various special types for canceling currency and bonds, macerating and baling waste paper, banding money, etc.

Bank Premises

For nearly ten years the bank occupied at different times rented quarters, on Cedar Street, on Wall Street, in the Equitable Building, and in various other buildings in the vicinity. At one time eight floors of the Equitable Building were occupied in whole or in part, with additional



Mutilating Old Currency Before It is Shipped to Washington

space elsewhere, and 13 vaults were in use in six separate buildings.

The first step toward the construction of a bank building was the adoption by the board of directors on October 24, 1917, of a resolution looking toward the purchase of a site and the erection of a building. Actual building operations were postponed by reason of the concentration of the nation on war activities in 1917 and 1918, and later by prohibitive costs for building undertakings. In June 1918, a plot of land extending from Liberty Street to Maiden Lane and running eastward from Nassau Street, and from February to June 1919, additional parcels, making a total area of 46,000 square feet, were purchased and in May 1921, the demolition of the buildings occupying this site was begun. On May 31, 1922, the cornerstone was laid, and in the summer and early autumn of 1924 the building was occupied. The Buffalo Branch used rented quarters until a suitable building was purchased in 1928.

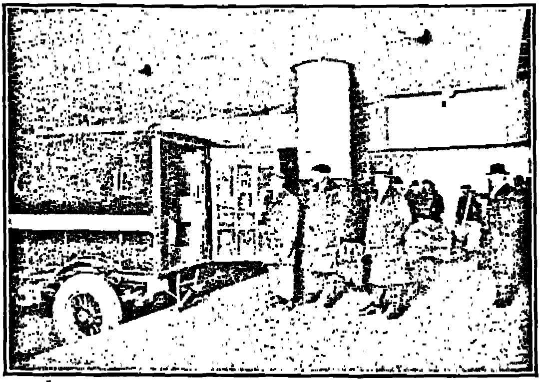
Building

The New York building is 14 stories above ground and 5 stories below ground, including the vaults, which occupy parts of 3 stories at the western end of the building. The exterior is

Indiana limestone and Ohio sandstone, characterized by color markings, which lend variety to the exterior, but were less expensive than similar stone without such markings. In the construction of the interior the purpose has been to secure dignity and simplicity, with the maximum of utility and convenience. The general style of the building is Florentine. Every feature of the building received exhaustive study. In the case of the vaults, for example, a new type of construction was designed and adopted after thorough tests by various types of drilling implements and explosives. As a result the vaults are not only exceptionally secure, but cost less than half as much to build as the type of construction usual prior to that time. They set a new standard for vault construction.

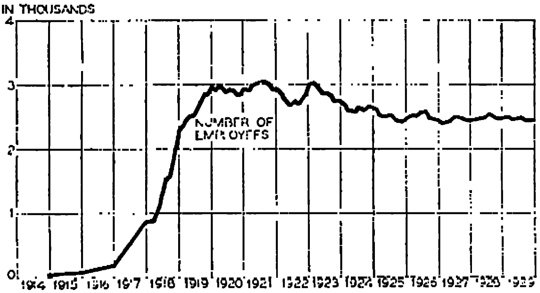
Provision for the Staff

Provision has been made in the building for the welfare of the bank's 2,300 employees in New York. There are cafeteria arrangements and rest rooms for men and women employees, locker facilities, a complete artificial ventilating system, provision for medical service, and space adapted for activities under the auspices of the employees organization, known as the Federal Reserve Club



The Interior Loading Platform Where Trucks Are Loaded and Unloaded in Complete Security

The building can house a staff of 5,000 people —over twice as many as the present staff. In planning a building for the Federal Reserve Bank, the work of which will grow proportionately with the country's banking operations, it was necessary to prepare for a large future growth.



The Staff of the Bank

Earnings and Expenses

The Federal Reserve Banks are owned by the banks which are members of the Federal Reserve System. Thus all the stock of the Federal Reserve Bank of New York is owned by the 931 member banks in New York State, northern New Jersey, and Fairfield County, Connecticut. These member banks elect, from the bankers and business men of the district, 6 of the 9 directors who determine the policies of the bank; the other 3 directors are appointed by the Federal Reserve Board in Washington, which is charged with general supervision of the operations of the Federal Reserve System. The board of directors thus represents business, finance, and Government. The Federal Reserve Banks, while not Government institutions, are under the supervision of a governmental body, act as fiscal agents for the Government, and perform currency functions delegated by the Government.

Not Operated for Profit

The Federal Reserve Banks are organized and operated not for the purpose of making profits, but, as the title of the Federal Reserve Act states, "to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." Accordingly, the provisions of the Federal Reserve Act dealing with earnings are so framed as to make the public interest the sole consideration determining its policy. The Act provides that the member banks shall be entitled to a 6 per cent annual dividend on the paid-in-capital stock. Earnings beyond expenses and dividends of each Federal Reserve Bank are to be paid into a surplus fund until that fund equals the subscribed capital of the bank, and beyond that amount 10 per cent of net earnings in excess of expenses and dividends is paid each year into a surplus fund. All remaining net earnings are paid to the United States Government as a franchise tax which takes the place of the tax on note issues which governments customarily levy when they delegate the note issuing power. These provisions relieve Federal Reserve policy from any pressure for profits and make public service the sole aim.

Earnings Related to Lending Activity

The earnings of the bank since its inception have responded directly to its use as a seasonal or emergency institution. The heaviest earnings reflected the large borrowings of the war and post-war years. Under more normal conditions the bank has earned only moderate amounts beyond its expenses and dividends, and the surplus has not yet been built up to a sum equal to the subscribed capital.

Notwithstanding an increasing volume of operations the bank has been able in recent years, through improvements in organization and management, and increasing efficiency on the part of individual workers, to keep the number of employees and current expenses relatively constant.

(5M-33)

This document contains internal or confidential information and has been removed.

Author(s): Federal Reserve Bank of New York

Title: The Fed

Date: May 9, 1956

Page Numbers: 1-8

This document contains internal or confidential information and has been removed.

Author(s): Federal Reserve Bank of New York

Title: The Fed

Date: September 28, 1955

Page Numbers: 1-8

MISC. 4C.1-15M-8-53

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 8, 1954.

TO Miss Adams

SUBJECT

FROM B. Voigt, Sec'y. to
Mr. Treiber

Mr. Treiber has asked me to tell you that he has carefully looked through Mr. Sproul's file on Benjamin Strong and there is little in it that is of any interest other than the letter by Mr. Warren, copy of which you have. There is also a memorandum written by Mr. Treiber to Mr. Sproul on April 12, 1944, and extracts of this memorandum which are pertinent are listed on the attached sheet.

BV
Att.

B Voigt

MISC. 140 B
(MISC. 140 B.1-30M-8-52)

TREASURY DEPARTMENT

Washington 25

Received 8/24/44
(Undated)

COPY

Dear Mr. Sproul:

This is just a note to bring you up to date on the Strong papers. It is preliminary to what I shall call a progress report,

I told you that I had found, what was called Mr. Strong's personal file, disappointing. It was like a series of foot-notes for which there was no text. With Miss Dillistin's aid, I am gradually finding the text. As the filing system is partly personal and partly topical, the location of the papers is quite a task. But, when unravelled, it provides a remarkably rich record.

As I see the undertaking at the moment, the best continued story is that of Strong's program of international central bank cooperation. The story begins in 1916, and ends in 1931, after his death. It was his idea; and it was a noble undertaking. It had its moments of success; and in the end it becomes the narrative of the final phase of the gold standard, and, for the present at least, of the independence of central banking.

But, as I go through the papers, I encounter a number of minor themes, each important in its data. For example, there is a technical story of the development of the theory of the Federal Reserve note; the story of the gold policy (the so-called sterilization program); the story of the credit policy of 1919; the early doctrine of the acceptance market -- to mention only a few. There were problems when theory and operational practice met. Then there is a thread of comment of a more abstract character, such as Strong's understanding of the function of a discount rate in various markets. Any one of these would make a long memorandum or a short monograph.

In short, there is a wealth of material, such as has never before been available, for Strong was a Jeffersonian correspondent. His correspondence with Dr. Adolph Miller alone runs to hundreds of pages.

My first undertaking will be to assemble the scattered material that properly should be classified as the "Strong Papers" -- a much larger mass than the "personal file". This is, first, to make them available to myself; second, to make them available to persons in the Bank who might be interested; and, third, to make them available to future students -- for there are many and different veins of ore.

