

**THIRD ANNUAL REPORT**  
**OF THE**  
**FEDERAL RESERVE BANK**  
**OF NEW YORK**

**FOR THE YEAR ENDED DECEMBER 31, 1917**



**WASHINGTON**  
**GOVERNMENT PRINTING OFFICE**  
**1918**



**LETTER OF TRANSMITTAL.**

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FEDERAL RESERVE BANK,  
*New York, January 15, 1918.*

SIR: I have the honor to submit herewith the third annual report  
of the Federal Reserve Bank of New York, covering the year 1917.  
Respectfully,

PIERRE JAY,  
*Chairman and Federal Reserve Agent.*

HON. W. P. G. HARDING,  
*Governor, Federal Reserve Board,*  
*Washington, D. C.*



## TABLE OF CONTENTS.

	Page.
Officers and directors of the bank.....	6
Results of operation.....	7-11
Balance sheet.....	7
Income and expenses.....	8
Discount rates.....	10
Investments during 1917.....	11-20
Maturities of investments and loans.....	11
Member bank rediscounts and advances.....	11
Bankers' acceptances and the discount market.....	15
Trade acceptances.....	18
United States bond operations.....	19
Municipal warrants.....	20
Federal Reserve note issues.....	20-22
Collections and clearings.....	22-24
Collection system.....	22
Gold settlement fund.....	24
Transfer system.....	24
Designation of reserve cities.....	25
Relations with member banks.....	25
Relations with nonmember banks.....	27
Accounts with foreign banks.....	29
Fiscal agency of the United States.....	29
Liberty loan campaigns.....	30-45
War-savings and thrift stamps.....	46
Organization of the bank.....	46-49
Internal management.....	46
Bank premises.....	48
Election of directors.....	49
General business conditions.....	49-56
Banking position of the district during 1917.....	49
Money rates.....	51
Gold movement.....	52
Foreign loans.....	53
Foreign banking conditions.....	53
New York Stock Exchange.....	54
Crops.....	54
Exports and imports.....	55
General business conditions.....	55

### APPENDIX.

Capital account reconciliation.....	57
Federal Reserve notes.....	57, 58
Summary of gold settlement fund operations.....	58
Schedule showing when proceeds of items will become available.....	59
Operations in United States Government obligations.....	59, 60

**FEDERAL RESERVE BANK OF NEW YORK.**

*Officers.*

BENJAMIN STRONG, Governor.	
ROBERT H. TREMAN, Deputy Governor.	EDWIN R. KENZEL, Assistant Cashier.
WILLIAM WOODWARD, Deputy Governor (inactive).	JOSEPH D. HIGGINS, Assistant Cashier.
J. HERBERT CASE, Deputy Governor.	ARTHUR W. GILBART, Assistant Cashier.
FRED. I. KENT, Acting Deputy Governor.	ADOLPH J. LINS, Assistant Cashier.
JAMES F. CURTIS, Secretary and Counsel.	W. M. ST. JOHN, Acting Assistant Cashier.
LOUIS F. SAILER, Cashier.	J. WILSON JONES, Acting Assistant Cashier.
LAURENCE H. HENDRICKS, Assistant Cashier.	HOWARD M. JEFFERSON, Auditor.
PIERRE JAY, Federal Reserve Agent.	
R. M. GIDNEY, Assistant Federal Reserve Agent.	

*Directors.*

Class A:	Term expires.
William Woodward, New York City.....	December 31, 1919
Robert H. Treman, Ithaca, N. Y.....	December 31, 1917
Franklin D. Locke, Buffalo, N. Y.....	December 31, 1918
Class B:	
Henry R. Towne, New York City.....	December 31, 1919
William B. Thompson, Yonkers, N. Y.....	December 31, 1917
Leslie R. Palmer, Croton on Hudson, N. Y.....	December 31, 1918
Class C:	
Pierre Jay, Chairman, New York City.....	December 31, 1919
W. L. Saunders, <sup>1</sup> New York City.....	December 31, 1917
George Foster Peabody, Deputy Chairman, Saratoga Springs, N. Y.....	December 31, 1918

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<sup>1</sup> Appointed February 9, 1917, to succeed Charles Starek, who resigned January 31, 1917.

# FEDERAL RESERVE BANK OF NEW YORK

## ANNUAL REPORT

### RESULTS OF OPERATION.

#### BALANCE SHEET.

The following is a statement comparing the condition of the Federal Reserve Bank of New York on December 31, 1917, with that of December 30, 1916, and showing the increase and decrease in the various items of resources and liabilities:

	Dec. 31, 1917.	Dec. 31, 1916.
<b>RESOURCES.</b>		
<b>Loans and discounts:</b>		
Bills discounted for member banks.....	\$225,117,913.30	\$7,071,158.55
Acceptances purchased.....	148,770,185.44	41,457,184.04
Rediscounts for other Federal Reserve Banks.....	25,191,033.66	.....
United States bonds.....	5,168,599.64	1,042,550.00
United States 1 year Treasury notes.....	4,493,000.00	1,205,000.00
United States certificates of indebtedness.....	15,000,000.00	.....
Municipal warrants.....	510,701.32	972,311.62
<b>Total investments.....</b>	<b>424,251,433.36</b>	<b>51,748,204.21</b>
<b>Reserve cash:</b>		
Gold with Federal Reserve agent <sup>1</sup> .....	250,598,565.00	107,003,765.00
Gold redemption fund for Federal Reserve notes.....	10,000,000.00	250,000.00
Gold settlement fund.....	5,854,000.00	20,570,000.00
Gold bullion.....	68,113,616.99	.....
Gold coin and certificates.....	275,130,455.00	159,321,257.50
Legal tender notes.....	31,322,275.00	11,188,200.00
Silver certificates and coin.....	8,925,743.85	4,077,274.80
<b>Total reserves.....</b>	<b>649,944,655.84</b>	<b>302,410,497.30</b>
<b>Other resources:</b>		
Federal reserve notes and other cash.....	59,752,685.24	13,865,897.46
Items in process of collection.....	48,091,790.20	23,077,418.84
Exchanges for clearing house and sundry cash items.....	26,429,660.74	2,503,168.21
Interest accrued on United States bonds.....	73,620.28	12,501.88
Cost of unissued Federal Reserve notes.....	.....	235,598.86
Deferred charges and prepaid expenses.....	20,458.22	8,753.52
Advances made for Treasury, United States, account expenses Liberty loan and war savings committees.....	360,350.01	.....
<b>Total other resources.....</b>	<b>134,728,564.69</b>	<b>39,703,338.57</b>
<b>Total resources.....</b>	<b>1,208,924,653.89</b>	<b>393,862,040.08</b>
<b>LIABILITIES.</b>		
<b>Capital fund:</b>		
Capital paid in.....	18,695,950.00	11,865,750.00
Surplus.....	649,363.56	.....
Profit and loss.....	.....	163,033.98
<b>Total capital fund.....</b>	<b>19,345,313.56</b>	<b>12,028,813.98</b>