COPY

My second undertaking will be to write the story of central bank cooperation. This was Strong's big idea; and one which is the germ of the current effort. (By the way, Strong would have endorsed Dr. Williams' "Key currency" plan.)

The first undertaking will require quite a long time -- just how long, I cannot tell; and it will make rather heavy demands on Miss Dillistin, and may require some visits to or by Miss Bleecker. It probably will involve some conversation with persons who figured in Mr. Strong's life -- such as Dr. Miller, Dr. Sprague, George Harrison, Russell Leffingwell, James Brown (if he is still living), and, if possible, Jack Morgan. (not living) [illegible]

For purposes of reference, this undertaking can be referred to as the arranging of the Strong Papers; and I should like to do this in such a way that the same thing could be done to Harrison's; and establish a pattern for a set of Bank Archives as distinct from the "files" -- that is, to design a model for a self-perpetuating or automatic history of the Bank. One or two large corporations have done this; the best, I believe, by the Burlington Railway. I understand that this has been done so successfully that it is actually used by the officers and directors of the road. To construct an interior history that is useful, usable, and used is an achievement.

As I said, I shall have to make rather heavy demands on Miss Dillistin, who is most cooperative; and it may be that at some time I shall need the services of a typist. Some of the early carbon copies are so smudgy that they are hardly legible; and in 10 years more they will be indecipherable.

Sincerely,

/s/ Robert B. Warren

Robert B. Warren

Mr. Allan Sproul, President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York

Internal Memorandum January 20, 1954

Benjamin Strong

The Strong files in the Federal Reserve Bank of New York occupy five (5) file drawers in the regular consolidated files room on the 7th floor. They are under the care of Cora Dilistin, Chief. The first three (3) drawers are classified according to the names of men with whom Mr. Strong was corresponding. There are perhaps 75 headings in all. One drawer contains Mr. Strong's diaries and red folders of his correspondence with Mr. Montague Norman for the years 1922 to 1928. The fifth drawer contains his observations on foreign trips.

There is correspondence of Governor Strong to and from the following: officers of the bank, Messrs. Case, Curtis, Harrison, Jay, Kenzel, S. Morgan, Snyder and Treman; members of the Federal Reserve Board, Messrs. Delano, Hamlin, Harding, Miller and Warburg; various Secretaries and Under Secretaries of the Treasury, Messrs. Gilbert, Glass, Leffingwell, McAdoo, and Winston; and several economists of the time, Messrs. Bullock, Kremmerer, Sprague and Withers.

There are several files on such subjects as the Budget System Commission, the Cotton Loan Fund 1914-16, the Monetary Commission 1911-14, International Chamber of Commerce 1921-28, the Unemployment Conference 1921-22 and the Joint Commission of Agricultural Inquiry - U. S. Congress.

There are also copies of Governor Strong's addresses, as well as files of inter-office memoranda which he sent to the officers during the years.

There is also correspondence with important officials of foreign countries, viz: Sir Basil P. Blackett and W. M. Bailey of India; Sir George Paish, Georges Pallain of the Bank of France; Dr. Schacht of the Reischsbank; E. Fukai and J. Inouye of the Bank of Japan; S. Imanura of the Sumitomo Bank; and Lord Cunliff, Sir Brian Cokayne and Montague Norman of the Bank of England.

Governor Strong made trips to Europe in 1916, 1919, 1925, 1926,and

1928. In each case there is a file of correspondence and a diary or journal which he wrote covering his various impressions and conferences. In 1920 he visited Japan, India and Java. A receiption was given him in Japan. A copy of Governor Inouye's speech is here as well as one written in longhand in English, and also in Japanese, which Governor Strong gave in Japan.

There is a file on Reparations containing correspondence with Messrs. Gilbert, Jay, Leffingwell, Jas. A. Logan, Jr. and McGarrah.

There are many letters in this collection written in longhand. Copies of some of the typewritten ones are scattered through the bank files under the various subject headings but this is the only place where Governor Strong's correspondence with any particular individual is grouped together.

In addition to this material there is said to be Pre Federal Reserve Bank information assembled in preparation of speech delivered at Bankers Convention, New Orleans 1911. This was given to Mr. Burgess.

The material in these five (5) drawers came from the so called personal files of Mr. Strong. The Governor believed firmly in central filing. He was active in the process of setting up the present system, a task done under the supervision of Miss Mary Pucker, now retired and living in Philadelphia. Over the course of the years the great bulk of his work went into the central files. The exception was a personal file kept in his office.

Information from Mr. Benjamin Strong Jr. and Miss Dilistin indicates that after his death his papers were separated into two groups; those which had to do with bank affairs and those which were personel. The former group is that now contained in the five drawers described above. The latter group of papers concerned with personal matters (some of them said by Mr. Strong Jr. to be marginal and sometimes touching on phases of bank work) were sent to the Strong home. After that was sold Mr. Benjamin Strong Jr. again went through them and destroyed those of a highly personal and intimate nature. The remaining papers are now in the Lincoln Storage Warehouse in New York. It is probable that there may be among them data bearing on bank affairs, but Mr. Strong Jr. thinks there would not be very much.

In addition to this segregated material there is in the bank files a vast amount of Strong's memoranda scattered through the entire filing system. The banks files are set up on the Dewey decimal system which depends on a classification more frequently used in Libraries than in filing systems. Mr. Strong's papers will therefore be found under all the subject headings with which he dealt that is; discount rate, expenses, victory loans, branch banking and all the rest of the bank's business.

An early file on the Federal Reserve Act itself (classification No. 010) contains valuable early material on policy matters differences of opinion within banking circles, memoranda, and so forth. This same thing would be true of a number of subjects. There is, for example, in the early file under the heading 010 a letter of August 9, 1915 written by Governor Strong in which he looks ahead to the possibility that the United States might enter the war and comments on the strain on the then young Federal Reserve System which would result.

Anyone desiring to work on the Strong files would have to cover not only the five file drawers and possibly the material in the Lincoln Storage Warehouse, but should also be prepared to seek permission to dealve into regular files under subject headings with which Mr. Strong was known to be dealing. It is probable that leads to the latter would be found by going through the file drawers, but clearly that in itself would not be sufficient. The very stuff of creation both for the New York Bank and the system lives within these files.

There may also be in Princeton material which is relevant. Mr. Strong was active in establishing the International Finance Section of the Economics Department at Princeton University. There he deposited a collection of World War I material including clippings from four (4) New York newspapers from the war's start to its end. He sent the Librarian, Mr. Gerould, around the world to get material. This material should certainly be looked into as there may be in the Princeton Library material which bears on the development of International Relations in this field.

"Location of material

Governor Strong's correspondence fills four file cabinet drawers and is kept in the Correspondence Files Division on the seventh floor. This material was kept separate by Mr. Strong in his office during his lifetime. Many of the letters are originals signed by him or addressed to him. Other letters are copies, the originals or other copies of which are probably on the general bank files pertaining to the particular subject involved.

Nature of material

The files referred to above contain correspondence of Governor Strong to and from the following: officers of the bank, Messrs. Case, Curtis, Harrison, Jay, Kenzel, S. Morgan, Snyder and Treman; members of the Federal Reserve Board, Messrs. Delano, Hamlin, Harding, Miller and Warburg; various Secretaries and Under Secretaries of the Treasury, Messrs. Gilbert, Glass, Leffingwell, McAdoo, and Winston; and several economists of the time, Messrs. Bullock, Kemmerer, Sprague and Withers.

There are several files on such subjects as the Budget System Commission, the Cotton Loan Fund 1914-16, the Monetary Commission 1911-14, International Chamber of Commerce 1921-28, the Unemployment Conference 1921-22 and the Joint Commission of Agricultural Inquiry - U.S. Congress.

There are also copies of Governor Strong's addresses, as well as files of inter-office memoranda which he sent to the officers during the years.

There is also correspondence with important officials of foreign countries, viz: Sir Basil P. Blackett and W. M. Hailey of India; Sir George Paish, Georges Pallain of the Bank of France; Dr. Schacht of the Reichsbank; E. Fukai and J. Inouye of the Bank of Japan; S. Imanura of the Sumitomo Bank; and Lord Cunliff, Sir Brian Cokayne and Montague Norman of the Bank of England. There is a substantial amount of personal correspondence with Governor Norman covering the years 1922-28.

Governor Strong made trips to Europe in 1916, 1919, 1925, 1926, and 1928. In each case there is a file of correspondence and a diary or journal which he wrote covering his various impressions and conferences. In 1920 he visited Japan, India and Java. A reception was given him in Japan. A copy of Governor Inouye's speech is here as well as one written in longhand in English, and also in Japanese, which Governor Strong gave in Japan.

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There are many letters in this collection written in longhand. Copies of some of the typewritten ones are scattered through the bank files under the various subject headings but this is the only place where Governor Strong's correspondence with any particular individual is grouped together.

Unless one has in mind some particular material it would probably not be worth while to search the regular bank files for letters, memorandum and other material written by Mr. Strong."

Extracts from Mr. Treiber's memorandum to Mr. Sproul dated April 12, 1944.

MISC. 3.3-20M 8-48 COPY

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE

TO

SUBJECT:

FROM

4/12/44

~~Nature of material~~

There is ~~The files referred to above contain~~ correspondence of Governor Strong to and from the following: officers of the bank, Messrs. Case, Curtis, Harrison, Jay, Kenzel, S. Morgan, Snyder and Treman; members of the Federal Reserve Board, Messrs. Delano, Hamlin, Harding, Miller and Warburg; various Secretaries and Under Secretaries of the Treasury, Messrs. Gilbert, Glass, Leffingwell, McAdoo, and Winston; and several economists of the time, Messrs. Bullock, Kemmerer, Sprague and Withers.

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Author(s): Eugene Lokey

Article Title: [Excerpt from] Along the Highways of Finance: The Governor's Reminder

Journal Title: *New York Times*

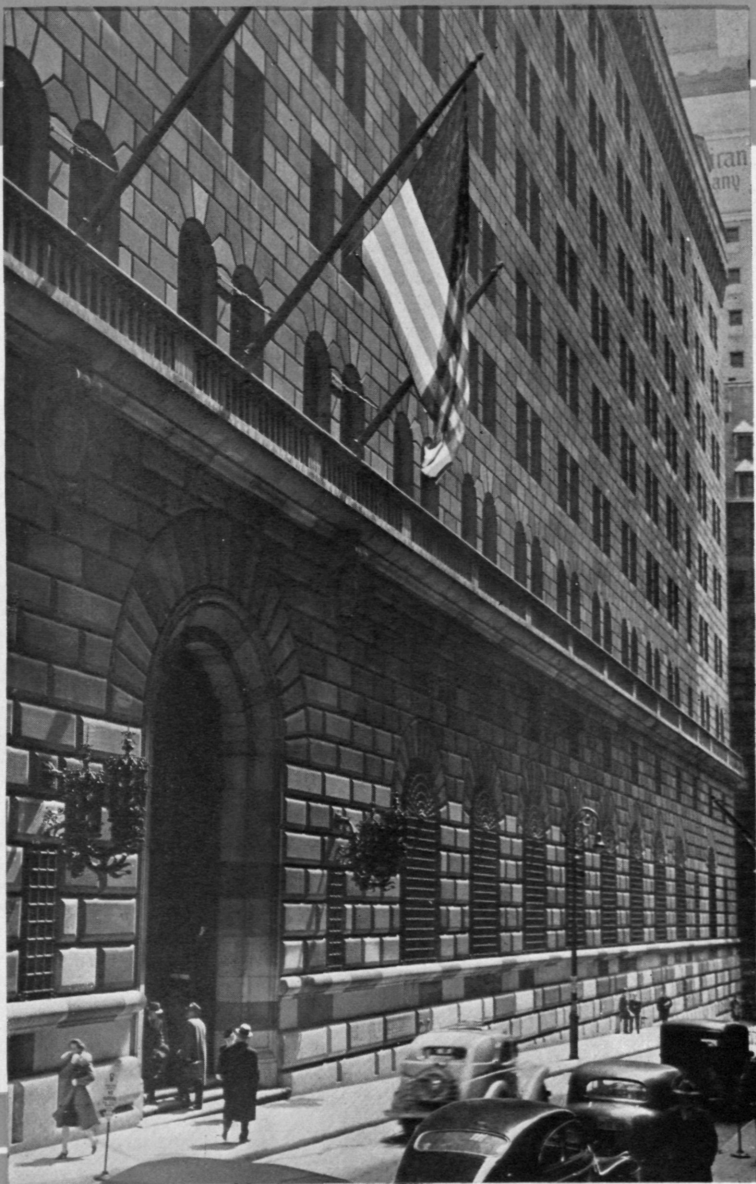
Volume Number:

Issue Number:

Date: November 18, 1934

Page Numbers:

THE FEDERAL RESERVE BANK OF NEW YORK



AND THE WAR

JULY, 1944

FEDERAL RESERVE BANK OF NEW YORK
2-B
INCORPORATED MAY 18 1914

FEDERAL RESERVE BANK
OF NEW YORK

To All Employees:

This booklet is a revised edition of a booklet first distributed in February 1943 entitled "The Federal Reserve Bank of New York and the War". It is intended to tell you how the work of the Federal Reserve Bank of New York, and of the nearly 5,000 members of its staff (3,100 of whom have come to the bank since December 7, 1941), contributes directly and indirectly to the war effort. You are working in a real war industry. Your service to your country is less obvious than building airplanes or ships or tanks, but it is none the less important.

The Federal Reserve System has grave responsibilities in this, the second world war in which the System has played a significant part. Your bank has correspondingly grave responsibilities. It is the biggest bank in the Federal Reserve System; it is the central bank in the principal financial center of the country; it serves a district which is making a heavy contribution to war production. Drawing on its experience in the last war, and during two decades of uneasy peace, the Federal Reserve Bank of New York is performing a variety of war-time tasks, and carrying forward its peace-time work in the service of war-time commerce and industry and agriculture.

Some of the things we are doing are outlined in this booklet. They could not be carried through without the understanding and the willing work of all members of the staff. Each of you in your own job is making a vital contribution to what is presently the main job of the bank—helping to win the war.

Allan Sproul,
President.

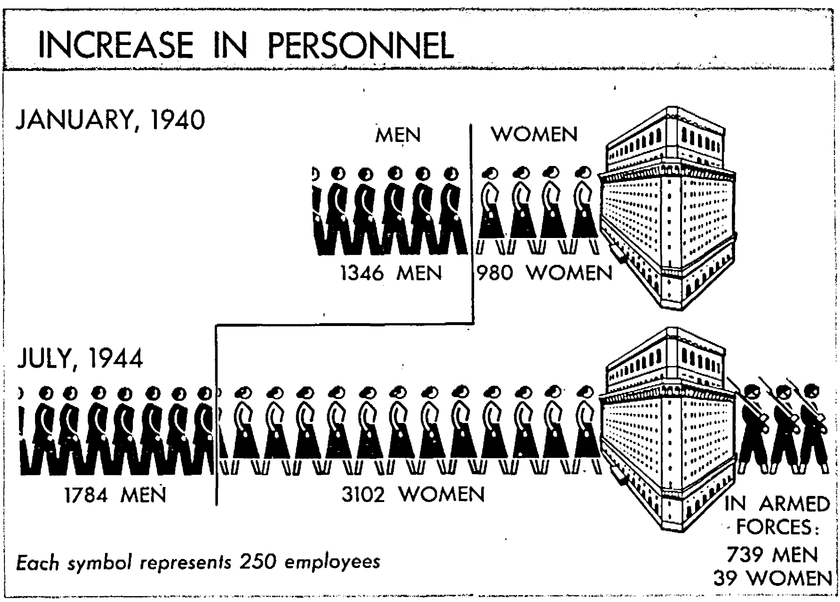
July 31, 1944.

THE FEDERAL RESERVE BANK OF NEW YORK AND THE WAR

The Federal Reserve Bank of New York—your bank—acting in the public interest, directly serves the Second Federal Reserve District which includes New York State, Northern New Jersey, and Fairfield County, Connecticut. In a larger sense, it serves the whole country.

On July 1, 1944, the staff of the bank, including the Buffalo Branch, numbered 4,886. It has increased more than 100% since December 7, 1941 when this country entered the war.

By July 1, 1944, 778 members of the staff had entered military service. Federal Reserve Bank men are serving in all branches of the service, at home and overseas. Nine of its women have joined the WACS, 24 have joined the WAVES, 4 have joined the SPARS, and 2 have joined the MARINES.



WAR FINANCING . . .