<sup>1</sup> Inserted in 1916 report for purposes of comparison.

	Dec. 31, 1917.	Dec. 31, 1916.
<b>Deposits:</b>		
Due to United States Government.....	\$11, 870, 767. 74	\$3, 571, 391. 94
Due to foreign Governments.....	3, 335, 930. 00	.....
Due to nonmember banks, deposit account.....	10, 317, 630. 16	.....
Due to member banks—reserve balances.....	652, 791, 808. 26	237, 907, 354. 87
Due to member banks—uncollected funds.....	35, 553, 478. 43	18, 552, 984. 84
Due to other Federal Reserve Banks—collected funds.....	7, 610, 609. 86	12, 373, 721. 91
Due to other Federal Reserve Banks—uncollected funds.....	5, 156, 779. 75	2, 085, 975. 49
Cashier's checks outstanding.....	4, 821, 683. 09	188, 275. 81
<b>Gross deposits.....</b>	<b>731, 458, 687. 29</b>	<b>274, 679, 704. 86</b>
<b>Other liabilities:</b>		
Depreciation reserve.....	205, 880. 00	.....
Unearned discount and interest.....	1, 348, 238. 04	149, 756. 24
Participation certificates Liberty loan bonds.....	227, 970. 00	.....
Federal Reserve notes outstanding <sup>1</sup> .....	456, 338, 565. 00	107, 003, 765. 00
<b>Total other liabilities.....</b>	<b>458, 120, 653. 04</b>	<b>107, 153, 521. 24</b>
<b>Total liabilities.....</b>	<b>1, 208, 924, 653. 89</b>	<b>393, 862, 040. 08</b>

The great increase in many of the items of resources and liabilities may be traced quite directly to the changed conditions created by the amendments to the Federal Reserve Act approved June 21, 1917. These amendments greatly increased the balances of the member banks, placed on the balance sheet the entire note liability and the gold and lawful money held by the Federal Reserve agent, permitted nonmember banks to open clearing accounts, and by establishing in the statute the rights and duties of State institutions as member banks prepared the way for the membership of a large number of these institutions. The remaining changes are largely due to the activities of this bank in rendering assistance to the Government and to its members in the financial operations entailed by the war. The changes in the balance sheet will later be commented upon in detail under the appropriate headings.

## INCOME AND EXPENSE.

The following statement shows the income and expense of the bank for the years 1916 and 1917:

	1917	1916
<b>INCOME.</b>		
Bills discounted for members.....	\$2, 455, 532. 87	\$37, 368. 26
Acceptances bought.....	1, 843, 324. 87	530, 483. 75
United States securities.....	378, 068. 40	81, 644. 49
Municipal warrants.....	66, 470. 41	214, 122. 13
Profit realized on United States bonds.....	14, 335. 50	43, 515. 01
Commissions received.....	38, 537. 54	42, 387. 09
Profit on bills sold.....	8, 077. 03	.....
Penalties for deficient reserves.....	18, 565. 29	.....
Service charges.....	80, 922. 53	32, 659. 90
Sundry profits.....	24, 779. 51	1, 128. 59
<b>Total.....</b>	<b>4, 929, 213. 95</b>	<b>983, 609. 22</b>

	1917	1916
EXPENSE.		
Directors' fees, outside conferences, and Federal Advisory Council.....	\$18,301.61	\$10,768.34
Salaries.....	398,282.81	215,307.51
Rent.....	55,550.91	45,810.04
General expenses.....	329,096.98	151,200.36
Cost of Federal Reserve notes used.....	343,764.88	95,240.00
Assessment for expenses of Federal Reserve Board.....	50,252.09	39,029.38
<b>Total.....</b>	<b>1,195,249.28</b>	<b>557,352.12</b>
Net earnings.....	3,733,964.67	426,257.10
Profit and loss balance, Dec. 30, 1916.....	\$163,063.98	
Net debits during year.....	4,355.21	
	158,708.77	
	<b>3,892,673.44</b>	
Deductions, Dec. 31, 1917:		
Cost of unissued Federal Reserve notes charged off.....	445,248.14	
Depreciation reserve account set up.....	203,880.00	
	651,128.14	
Dividends paid during 1917:		
To liquidated banks.....	1,176.54	
Apr. 1, 1915, to Dec. 31, 1915, paid June 30, 1917.....	474,776.12	
Jan. 1, 1916, to Dec. 31, 1917, paid Dec. 31, 1917.....	1,466,865.51	
	1,942,818.17	
Paid to Treasurer of United States as franchise tax, Dec. 31, 1917.....	649,363.57	
Carried to surplus.....	649,363.56	
<b>Total.....</b>	<b>3,892,673.44</b>	

The great expansion which has occurred in the business of the bank during 1917 is reflected not only in the increased earnings but also in the increased expenses for salaries, rent, and printing Federal Reserve notes, which will be referred to in more detail later. The item "General expenses" includes cost of furniture and equipment, stationery and printing, telephone, telegraph, postage, expressage, insurance, as well as the entire expense of operation of the transit department, including expenditures of the kind just mentioned, salaries and rent. At the close of the year, after allowing for all current expenses, and paying dividends to date as above indicated, charging off all assets of a nonliquidating character and setting aside a reserve for depreciation on United States 3 per cent conversion bonds and for certain obligations under the lease of the banking office, the Federal Reserve Bank, under the provisions of section 7 of the Federal Reserve Act, paid into the Treasury of the United States as a franchise tax \$649,363.57, being 50 per cent of the net earnings to date, and carried a like amount to surplus fund.