The United States Government is now spending nearly $2 billion a week—$260 million a day. To meet these expenditures during the 12 months ending June 30, 1944, the Treasury had to raise about $95 billion. Taxes and other income provided about $44 billion. This left about $51 billion to be borrowed, but the Treasury actually borrowed about $62 billion, increasing its working balance by nearly $11 billion. Since December 1942 the major part of the Treasury's borrowing has been accomplished in a series of War Loan Drives directed primarily toward securing funds from investors other than commercial banks. These drives have been the largest financing operations ever undertaken by any country at any time. During the First World War the greatest amount raised in any one drive in this country was slightly less than $7 billion. That was in the Fourth Liberty Loan in October 1918. In the Fourth War Loan Drive, which ended in February 1944, the Treasury raised nearly $17 billion, and in the Fifth War Loan Drive, ending July 1944, it raised over $20 billion.

Purchasers of Government Securities

The Government can sell its securities to all types of investors or it can rely mainly on the commercial banks to supply it with funds. The latter would be much easier than selling securities to individuals, corporations, insurance companies and other non-bank investors, but it has great disadvantages. When commercial banks purchase Government securities from the Treasury the purchasing power of the people throughout the country is increased by the amount of such purchases, whereas if the securities are purchased by individuals or organizations other than commercial banks there is no increase in purchasing power.

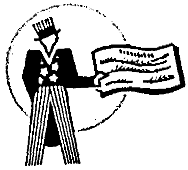
When John Doe buys a $100 Government bond, his cash on hand or on deposit in his bank is reduced by $100, and he no longer has that amount to spend. The Government soon pays out the $100 it has borrowed from John Doe, and it goes into the pocket or the bank account of Richard Roe. Mr. Roe now has $100 to spend but this increase in his purchasing power merely offsets the decrease in John Doe's purchasing power. There is no increase in the purchasing power of the entire country as a result of such Government borrowing and spending.

If, however, a commercial bank buys a $100 Government bond, it ordinarily pays for it by crediting the Treasury with that amount on its books. This credit is drawn upon by the Government and the money is used to buy war materials, or for other purposes. In this way Richard Roe again gets $100 but without John Doe's having put it up in the first place. As a result of the entire transaction, therefore, the people of the United States have $100 more than they had before. On the other hand, the supply of goods for civilian consumption has continued to diminish in view of the devotion of so much of our production facilities to war purposes. The increased use of bank credit on a large scale in the purchase of Government securities thus carries with it the threat of extensive inflation, which, putting aside technicalities, means simply that demand—backed by the money, the spending power in the hands of the people—is outrunning the supply of things to be bought. Every one knows what happens when demand outruns supply. Whether it is butter, eggs or tickets to the World Series—prices go up. That is the way it is with inflation, except that inflation is general. It affects all prices.

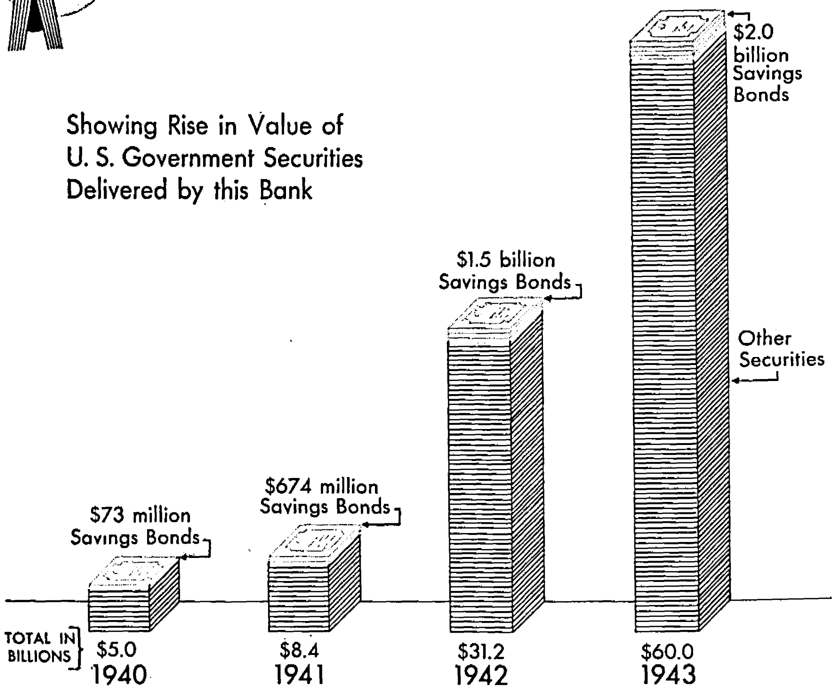
To lessen the threat of inflation the Government wants to sell as many of its securities as possible to individuals and organizations other than commercial banks. The Federal Reserve Bank of New York is helping with this job—

1. Through the aid it gives and the services it performs for the State War Finance Committees of the District.
2. Through your participation in the payroll allotment plan of the bank, and your purchases of Government bonds for cash during war loan drives.

Due to the vast Government financing program, however, it has not been possible for the Government to obtain all its borrowed funds from investors other than commercial banks. In the Government financing of marketable securities outside the war loan drives the commercial banks have stood ready to buy whatever amounts could not be sold to other investors. In addition, they have been active in purchasing securities sold in the open market by other investors. The reserves of these banks must be maintained so that they can continue to perform this important function of assuring the success of Treasury financing. Your bank, as part of the Federal Reserve System, helps to see to it that the commercial banks have the reserves they need for this purpose.



ISSUANCE AND HANDLING OF GOVERNMENT SECURITIES . . .



The Federal Reserve Bank of New York has many other important jobs in connection with the Government's financing. The issue, distribution and redemption of Government securities are done largely through the twelve Federal Reserve Banks, as fiscal agents of the United States. Government securities are printed by the Bureau of Engraving and Printing in Washington, D. C. Their wholesale distribution is the job of the Federal Reserve Banks.

In the case of most Treasury issues, other than Savings Bonds, 40% or more of the dollar volume of sales for the entire country are made in the Second Federal Reserve District. The Federal Reserve Bank of New York in due course delivers most of these securities and also some securities sold in other districts. The number of pieces (individual certificates, notes, bonds, etc.) delivered by the bank in connection with original issue, and the total issue price of such securities for the last four and one-half years were approximately as follows:

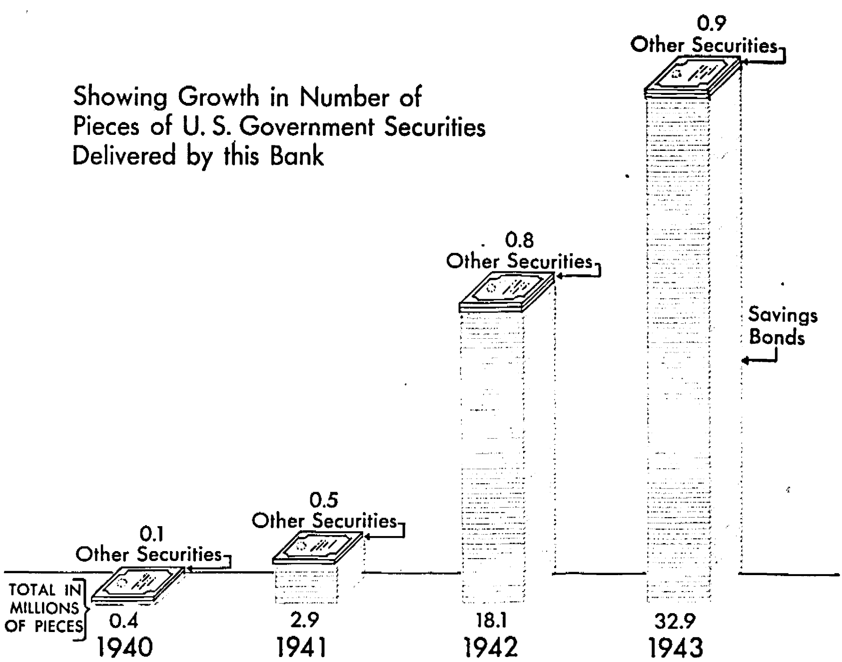
Numer of Pieces

Year	Savings Bonds	Other Treasury Issues	Total
1940..........	310,000	107,000	417,000
1941..........	2,340,000	556,000	2,896,000
1942..........	17,330,000	848,000	18,178,000
1943..........	32,063,000	931,000	32,994,000
1944 (first half)	18,974,000	630,000	19,604,000

Issue Price

Year			
1940..........	$ 73,503,000	$ 4,954,183,000	$ 5,027,686,000
1941..........	674,232,000	7,756,006,000	8,430,238,000
1942..........	1,549,259,000	29,649,259,000	31,198,518,000
1943..........	2,025,592,000	58,030,565,000	60,056,157,000
1944 (first half)	1,164,462,000	34,291,577,000	35,456,039,000

The increase in number of pieces from 417,000 in 1940 to 32,994,000 in 1943 and 19,604,000 in the first six months of 1944 is one big reason why the size of the bank's staff has increased so rapidly during the war years.



Issuance of Savings Bonds

Savings Bonds were first offered for sale through the post offices in 1935. Beginning in June 1936, they were also issued by the Treasury Department and the Federal Reserve Banks. Savings Bonds of Series E, which were first announced in April 1941, are now issued by the Treasury Department, the Federal Reserve Banks, and post offices. They are also issued by banking institutions and many other organizations which have been qualified by the Reserve Banks as issuing agents. These other types of organizations include business corporations operating payroll allotment plans for their employees, savings and loan associations, retail stores, radio stations, theatres and newspapers.

The Federal Reserve Bank of New York issues all Series F and G bonds sold in the district, and handles all Series E bonds sold in the district except those sold by post offices. It issues all Series E bonds for which it receives orders, and it supplies qualified issuing agents in the district with supplies of unissued Series E bonds and handles their remittances and reports of bonds sold.

Sales of Savings Bonds have increased tremendously since the entry of the United States into the war in December 1941, and the number of employees engaged in the sale, distribution and redemption of such bonds has shown a corresponding growth. On May 1, 1941, the number of employees in the Government Bond Department was approximately 75, but only a few of them were working with Savings Bonds. On July 1, 1944, there were 1,198 employees in the Government Bond Department and the Savings Bond Redemption Department, of whom more than 90% were engaged in work pertaining to Savings Bonds. In spite of the increased staff, it has frequently been necessary for these departments to work overtime (as has also been the case in many places throughout the bank), and in peak periods as many as 750 persons have been borrowed at one time from other departments. The bank's job is to get these bonds out without delay, and it prides itself on keeping this work up to date. The amounts of Savings Bonds issued by the bank and issuing agents qualified and serviced by it, during the years these bonds have been sold, have been as follows:

Period	Issued by Reserve Bank Pieces	Dollars	Issued by Agents Pieces	Dollars
1936 (7 mos.)	17,500	$ 6,743,600	—	—
1937........	60,000	16,652,100	—	—
1938........	96,700	22,578,500	—	—
1939........	220,200	51,231,900	—	—
1940........	309,900	73,503,300	—	—
1941........	654,000	489,644,600	1,685,700[1]	$184,587,300[1]
1942........	2,686,000	742,966,100	14,644,300	806,293,000
1943........	2,522,000	790,119,100	29,541,200	1,235,472,700
1944 (first half)	985,200	389,036,500	17,988,900	775,425,200

[1] First issuing agents qualified in May 1941.

About 3,000 issuing agents had been qualified by the bank as of July 1, 1944. Such agents and their 1,400 branches provide approximately 4,400 sales outlets in the Second Federal Reserve District. These agents receive nothing for their services but are reimbursed for actual out-of-pocket expenses in returning stubs and spoiled bonds to the Reserve Bank. About 775 corporations, which operate payroll allotment plans for their employees, are among the issuing agents. The increase in sales by agents, both actually and in relation to the volume of direct sales by the Reserve Bank, is attributable principally to the development of payroll allotment plans during the past three years.

Issuance of Government Securities Other than Savings Bonds

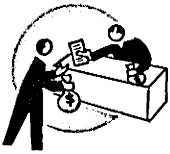
Your bank prints and distributes announcements describing all new Treasury issues, receives subscriptions for such issues, notifies purchasers of the amount of securities they are to receive on allotment, receives payment for the securities, and makes delivery of them.

Exchanges, Transfers and Payment of Government Securities

Your bank makes denominational exchanges of various types of Government securities, handles registered securities where there is a transfer from one name to another, and pays matured securities and coupons.

Redemptions, Corrections and Reissues of Savings Bonds

The Savings Bond Redemption Department pays most Savings Bonds presented for redemption; forwards the others to the Treasury for payment; and makes changes in form of registration of Savings Bonds which have been issued by the bank or by other issuing agents. This department and its staff of 630 now occupy six floors at 51 Pine Street, one of the three annexes of the bank in New York City.

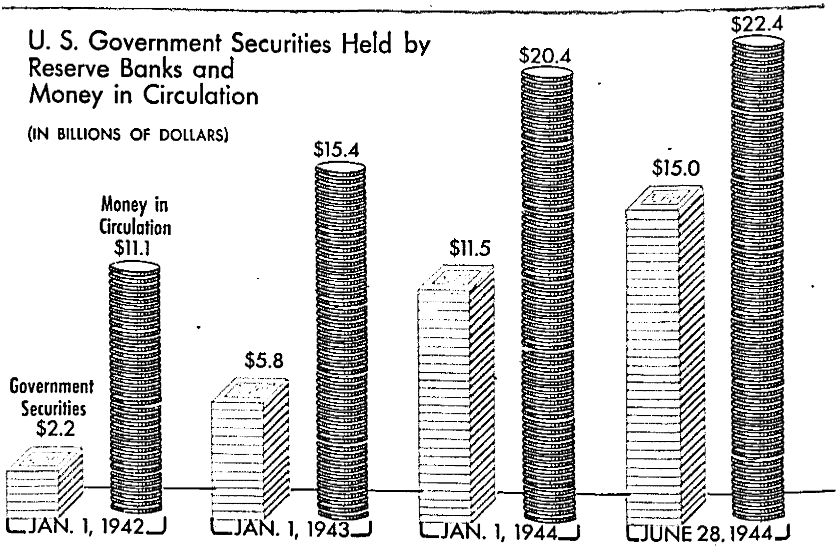


OPEN MARKET OPERATIONS . . .

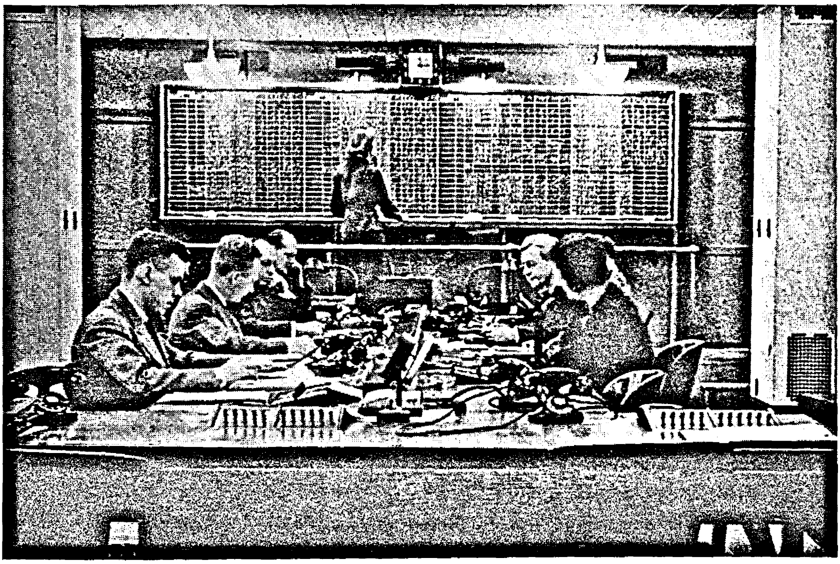
One of our jobs is to keep constantly in touch with the Government securities and money markets. The bank studies developments in these markets, reports on them to the Treasury and the Federal Open Market Committee of the Federal Reserve System (this Committee is composed of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks, including the President of the Federal Reserve Bank of New York); and participates in the formulation and execution of fiscal and credit policies.

Under the direction of the Federal Open Market Committee, the Federal Reserve Banks buy and sell Government securities in the open market. These purchases and sales currently are undertaken primarily to help maintain orderly market conditions and to assist commercial banks in maintaining and adjusting their reserves, thus making it possible for them to continue to give their support to the war financing program and to meet demands for currency.

These open market operations are carried out by your bank, on behalf of all the Federal Reserve Banks, in what is called the System Open Market Account. In addition to these operations for System Account, your bank also deals in Treasury bills for its own account, under the direction of the Federal Open Market Committee. Any holder of Treasury bills, which are a type of Government security sold on a discount



basis and usually maturing in 91 days, may sell such bills directly to any Federal Reserve Bank at a stated rate of discount, and the seller may, if he wishes, retain an option to repurchase the bills at the same rate.