## DISCOUNT RATES.

The discount rates established by the Federal Reserve Bank of New York during the year, and the rates at which acceptances were purchased in the open market have been as follows:

Month.	15 days or less (including collateral loans).	16 to 90 days, inclusive.	Agricultural paper 91 days to 6 months.	(Special.) Secured by Liberty bonds or United States certificates of indebtedness within 10-90 days.	(Special.) 1-day collateral notes in connection with Government financing.	Trade acceptances.	Open-market purchases, bankers' acceptances.	
							Authorized rates.	Actual rates.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
January.....	3	4	5	5	5	3½	2-4	2½-3½
February.....	3	4	5	5	5	3½	2-4	2½-3½
March.....	3	4	5	5	5	3½	2-4	2½-3½
April.....	3	4	5	5	5	3½	2½-4	3-3½
May.....	3	4	5	3½	3½	3½	2½-4	3-4
June.....	3	4	5	5	2-4	3½	2½-4	3-4
July.....	3	4	5	3½	2-4	3½	2½-4	3-4
August.....	3	4	5	3½	2-4	3½	2½-4	3-4
September.....	3	4	5	3½	2-4	3½	2½-4	3½-4
October.....	3	4	5	3½	2-4	3½	2½-4	3½-4
November.....	3	4	5	3½	2-4	3½	2½-4	3½-4
December 1-20.....	3	4	5	3½	2-4	3½	1½-4	3½-4
December 21-31.....	3½	4½	5	4	3-4½	4	1½-4½	3½-4½

<sup>1</sup>Acceptance rates advanced Dec. 7.

To assist the Government financing, a special rate of 3½ per cent was established on May 22 for discounts maturing within 90 days secured by United States certificates of indebtedness or Liberty bonds. On June 13 a special rate of 2 per cent to 4 per cent was established for advances on member banks' one-day collateral notes secured by eligible commercial paper or United States Government obligations in connection with Government financing, and loans were made between June 5 and June 12 at the rate of 2½ per cent. Subsequently, loans of this character were made at the prevailing rate for maturities within 15 days.

During the early part of the year the bank's 90-day discount rate continued, as in preceding years, to be above the open-market rate for commercial paper. Since the declaration of war, however, it has been substantially below the open-market rate for such paper. The change in the relative position of the two rates, however, led to no marked increase in the discounting of this class of paper. Substantially all of the rates of the bank were increased about one-half of 1 per cent shortly after December 15, when the period of Government financing relating to the second Liberty loan had been completed, in order to bring the rates of the bank on commercial paper more nearly in line with the rates prevailing in the open market, and in order to stimulate liquidation of its discounts in anticipation of future

demands upon its credit facilities which will arise during succeeding periods of Government financing.

INVESTMENTS OF THE FEDERAL RESERVE BANK OF NEW YORK  
DURING 1917.

MATURITIES OF INVESTMENTS AND LOANS.

The following statement shows the maturities of investments, other than United States securities and warrants, held by the Federal Reserve Bank of New York December 31, 1917:

	Discounts or advances based on commercial paper.	Discounts or advances based on United States securities.	Bankers' acceptances.	Total.
Within 15 days.....	\$55,972,882.45	\$81,494,809.69	\$17,172,201.88	\$154,639,894.02
16 to 30 days.....	7,261,070.62	1,028,580.10	22,354,778.42	30,644,429.14
31 to 60 days.....	32,153,380.52	51,977,627.14	82,644,973.39	166,775,986.05
61 to 90 days.....	16,327,611.46	4,093,924.98	26,598,226.75	47,019,763.19
Total.....	111,714,945.05	138,594,941.91	148,770,185.44	399,080,072.40

MEMBER BANK DISCOUNTS AND ADVANCES.

The early months of 1917 showed the usual small volume of advances and discounts for member banks, but, as the Government financing, which commenced shortly after our entrance into the war, began to assume important proportions, the discount facilities of the Federal Reserve Bank were availed of generally, and as the time for payments due June 15 on the first Liberty loan approached there was a rapid increase in the volume of acceptances purchased in the open market and discounts for member banks. The discounts for member banks, which amounted to less than \$1,000,000 on June 1, had increased on June 19 to \$163,000,000, while acceptances increased between the same dates from \$36,000,000 to \$89,000,000 and rose on June 27 to \$103,000,000. Total investments rose from \$66,000,000 on June 1 to \$279,000,000 on June 19. The contraction was only slightly less abrupt than the expansion, for by August 15 the total investments of the bank had fallen to \$68,000,000. This sudden expansion of \$213,000,000 in 19 days, which exceeded by \$104,000,000 the largest amount of clearing-house certificates ever outstanding among the New York Clearing House banks, was due to two causes, which were also operative during the period of Government financing incident to the second issue of Liberty bonds.

First, the withdrawal by interior banks of deposits kept with New York institutions in order to make payment in their respective Fed-

eral Reserve districts for United States certificates of indebtedness and for Liberty bonds purchased by such banks or through them. Interior banks usually make these payments by drafts on New York banks, which are sent to the Federal Reserve Bank of New York for collection through the clearing house and for settlement through the gold settlement fund. By this method the reserves of the New York banks are depleted and gold is transferred to the interior. To maintain their reserves the New York banks are obliged to come to the Federal Reserve Bank for discounts or advances. Usually these have been required only for short periods, running from a few days to a few weeks, because the funds gradually find their way back to New York, also through the gold settlement fund, as the United States Government makes most of its advances to the allied Governments and pays a large proportion of its own expenditures through the Federal Reserve Bank of New York.

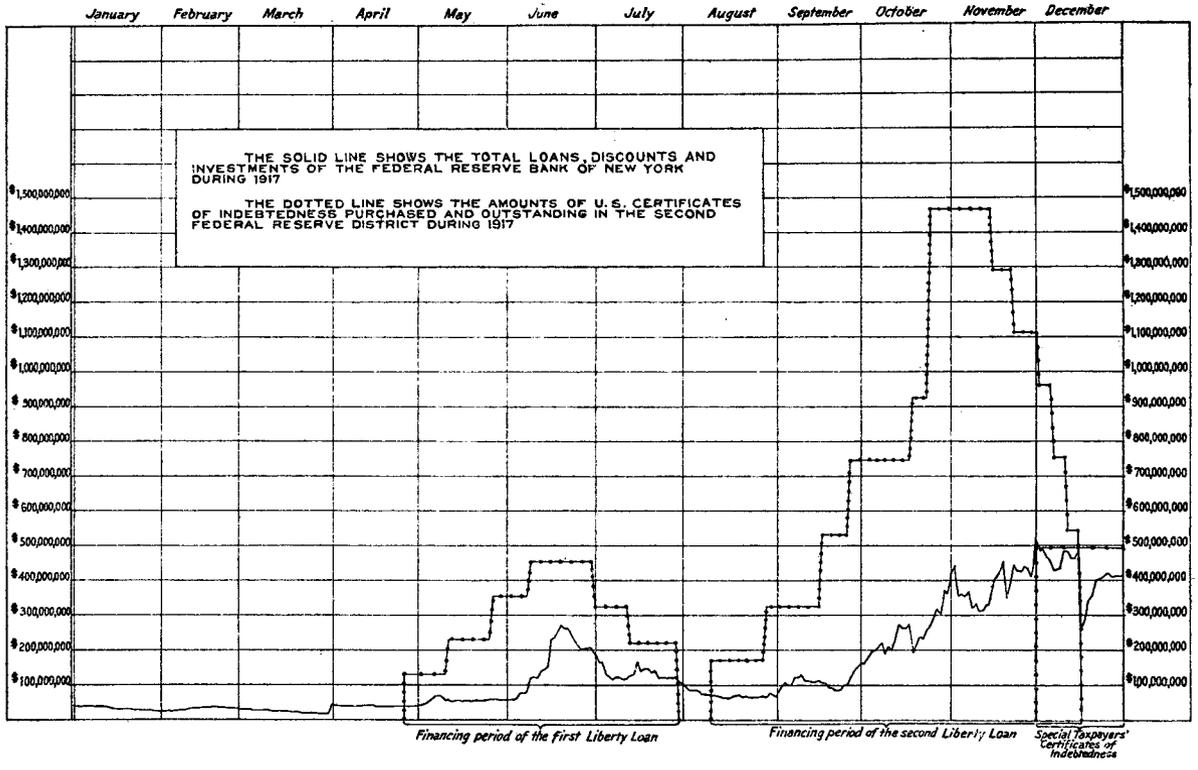
Second, the requirement for the creation of an immense volume of bank credit represented by short-term certificates of indebtedness, which the Government issues to provide itself with funds in anticipation of the sale of bonds. The total volume of these certificates outstanding in connection with the period of financing which ended with the first Liberty loan was \$868,205,000, of which this Federal Reserve district took \$479,962,000, or 53 per cent. When these credits are created by the banks, the law does not require any reserves to be maintained against them, but, as they are gradually drawn into the Federal Reserve Bank and disbursed by the Government, they are transformed from Government deposits, free of reserves, into individual deposits, requiring reserves, and, therefore, requiring larger balances to be kept with the Federal Reserve Bank. As the allied Governments, to whom the bulk of the funds has thus far been distributed, make payments to interior points the banks have to discount with the Federal Reserve Bank to maintain their reserves. When these funds reach interior banks, balances withdrawn from New York for the payment of Liberty bonds are gradually built up again and the New York banks relieved of their strain.

Each sale of bonds is, therefore, the culmination of a period of Government financing which begins with tremendous expansion of bank credit in favor of the Government and ends with what is in effect, though not literally, a conversion of these short-time bank credits into long-time investment credits, namely Liberty bonds. This conversion enables the banks to contract their position somewhat and, by canceling the credits they have obtained at the Federal Reserve Bank, thereby contract the position of the Federal Reserve Bank as well and prepare it for another similar period of financing.

During the period of financing ending with the payments for the second Liberty loan, the total amount of United States short-term

certificates of indebtedness issued throughout the country was \$2,925,296,000 (including \$690,000,000 due June 25, 1918, issued in anticipation of tax payments then due) of which the banks in this Federal Reserve district purchased \$1,961,613,500, or 67 per cent. The increased volume of the temporary financing in this period, compared with that of the preceding period, involved larger movements of funds to and from the interior, larger fluctuations in bank reserves and considerably larger recourse to the credit power of the Federal Reserve Bank. The first issue of certificates in connection with this period was on August 9. On this date the total loans and investments of the bank were \$78,000,000. On November 30, 15 days after the first payment for the Liberty loan bonds, they had grown to \$522,000,000, an increase during this period of financing of \$444,000,000. On one day, November 30, the increase was \$111,000,000. On December 15, the maturity date of the last issue of certificates of indebtedness, the decrease in loans and investments was \$219,000,000, indicating in a very striking way the effect of the Government certificates of indebtedness upon the discount activities of the Federal Reserve Bank.

The chart on the following page shows graphically the closeness of the relation between the Government's short-time financing on certificates of indebtedness and the expansion of the loans and investments of the Federal Reserve Bank of New York.