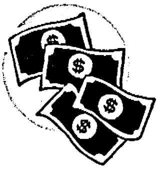
THE TRADING ROOM

The actual purchases and sales of Government securities for the System Account, and of Treasury bills for account of the bank, are handled by the Securities Department. This department maintains a "trading room" from which there are direct wires connecting with the principal Government security dealers in New York City. It keeps constantly in touch with the Government securities market both here and out of town, studies market conditions, maintains records regarding the securities purchased and sold by it, allocates the securities held in the System Account among the twelve participating Federal Reserve Banks pursuant to the directions of the Federal Open Market Committee, and does the general bookkeeping for the System Account.

The increase in the holdings of Government securities by the Federal Reserve Banks since Pearl Harbor is indicated in the following table:

Date	*Amount*
January 1, 1942	$ 2,254,000,000
January 1, 1943	5,863,000,000
January 1, 1944	11,543,000,000
June 28, 1944	15,080,000,000

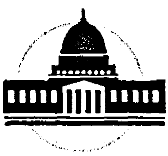
This large increase is one reflection of the need of the commercial banks for additional reserve funds during this period.



CURRENCY . . .

With expanded employment, with higher wages, and with the public holding and carrying much more cash than ever before, the amount of money in circulation has increased to record figures. It has grown proportionately more rapidly than consumer expenditures and has outstripped the rate of growth of wages and salaries. Since the outbreak of war in Europe in September 1939 the amount of coins and \$1, \$2 and \$5 bills in circulation has increased at a moderate rate and is now approximately \$4 billion. On the other hand, the amount of \$10 and \$20 bills outstanding has more than tripled during the same period and is now nearly \$12 billion. The amount of \$50 bills and over has also more than tripled and is now more than \$6 billion. The total of all paper currency and coin in the hands of the public and the banks at the end of June, 1944, was over \$22 billion—over \$6½ billion higher than at the beginning of 1943. This is \$160 for every man, woman and child in the United States as compared with \$50 on January 1, 1938, and \$115 on January 1, 1943. Apparently, the public is doing much more banking "on the hip" or "in the mattress" than has been customary in the past, and there is also reason to believe that some currency is used in black market operations and for tax evasion purposes. To stamp out these latter practices is in the interest of all of us.

The Federal Reserve Bank of New York supplies the money used in the Second Federal Reserve District, takes it in, counts it, examines it for fitness, returns it to circulation or retires it—a never ending process.

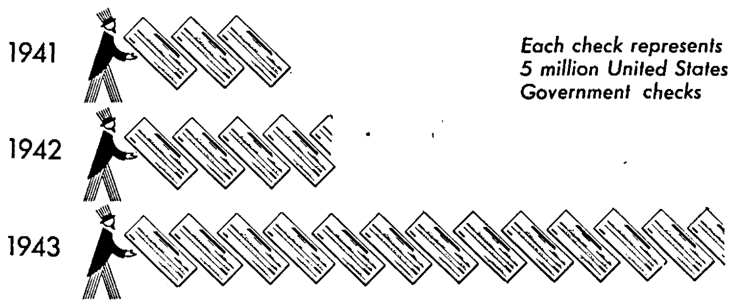


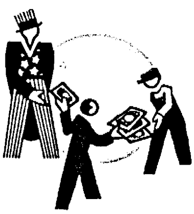
GOVERNMENT ACCOUNTS . . .

Just as John Doe uses his local bank, so member banks of the Federal Reserve System and the United States Government use the Federal Reserve Banks. The Federal Reserve Banks are the principal bankers for the Government. When the Government receives cash and checks resulting from the payment of taxes, from the sale of securities and from various other sources, it deposits the cash and checks in the Federal Reserve Banks. By drawing checks on these deposits, it pays its bills; bills for war supplies and other materials, for the services of its soldiers and sailors, for the services of its civilian employees. It also pays the interest it owes on its debts, and when the bonds and other obligations representing these debts come due, it pays the principal.

These transactions involve huge amounts. Incoming checks (excluding those in payment for Government securities) deposited by the Government in the Federal Reserve Bank of New York during 1942 numbered nearly 9 million and amounted to nearly $5 billion. During 1943 they numbered more than 12 million and amounted to more than $8 billion. During 1942 the bank handled nearly 22,000,000 checks drawn by the Government. It handled over 60,000,000 such checks in 1943 and over 43,000,000 in the first 6 months of 1944. Over 65% of these checks handled during the last 18 months were issued in "punch-card" form so that they could be sorted and tabulated by machine. Most of these card checks were in payment of allotments and allowances made by the Army and Navy, and over 3,800,000 were paid out by the Brooklyn Navy Yard to civilian workers on its payroll. Nearly 3,000,000 were issued by the Treasury Regional Disbursing Officer in New York City covering social security payments, refunds of withheld taxes, veterans' pensions and other governmental disbursements.

Number of U. S. Government Checks Handled by Federal Reserve Bank of New York



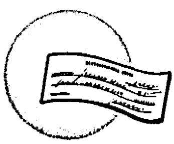


WITHHELD TAXES . . .

During 1943 your bank began handling funds representing Federal income taxes which employers are required to withhold from the wages and salaries of their employees under the Current Tax Payment Act of 1943, which became effective June 11, 1943. During July 1943 your bank qualified 817 banks in this district as Depositaries for Withheld Taxes, supplied them with appropriate instructions and forms, and commenced receiving from them deposits of withheld taxes. Employers are required to deposit withheld taxes in a depositary bank which credits the amount so deposited to an account in the name of the Federal Reserve Bank as fiscal agent of the United States. The balance in such accounts is remitted periodically to the Federal Reserve Bank for account of the Treasurer of the United States.

By July 1, 1944, 932 banks had been qualified as depositaries in the Second Federal Reserve District, and your bank had received from such depositaries a total of $1,428,866,000, represented by 689,700 separate depositary receipts. Over 543,750 depositary receipts representing tax payments of $1,107,852,000 had been verified against duplicates received from Collectors of Internal Revenue.

In this way your bank has aided in putting into effect a new plan of tax collection, important to every one of us, in that our tax payments are now as nearly as possible on a current basis.



CHECK CLEARING AND COLLECTION . . .

One of the important peace-time functions of the Federal Reserve Banks is the handling and clearing of checks on behalf of the commercial banks of the country. This is the unseen efficient mechanism which permits business transactions in all parts of the country to be settled on bank books without actual shipments of coin and currency. Its peace-time importance is intensified in war. The greatly expanded production and distribution of war goods and foods move along as smoothly as in normal times, in so far as financial payments are concerned, because of the highly developed check clearing and collection machinery of the Federal Reserve Banks. The volume of this work has increased substantially as production has doubled and redoubled to meet our nation's military needs. The number and dollar amount of checks (exclusive of checks drawn by the Government) handled by the bank in its clearing and transit operations during the past four and one-half years are as follows:

Year	*Number of Checks*	*Dollar Amount*
1940..............	190,214,680	$49,860,769,097
1941..............	204,636,295	63,180,335,620
1942..............	207,040,293	75,832,071,636
1943..............	220,787,359	95,707,001,375
1944 (first half)....	115,234,593	47,209,959,220

RATION BANKING . . .

The widening war-time rationing program has placed a new task upon the banking system and upon your bank. In January 1943, there was put into effect a plan to clear checks representing ration points through banking channels on a country-wide basis, in somewhat the same manner as dollar checks are cleared. Only sugar, coffee[2] and gasoline were initially included in the plan, but the clearing system has since been extended to ration checks covering meats and fats, processed foods, shoes, and fuel oil, as these commodities were added to the ration list. Consumers continue to turn over their coupons and stamps to retail merchants in the usual way in making purchases of rationed articles. As such coupons and stamps are received by larger retailers or are turned over by retailers to wholesalers, they are deposited in special ration bank accounts in the commercial banks throughout the country. It might be said that a new unit of value, the ration unit, has taken its place alongside your dollars and is required to supplement your dollars.

A dealer in food, for example, has a special ration account or accounts in the bank which carries his regular dollar checking account. He may have a ration bank account for sugar stated in pounds and another for processed foods stated in points. He deposits in these accounts the coupons and stamps which he receives from customers when selling rationed commodities. Special checkbooks are provided so that the dealer in replenishing his stock of sugar or other rationed merchandise can

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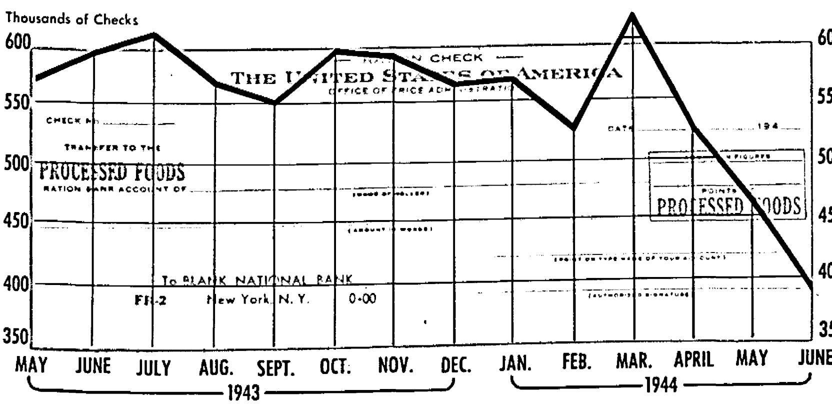
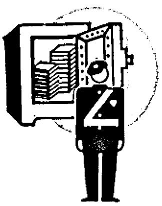
[2] Coffee rationing was suspended in July 1943.