The following is a statement of discounts for and advances to member banks, by months, during 1917, together with similar transactions during 1916:

Month.	1917		1916	
	Number of items.	Amount.	Number of items.	Amount.
January.....	148	\$598,162.06	117	\$125,655.65
February.....	171	1,925,351.05	73	98,304.35
March.....	237	3,092,583.13	249	304,628.35
April.....	267	2,439,223.25	149	149,950.15
May.....	523	6,545,273.25	307	191,291.39
June.....	2,034	552,976,458.11	325	318,495.34
July.....	1,346	262,366,105.28	116	235,491.37
August.....	1,254	53,024,394.21	241	536,851.00
September.....	1,625	219,543,993.34	105	560,583.29
October.....	2,544	2,382,893,110.97	177	1,035,118.65
November.....	3,213	2,663,667,291.90	79	715,293.90
December.....	9,122	262,232,974.93	567	17,977,996.38
Total.....	22,484	6,511,274,921.48	2,505	22,329,581.81

The immense volume of discounts and advances made during October and November, 1917, are due to the fact that many of the banks which borrowed most heavily did their borrowing for periods of from one to five days only, in order to readjust the amounts at each renewal to the requirements of their condition. In this way their borrowing became almost as flexible as if their loans had been on demand.

The following figures show certain data concerning the discounts of 1916 and 1917:

	1917	1916
Number of applications received.....	2,513	302
Amount of applications received.....	\$6,528,455,050.30	\$22,501,332.41
Amount of applications accepted and discounted or advanced upon.....	\$6,513,225,285.60	\$22,329,581.81
Largest application.....	\$167,000,000.00	\$3,877,000.00
Smallest application.....	\$50.00	\$450.00
Number of pieces of paper discounted or advanced upon.....	22,484	2,502
Largest piece of paper discounted or advanced upon.....	\$147,000,000.00	\$1,000,000.00
Smallest piece of paper discounted or advanced upon.....	\$25.00	\$18.00
Average size of notes discounted or advanced upon.....	\$289,682.67	\$8,914.01
Number of banks rediscounting.....	322	62

#### BANKERS' ACCEPTANCES AND THE DISCOUNT MARKET.

This year has witnessed a continued increase in the volume of bankers' acceptances created and a steadily broadening open market in which they circulate. At the close of the year 1916 it was stated that there were outstanding about \$250,000,000 of dollar acceptances, including bills of foreign origin on American merchants. It is not improbable that the volume of such paper in the United States at the close of 1917 is from four to five hundred million dollars.

The increases, while general in all classes of bills eligible for discount with Federal Reserve Banks, are most notable in the bills arising from domestic transactions and from the increasing trade between the United States and the Orient.

The following table, gathered from reports made to public officers, shows the amount of acceptance liabilities of national banks in district No. 2, and of State banks and trust companies in the State of New York:

	September, 1917.	September, 1918.
National banks.....	\$73,717,000	\$44,300,877
Trust companies.....	91,424,509	68,588,558
State banks.....	7,355,910	2,787,995
Total.....	172,497,419	115,677,430

The more general recourse during the year to bankers' credits for financing the large seasonal movements in commodities is an indication of a wider understanding and appreciation, by the borrower and banker alike, of the advantages of this form of financing transactions that in themselves furnish the means of discharging the obligations incurred by the taker of credit and the acceptor.

With the increased volume of business, the number of accepting banks and purchasers of bills also has steadily increased. The names of many well-known institutions located in the larger cities of the country have now become known as acceptors through their acceptances offered in the open market in New York. Also, dealers report an increasing interest on the part of out-of-town banks as investors in prime bills, evidenced both in the number of new buyers and the volume of their purchases. Indicative of the increase are the reports of two houses whose sales this year have in each case exceeded \$300,000,000 and neither of which handled over \$60,000,000 of bankers' bills last year. The larger number of dealers and bill brokers specializing in bankers' acceptances is another indication of the widening interest in the development of the open market.

The New York open-market discount rates during the year have advanced gradually until they were at the close about 1 per cent higher than at the end of last year. They have, nevertheless, been the most stable of all the money rates during the period. The purchases of the Federal Reserve Bank of New York have materially assisted in this stabilization, especially at times when, owing to the temporary requirements of the banks in this district and elsewhere, bills were offered in large volume for resale in the market or directly to the Federal Reserve Bank, and also when, during periods of adjustment incident to the large financial operations of the Government, the

market's absorption of newly accepted bills was more or less interrupted. On the whole, however, purchases by the Federal Reserve Banks have been at rates determined by the law of supply and demand in the open market.

By reference to the table showing the monthly purchases of acceptances by this bank for itself and other Federal Reserve Banks, it will be seen that during March and April, when the open-market rates fell below those at which this bank was willing to purchase, practically the entire volume of acceptances was taken by the open market, and as a result the bill holdings of this bank decreased from \$39,000,000 on January 2 to \$15,000,000 on April 18. When the rates for money stiffened in June, incident to the transfers between New York and interior points, the market rates rose above those of the Federal Reserve Bank and bills were taken in large volume by this bank, whose holdings of bills increased \$66,000,000 during June. During the period of easy money, which began shortly after July 1, market rates again fell below those of the Federal Reserve Bank and liquidation of its bills again occurred. The situation was reversed again as the demand for money increased and the time for payment on the second Liberty loan approached. By selling a large volume of its bills early in November to other Federal Reserve Banks which had not been drawn on so heavily by their members, this bank was placed in a position to maintain fairly stable rates for the purchase of bills during the strained period between November 15 and December 15, on which latter date its holdings of bills aggregated \$115,000,000.

The somewhat higher rates that have obtained during the year, and the resulting wider demand have tended to diminish the distinction that has existed in the open market between the rates at which the acceptances of member banks and other well-known acceptors, private bankers, and others, were sold. This tendency to equalize the open-market discount rates for equally prime bills, makes for greater stability and freer use of dollar bills of exchange in foreign markets, where the fine grades of distinction existing here were not understood. The Federal Reserve Bank has assisted in this equalization by its forward quotations for and purchase of prime bills to arrive from the foreign countries of origin, as well as by its recognition of the indorsements of both foreign banks and domestic banks and bankers.

In its purchases the Federal Reserve Bank has, by differential rates, emphasized its preference for indorsed paper and the shorter maturities; that is, for paper that has been sold in the market and is re-offered indorsed by the original and subsequent purchasers and is approaching maturity. This ordinarily enables a bank that carries

a secondary reserve line of bankers' acceptances to make an additional profit or higher average yield on bills carried by purchasing the longer bills at higher rates, and when they come, say, to within 30 days of maturity, indorsing and selling them to the Federal Reserve Bank at the minimum rates obtaining for short-time paper, and reinvesting the proceeds in new long bills.

A large proportion of the bills now bought by the Federal Reserve Bank bear one or more banking indorsements. This development in the practice of the market in New York, which has occurred within the year, is in accordance with the long-established practice in the open markets of Europe and constitutes one of the most significant evidences of the appreciation by our banks and bankers of what will be the logical development of a larger open market in this country and of the normal functions of a Federal Reserve Bank as a bank of rediscount rather than one of original discount.

The monthly purchases of acceptances and indorsed trade bills by this bank for itself and for other Federal Reserve Banks have been as follows:

Month.	For account of Federal Reserve Bank of New York.		For account of other Federal Reserve Banks.	
	Number of items.	Amount.	Number of items.	Amount.
January.....	133	\$2,605,561.06	396	\$7,465,453.54
February.....	1,004	20,242,314.18	1,311	21,619,722.70
March.....	84	1,763,414.47	230	4,727,936.26
April.....	437	9,687,414.49	591	11,617,300.68
May.....	1,278	28,839,604.60	1,459	21,526,022.56
June.....	4,625	83,248,507.98	1,947	24,474,515.37
July.....	1,019	25,012,533.62	1,991	21,921,403.75
August.....	439	12,512,824.39	1,672	19,553,401.32
September.....	4,467	62,434,840.29	356	5,628,313.38
October.....	2,835	50,307,095.52	523	6,524,838.02
November.....	3,079	61,395,915.90	314	7,267,878.15
December.....	4,476	106,915,574.17	105	593,045.18
Total.....	23,876	464,965,600.67	10,895	152,919,830.91
Classification:				
Import and export.....		387,550,190.57		141,757,370.47
Domestic.....		69,323,528.03		8,370,560.56
Indorsed trade bills of foreign origin.....		5,755,352.44		2,452,116.94
Bills drawn to furnish dollar exchange.....		1,971,529.63		346,786.94
Domestic trade acceptances.....		365,000.00		
Total.....		464,965,600.67		152,919,830.91

## TRADE ACCEPTANCES.

Reports from different parts of the country indicate a rapid increase during the year in the use of trade acceptances and, in view of the widespread interest in this subject, this bank has published and distributed to all banks in this district a pamphlet giving information concerning the advantages to be derived from the substitution of trade acceptances for open book accounts. The great

demand for the pamphlet evidences the consideration now being given by the business interests to the adoption of this system.

The Trade Acceptance Council has been organized, composed of representatives from the United States Chamber of Commerce, the American Bankers Association, and the National Association of Credit Men, which plans to inaugurate a campaign of education on the use of trade acceptances. The council has the full support of the Federal Reserve Bank in this work.

#### UNITED STATES BOND OPERATIONS.

Following advice from the Federal Reserve Board that it would require the Federal Reserve Banks to purchase on April 1, 1917, United States bonds amounting to \$15,000,000, or so much thereof as might be offered for sale on or before March 21 by the Treasurer of the United States, the Federal Reserve Bank of New York purchased, during the first quarter of 1917, from member banks and in the open market \$2,560,000 of United States 2 per cent bonds bearing circulation privilege and has converted \$3,552,500 (including bonds held over from 1916) into \$1,776,500 30 year 3 per cent conversion bonds, and \$1,776,000 one year 3 per cent gold notes of the United States, neither of which has the circulation privilege. No further purchases of the 2 per cent bonds have been made, as the Federal Reserve Board, on April 18, advised that in view of the coming issue of United States bonds bearing interest at  $3\frac{1}{2}$  per cent, it would not require the Federal Reserve banks to purchase bonds convertible into obligations bearing only 3 per cent. This was further confirmed by resolutions adopted by the Federal Reserve Board on June 21.

On March 31 the bank purchased from the Government \$20,000,000 of 2 per cent certificates of indebtedness maturing June 30, 1917, which were carried to maturity.

In connection with its work as fiscal agent in selling later issues of certificates of indebtedness and the two issues of Liberty bonds, referred to elsewhere in this report, the bank has from time to time purchased from holders of such certificates varying amounts which were either carried to maturity, or after a short interval, resold to those from whom purchased. It has also on several occasions purchased direct from the Government certificates of indebtedness payable within a few days, bearing interest at 2 to 4 per cent, the purpose being to avoid constant withdrawals of Government funds on deposit with depository banks. The bank purchased Liberty bonds of the first issue amounting to \$1,500,000 to be held and delivered to holders of certificates which it issued in denominations of \$10, five of which could be converted into a \$50 bond. Liberty bonds to unim-

portant amounts were also purchased from subscribers to the first issue who had defaulted in their payments. Details of the transactions in United States bonds will be found in the appendix.

## MUNICIPAL WARRANTS.

Municipal warrants, which, during 1915 and 1916 were purchased in substantial volume when the resources of the bank were not being otherwise drawn upon, disappeared almost entirely from its investments during 1917. The following statement records the purchases during the year.

Month.	For account of Federal Reserve Bank of New York.	For account of other Federal Reserve Banks.
	Amount.	Amount.
January.....	\$2,760,000	\$4,240,000
February.....	2,425,000	3,225,000
May.....	50,000	25,000
September.....	1,000,000	.....
Total.....	6,235,000	7,490,000

Average rate for year, 3.04.