RATION CHECKS CLEARED

transfer to his suppliers, simply by drawing checks, the amount of ration points required for such replenishment up to the balance in his ration account in the particular commodity. His suppliers deposit these checks in their ration accounts at their own banks and receive credit in their accounts for the number of pounds or points represented by the checks.

These ration checks are cleared through the Check Department of your bank in the same way that ordinary checks are cleared. In February 1943, 17,876 ration checks were cleared. In May 1943, when the meats and processed food program got under way, the volume reached 570,596. During the remainder of the year 1943 the volume averaged nearly 580,000 per month. The total volume for the year amounted to almost 5,000,000. During the first half of 1944 all frozen foods, and some fruit juices, vegetables and meats were removed from the list of rationed foods and the volume of ration checks cleared by your bank declined accordingly. In June 1944 the volume of checks cleared had declined to 394,692.



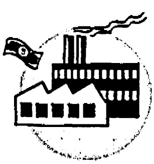
CUSTODIAN AND OTHER SERVICES . .

Another job which has been performed by the Federal Reserve Banks for many years, and which has taken on certain war-time aspects, is the safekeeping of securities. The Federal Reserve Bank of New York holds in safekeeping securities belonging to member banks located outside of New York City and to various Government accounts, and it purchases and sells securities for such accounts.

Such safekeeping services relieve the member banks of the details of handling Government securities purchased and owned by them and thus further facilitate the Government's financing program. Maturing coupons are cut from securities held in safekeeping and the proceeds are paid into the account of the member bank for which the securities are held. Similarly, when the securities become due, the proceeds are collected and are paid into the member bank's account. If in the meantime the member bank wishes to use the securities as collateral for a loan from the Reserve Bank, the securities are instantly available for that purpose.

LOAN AND DISCOUNT OPERATIONS . . .

For several years prior to the inauguration of the Government financing program incident to the war the banks of the country were in general amply supplied with reserve funds and, accordingly, bank borrowing from the Federal Reserve Banks was relatively small. About a year before Pearl Harbor total reserves of all member banks of the Federal Reserve System reached a peak of over $14 billion with excess reserves of nearly $7 billion. By May 31, 1944, these excess reserves had declined to $700 million. This reduction has come about primarily as a consequence of increased currency circulation and increased investment by the banks in Government securities. The Federal Reserve Bank of New York kept the bank lending machinery oiled throughout the years when total excess reserves were large by making loans from time to time to a few small banks which had occasion to borrow to obtain necessary reserve funds. Within the last year there has been a revival of bank borrowing. Beginning with some of the banks in New York City, it has spread gradually throughout the district. During the past few months the number of large banks in the district which borrowed from the Federal Reserve Bank, at least for brief periods, was the highest in a number of years. At the end of May 1944 member bank borrowings were the largest in over a decade. Our purchases and sales of Treasury bills at fixed rates during the last two years have also constituted a form of "borrowing". On Treasury bills commercial banks are now "borrowing" from your bank at ⅜ of one per cent. On other Government securities maturing within a year, member banks may borrow at ½ of one per cent. The regular discount rate is one per cent.



V, VT AND T LOANS . . .

Since April 1942 your bank has had an active part in another phase of the war effort—the financing of businesses engaged in war production. Acting under an Executive Order issued by the President of the United States on March 26, 1942, the Federal Reserve Banks, on behalf of the War Department, the Navy Department, and the Maritime Commission, have assisted in arranging for loans by member banks and other financing institutions to businesses engaged in war production and in guaranteeing to the financing institutions the ultimate repayment of a stated percentage of such loans. General rules for the guidance of the Reserve Banks in handling such loans are prescribed in Regulation V of the Board of Governors of the Federal Reserve System and thus these loans have come to be known as "V" loans.

In September 1943, the program was extended to meet the needs of businesses which do not immediately require credit but may wish to make arrangements in advance in order that they may be sure of having cash resources available after the termination of their war production contracts and pending the settlement of their claims in connection therewith. Commitments to make cash available to these businesses in the future are issued by financing institutions and the repayment of a stated percentage of the loans made by the financing institutions pursuant to such commitments is guaranteed by the War Department or the Navy Department acting through your bank. These credits are commonly referred to as VT loans.

In this program the Reserve Bank, as fiscal agent of the United States, is the connecting link between the commercial banks and other financing institutions and the Government. Members of the Credit Department interview prospective applicants for such guarantees, receive applications, investigate and analyze the financial condition of the businesses, and transmit the applications together with the recommendations of the bank to Washington for consideration. Upon receipt of authorization from the Government departments in Washington, the bank issues guarantees and undertakes to service the loans in certain respects. In the case of certain loans it is not necessary for the bank to refer the application to Washington for approval in advance. The servicing of loans by the bank includes periodic reviews of the financial condition of the borrowers. In the case of borrowers who are experiencing financial difficulties the bank collaborates with the financing institution and the Government department in determining the best procedure for maintaining an uninterrupted flow of vital war material and the liquidation of the loan.

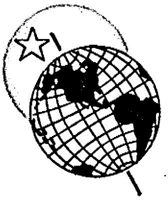
By July 1, 1944, more than 1,300 applications for V loans had been received by your bank, and more than 1,000 had been approved. By the same date approximately 90 applications for VT loans had been submitted and 70 had been approved. Included in the V loans is one commitment to lend a single concern up to $1 billion. This credit is participated in by almost four hundred commercial banks throughout the country. It is the largest credit which has ever been arranged at one time for a private concern. Approximately one-third of the loans, however, are for $100,000 or less, meeting the credit needs not only of large primary contractors but also of small subcontractors who previously may have found it difficult to obtain adequate credit accommodation.

The "Contract Settlement Act of 1944" approved July 1, 1944, provides among other things for interim financing in connection with the settlement of claims arising from terminated war contracts. Your bank, subject to such regulations as the Board of Governors of the Federal Reserve System may prescribe, is authorized to act, on behalf of the contracting agencies, as fiscal agent of the United States in carrying out the purposes of this Act. Loans made pursuant to this Act will be known as "T" loans and it is anticipated that our operations thereunder will be somewhat similar to those performed in connection with "V" and "VT" loans.

CONSUMER CREDIT . . .

We have talked about this bank's part in one aspect of the fight against inflation, namely, the sale of Government securities to the public rather than to banks. Another aspect of this fight in which we are all engaged, as part of the war effort, is the control of instalment debt. Under the authority of an Executive Order of the President of the United States made August 9, 1941, the Board of Governors of the Federal Reserve System in Washington on August 21, 1941, issued its Regulation W, placing restrictions upon instalment sales of a comprehensive list of durable and semi-durable goods for civilian consumption, and upon instalment loans. In May 1942 the list of goods subject to the regulation was greatly enlarged and the regulation was extended to practically all types of consumer credit, whether in the form of instalment sales and instalment loans, or in the form of charge accounts and single-payment loans.

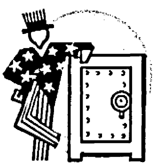
The Credit Department of the bank has the responsibility of administering and enforcing the regulation in this district. It answers inquiries regarding the regulation; receives registration statements from business concerns the activities of which are subject to the regulation; issues registration certificates; conducts investigations; and carries on an educational program designed to inform people subject to the regulation regarding its terms. The Research Department collects substantial statistical material regarding consumer credit.



FOREIGN OPERATIONS . . .

Many foreign central banks and a few foreign governments maintain deposit accounts and security and gold custody accounts at the Federal Reserve Bank of New York. Ordinarily these accounts serve international trade and finance; now they largely serve the United Nations' war program. Since the United States Treasury also maintains accounts at the bank, a large volume of financial transactions between our Government and other governments can be readily effected. Nearly every day the Treasury Department, acting for the War, Navy and State Departments, instructs the Federal Reserve Bank to transfer funds to the accounts of foreign central banks or governments for the purpose of making money available for the use of our armed forces and the American consulates in various parts of the world. Similarly, the Federal Reserve Bank effects payment for various goods and commodities which our Government is purchasing throughout the world.