## FEDERAL RESERVE NOTE ISSUES AND THE ACCUMULATION OF GOLD.

The policy of issuing Federal Reserve notes freely and of maintaining the interchangeability of Federal Reserve Bank deposits and notes, which was described in the last two annual reports, has been pursued consistently throughout the year.

The amendment to the Federal Reserve Act of June 21 provided, among other things, that all Federal Reserve notes in actual circulation should be included by the bank among its liabilities, and that it should include among its assets the gold held by the Federal Reserve agent as security for such Federal Reserve notes. The gold delivered to the Federal Reserve agent is thus treated as collateral to Federal Reserve notes instead of, as formerly, a payment to reduce the bank's liability, and the Federal Reserve Bank is made joint custodian of the funds so held. Up to June 15 all outstanding Federal Reserve notes of this bank were secured dollar for dollar by gold or gold certificates. On that date, however, rapid increases in the bank's loans and discounts made it desirable to make a partial substitution of commercial paper for gold as security for the Federal Reserve notes, thereby increasing the gold reserve of the bank, and \$25,000,000 was thus substituted. On June 22 an additional \$75,000,000 was substituted, and since that date, in accordance with the spirit of the amendment above referred to, the gold held by the Federal Reserve

agent has been maintained in substantially the same proportion to the net liability on Federal Reserve notes as the proportion of gold held by the bank has borne to its deposit liability.

The accumulation of gold throughout the year by the issue of Federal Reserve notes in exchange therefor has added materially to the strength of the bank. To assist in this strengthening process the Federal Reserve Bank on August 10 invited the cooperation of all the national banks, State banks, and trust companies in the district and offered to pay the cost to such banks of forwarding to it gold or gold certificates and to ship Federal Reserve notes free of expense to any such bank forwarding gold or gold certificates. Later it also offered for a limited period to accept gold coin at its face value without deduction for loss by abrasion.

The response to these offers has been extremely gratifying not only in the amount of gold accumulated but in the splendid cooperation given by banks in the district, member and nonmember alike. Member banks outside of New York City sent in, between August 10 and December 31, gold and gold certificates amounting to \$10,776,000. Nonmember banks outside of New York City sent in gold and gold certificates amounting to \$9,312,000. The amounts of gold received from the New York City banks were, of course, far larger. Many of the nonmember banks in New York under authority of the amendment to the Federal Reserve Act, which permitted accounts to be opened for clearing purposes, deposited with the Federal Reserve Bank large amounts of gold or gold certificates which they had held in their vaults.

Arrangements effected in the early autumn by which the Treasury at Washington and the Subtreasury at New York were supplied with Federal Reserve notes to meet demands for new currency have also assisted materially in the substitution of Federal Reserve notes for gold certificates in general circulation.

The amount of Federal Reserve notes of this bank in actual circulation at the end of 1916 was \$93,426,100. At the end of 1917 the amount in actual circulation was \$397,353,805. This large increase does not represent wholly a substitution of Federal Reserve notes for gold. Owing to the increase in the gold supply of the bank from other sources it is impossible to estimate at all accurately what part of the total was so accumulated. It is evident, however, that a substantial volume of notes has been issued not covered by gold, which therefore constitutes an expansion of our circulating medium. This, of course, is both natural under the circumstances and in accordance with the letter and spirit of the Federal Reserve Act, since Federal Reserve notes are, with the exception of gold, the principal expanding and contracting element in our currency. The higher prices for labor and materials and the greater velocity of business

and trade require larger amounts of currency to be carried as till and pocket money. The same demand has manifested itself for silver and other coins. The Federal Reserve Bank issues whatever notes the banks of its district require for use of their customers, but the expansion should be regarded as entirely healthy since no one is compelled to receive Federal Reserve notes in payment of debts and since they are redeemable in gold on demand.

The redemption of Federal Reserve notes unfit for circulation since November, 1914, has amounted to \$119,141,435. The cost of printing the notes has again increased and is now on the basis of \$10.80 per thousand bills as against \$10.58 last year. It is interesting to note that while the demand for notes during the latter part of 1916 was heaviest for the \$5 denomination, it has since changed so that the tens have been issued in largest amounts and the proportion of twenties issued has distinctly increased. The demand for fifties and hundreds is also heavier, and were notes of denominations of \$500, \$1,000, \$5,000, and \$10,000 available, they would doubtless be taken in important amounts by many banks in the larger cities of the district which have need for currency of this size and are, at present, obliged to hold gold certificates and pay them out when necessary.

COLLECTIONS AND CLEARINGS.

THE COLLECTION SYSTEM.

The check collection system described at length in the last annual report has been continued in operation during the year, and the following table shows the various classes and amounts of items handled:

[000's omitted in columns headed "Amount."]

Month.	Items on other Federal Reserve banks.		Items on banks in other Federal Reserve districts.		Items on banks in district No. 2.		Items on New York Clearing House banks.		United States Treasury checks.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
1917.										
January.....	658	\$8,789	367,754	\$173,484	620,476	\$122,760	114,978	\$383,380	138,716	\$35,217
February.....	502	5,324	325,367	169,128	546,298	103,120	81,733	348,835	141,685	39,129
March.....	587	7,088	406,568	202,489	621,938	145,303	94,961	459,026	135,047	45,165
April.....	539	7,340	407,718	221,139	702,285	161,683	96,874	670,211	145,586	39,401
May.....	497	7,915	421,991	248,645	830,591	186,598	123,702	937,649	205,797	39,771
June.....	416	11,621	412,261	250,546	859,104	234,054	163,170	1,137,609	201,668	43,346
July.....	530	7,417	373,514	236,115	866,893	220,080	132,153	1,037,054	227,791	65,037
August.....	579	11,903	359,429	237,075	914,076	258,670	129,921	978,327	280,931	100,413
September.....	509	8,847	382,888	266,621	883,781	216,268	94,548	869,452	311,473	138,245
October.....	548	6,555	510,575	325,528	975,647	239,880	132,314	1,859,686	358,626	162,534
November.....	558	8,365	534,942	330,062	967,104	834,848	122,932	1,805,131	442,649	174,127
December.....	460	6,219	586,907	333,866	1,065,030	913,376	145,124	1,659,628	439,220	217,073
Total.....	6,383	97,383	5,086,914	3,002,698	9,853,283	3,758,640	1,432,410	12,146,348	3,029,189	1,099,458