Among the various services which your bank, through the Foreign Department, performs for the United States Stabilization Fund, has recently been the opening and maintenance with the central banks of several countries of accounts denominated in foreign currencies. In accordance with arrangements made by our Treasury Department with the treasuries of foreign countries, foreign currencies are acquired abroad and paid into such accounts. Payments from our accounts abroad, for the use of our armed forces and Government agencies abroad, are ordered by this bank, acting on behalf of the United States Treasury.



FOREIGN FUNDS CONTROL . . .

One important weapon used in the economic war against our enemies, which supports the war of arms, is the control of foreign property in this country. By an Executive Order issued by the President of the United States on April 10, 1940, and amended from time to time, all property in the United States in which any of the countries named in the Order, or their citizens or residents, have any interest is "frozen" or "blocked", that is, transactions involving such property are prohibited except as permitted by licenses issued by the Secretary of the Treasury.

Freezing control extends to the Axis nations, to all of Continental Europe except Turkey, and to other countries which have been overrun by the Axis. As an aggressive weapon of economic warfare, it has among its objectives the following:

(a) preventing the Axis from deriving any benefit from blocked assets;

(b) facilitating the use of certain blocked assets such as patents, ships, factories, etc., in the war effort of the United Nations;

(c) protecting American banks and business institutions in transactions involving blocked assets;

(d) protecting Americans who have claims against foreign governments and their nationals, having in mind post-war negotiations and settlements.

Your bank, as agent of the Treasury Department, assists in the administration of the Executive Order, the formulation of policy under the Order and the preparation of public documents carrying out such policy. Imported currency and securities, which are required under the freezing control to be impounded in a Federal Reserve Bank pending investigation of ownership, are handled by the Cash Department and the Safekeeping Department, respectively. With these and one or two other minor exceptions the duties assigned to the bank as fiscal agent are performed by the Foreign Funds Control Department.

This department of the bank receives applications for licenses relating to transactions involving blocked countries or their nationals. The applications are reviewed by specialists in the kind of transaction involved, are approved or denied directly by the bank under authority of the Treasury Department, or are referred to the Treasury. Over six hundred thousand applications have been handled by the bank to date. The bank receives and checks reports covering transactions under licenses, and receives inventory reports of property in the United States owned by foreigners and of American-owned property abroad.

Your bank also assists the Treasury Department in the detection and prevention of financial transactions on the part of the Axis or others which might interfere with the war effort. Without relaxing its efforts in this respect, the Foreign Funds Control Department has recently also been studying methods and problems incident to the "defrosting" of frozen assets after the war.

The Foreign Funds Control Department occupies the fifth and part of the sixth floor of 70 Pine Street. The personnel of the department is now about 130.

FISCAL AGENT, CUSTODIAN AND DEPOSITARY FOR RECONSTRUCTION FINANCE CORPORATION . . .

The Reconstruction Finance Corporation and its various subsidiaries are now engaged almost exclusively in war activities, including the making of loans for the manufacture of war materials, the construction of production facilities for the manufacture of war materials, the procurement of stock piles of strategic materials, the operation of the Government's war damage insurance program, and other projects directly related to the war effort.

The Federal Reserve Banks, acting as fiscal agents, custodians and depositaries for the Reconstruction Finance Corporation, actively participate in the administrative aspects of the various programs of the Corporation and its subsidiaries.

Your bank disburses, by checks drawn on the Treasurer of the United States, the amounts of loans, subsidies and other payments for account of the Corporation and its subsidiaries, and receives, examines, and holds borrowers' notes and collateral as well as invoices, shipping documents, warehouse receipts and documents evidencing title to commodities purchased.

The Defense Plant Corporation, a subsidiary of the R.F.C., purchases and leases plants for war production and makes such facilities available to others engaged in war work. The bank receives, examines, and holds invoices and other documents, and makes and receives payments, in connection with such activities. The bank also prepares and maintains complete inventory records of the machinery and equipment owned by the Defense Plant Corporation and used by the lessees of over 300 plants. As many as 150,000 separate items of machinery and equipment may be recorded in the inventory of a single plant. As equipment is transferred from one plant to another it is necessary for the bank to make numerous adjustments of such inventories.

The Defense Supplies Corporation, the Metals Reserve Company, the Rubber Development Corporation, the Rubber Reserve Company and the U. S. Commercial Company, all of which are subsidiaries of the R.F.C., are primarily engaged in purchasing, holding and selling strategic and critical materials and supplies. Your bank receives, examines and holds documents and makes and receives payments incident to the purchases and sales of more than 100 different materials for account of the Defense Supplies Corporation and the U. S. Commercial Company, and of more than 50 different metals for account of the Metals Reserve Company. Similar services are also performed by your bank for the Commodity Credit Corporation in connection with its purchases and sales of more than 200 different commodities.

In July 1942, the War Damage Corporation undertook to insure buildings and other tangible property against loss or damage resulting from enemy attack or action of our own armed forces in resisting enemy attack. Subsequently, coverage was also made available for money and securities when shipped by registered mail or express and under certain other circumstances. This insurance is written through the offices and facilities of hundreds of regular fire insurance, casualty and surety companies throughout the country which act as fiduciary agents of the Corporation. The bank receives from such companies statements regarding insurance written by them and premiums received in respect of such insurance less certain commissions and service fees. The bank verifies the computations, collects the checks and reports with respect thereto to the Corporation. Since July 1942, the bank has received for verification and filing approximately 8,000,000 tickets or advices relating to approximately 2,150,000 war damage insurance policies written in the Second Federal Reserve District. The bank also records changes of title to real property insured under these policies.

All of this work is performed through the R.F.C. Custody Department, whose employees now number 330. Some of the work of the department is performed in the bank's Annex Building at 95 Maiden Lane as well as in the main bank building.

BUFFALO BRANCH . . .

The Buffalo Branch—which directly serves the ten westerly counties of New York State, including the Cities of Buffalo and Rochester—also performs most of the functions performed by the head office of the bank in New York City. The Branch pays out and receives currency, receives deposits for account of the Government, handles and clears ordinary dollar checks and ration checks, handles withheld taxes, and issues Treasury Savings Notes and all series of Savings Bonds, and redeems Series E and earlier series of Savings Bonds. It also makes loans to member banks, performs custodian and other services for member banks, administers the consumer credit regulation, performs custodian, disbursing and other services for the Reconstruction

Finance Corporation and the Defense Plant Corporation, and in other ways serves the financial community and banking institutions in western New York.

As in the case of the head office, the operations of the Buffalo Branch have expanded to meet the demands of war. The number of employees of the Branch has increased from 116 on January 1, 1940, to 209 on July 1, 1944. A still larger staff would have been necessary were it not for the fact that the Branch is now operating on a work week of 48 hours. This longer work week was generally adopted, in the Spring of 1943, by war industries in Buffalo and other critical areas in accordance with the program of the War Manpower Commission.

In 1943 the issue price of Savings Bonds issued by the Branch totaled more than $18 million compared with $1 million in the preceding year. In 1943 the Branch handled over $1 billion of Government checks, received 22,500 depositary receipts for withheld taxes amounting to $45 million, disbursed $290 million in cash, handled nearly 700,000 ration checks, and examined 95,000 instalment sales transactions and 52,000 charge sales transactions. Last year the peace-time function of handling and clearing checks for commercial banks reached an all-time peak of 16 million items totaling $6½ billion. These statistical highlights illustrate the important service the Buffalo Branch performs for the territory served by it.

OTHER FUNCTIONS OF THE BANK . . .

Increased work in old departments and the war-born establishment of new departments, described above, have meant that all of the employees of the bank have felt the pressure of war work. This has been true in the personnel, legal, research, accounting, disbursing, auditing, bank examinations, bank relations, press and circular, service, mail, protection, building operating and other departments, even though their work has not been discussed in detail. While some of these departments are more directly involved than others in the performance of the work described above, all of them perform functions which are necessary to enable the bank to carry out its responsibilities. If the boilers in the basement are not working, if the elevators are not running, if the telephone switchboard is out of order, the whole bank slows down or stops. This is a community enterprise in which everyone plays his part. This is a real war job. The Federal Reserve Bank of New York is a war industry for the duration.

"Where liberty dwells, there is my country."