The collection system was extended on September 10, 1917, to include the collection of notes, drafts, bills of exchange, and other collection items. As the handling of items of this kind presents problems quite different from those involved in handling checks, a service charge of 10 cents per item is made, in addition to such collection charge as may be imposed by the collecting bank. In case a collection item is returned unpaid, a charge of 10 cents is imposed to be paid to the bank presenting the item for payment. No charge, however, has been made for the collection of coupons other than the charge made by the collecting bank plus mail or express charges. As far as possible, items are sent direct to their place of payment, and, when payable outside of the district, the collecting bank is permitted to make remittance either direct to the Federal Reserve Bank of New York in New York exchange, or, if more convenient, in available exchange, to any other near-by Federal Reserve Bank for the credit of this bank.

During the early months of the year the number of banks which agreed to remit to the Federal Reserve Bank of New York at par for items drawn upon them included all but 90 out of the 1,049 banks in the district, and, on April 1 this bank announced its readiness to accept at par, subject to the usual per item charge, checks on every bank in the district. Checks on those banks which did not agree to remit at par were collected through express companies and through local agencies established by the Federal Reserve Bank. A number of banks on which items were at first collected in this manner have since agreed to remit at par, and it is hoped that in the interest of the development of the par collection system, the remainder will also in time adopt the same course.

On May 31, this bank announced the completion of arrangements with other Federal Reserve Banks for the issuance and sale by member banks of drafts available for immediate credit at any of the 12 Federal Reserve Banks. Under this arrangement, any member bank may draw its draft on its Federal Reserve Bank and have it made available for immediate credit at par in any of the 12 Federal Reserve cities.

Under the regulations of the Federal Reserve Board, the Federal Reserve Bank has throughout the year assessed penalties on member banks which have failed to maintain their reserve deposits with the Federal Reserve Bank at the amount required. The member banks report monthly the average reserve required to be kept by them with the Federal Reserve Bank and impairments of this reserve are ascertained by comparing the figures reported by the banks with the average actual reserve shown by the Federal Reserve Bank's books during such month. The penalty, which the board has fixed at a rate of 2 per cent above the 90-day discount rate, has been at the rate of 6

per cent during the year. The amount collected was \$18,565.29, and the average number of banks penalized each month, 12.

## GOLD SETTLEMENT FUND.

The operations of the gold settlement fund have become of even greater importance than heretofore in connection with the broadened activities of the Federal Reserve Banks since the entrance of the United States into the war. The banks in other Federal Reserve districts have made payments on account of subscriptions to certificates of indebtedness and Liberty loan bonds to a very important extent by drawing upon their New York correspondents. Payments by this bank to other Federal Reserve Banks during the year through the gold settlement fund totaled \$8,692,024,000, and payments received from other Federal Reserve Banks totaled \$8,426,893,000, the net amount paid being \$265,131,000. Transfers in immense volume have been made from other Federal Reserve Banks to this bank, both as a natural movement of funds and also for account of the Treasurer of the United States. It seems probable that without the facilities of the gold settlement fund, these heavy transfers could have been accomplished only at considerable expense and with an unfortunate disturbance of domestic exchange at times when it was of the utmost importance that no disturbance should occur.

Through the courtesy of the Treasury and subtreasuries these transfers have been made without the shipment of any gold or gold certificates, and at a trifling cost for telegrams and clerical work.

The amendments of June 21 provided that the Treasurer of the United States should receive deposits of gold from Federal Reserve Banks or Federal Reserve agents for credit of their accounts with the Federal Reserve Board. The gold settlement fund since June 29 has therefore been carried on the books of the Treasurer of the United States as a deposit repayable in gold to the Federal Reserve Board, which administers the fund.

## THE TRANSFER SYSTEM.

Telegraphic transfers have been made for member banks without limit as to amount and without charge other than the cost of the telegram. That they have become an important part of the exchange operations of the bank, is shown by the following table giving the volume of transactions during the last six months:

Month.	Daily average amount.	Daily average number of transfers.	Month.	Daily average amount.	Daily average number of transfers.
July.....	\$31,801,000	31	October.....	\$37,304,000	48
August.....	28,536,000	35	November.....	47,191,000	73
September.....	30,893,000	38	December.....	50,308,000	70

## DESIGNATION OF RESERVE CITIES.

Under the provisions of section 11 of the Federal Reserve Act, the Federal Reserve Board has designated Buffalo, N. Y., as a reserve city, effective January 1, 1918.

## RELATIONS WITH MEMBER BANKS.

In Federal Reserve District No. 2, including New York State, Fairfield County, Conn., and the following counties of New Jersey: Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Passaic, Somerset, Sussex, Union, and Warren, the number of member banks on December 31, 1917, was 667, as compared with 625 on December 31, 1916, the location of the members being as follows:

Location.	Number of banks.
Connecticut (Fairfield County).....	15
New Jersey.....	134
New York, Borough of Manhattan.....	56
New York, elsewhere.....	462
	518
Total.....	667

During the year 41 State banks and trust companies were admitted to membership, making a total of 43 such members, the names of the institutions and the amount of their gross resources at the time of last available official statement being as follows:

Location.	Bank or trust company.	Resources.
Connecticut: Bridgeport.....	Bridgeport Trust Co. ....	\$7,866,545.08
New Jersey:		
Montclair.....	Bank of Montclair.....	3,408,669.31
Passaic.....	Passaic Trust & Safe Deposit Co. ....	7,130,181.05
Plainfield.....	Plainfield Trust Co. ....	8,749,434.09
Rahway.....	Rahway Trust Co. ....	398,276.67
New York:		
Batavia.....	Bank of Genesee.....	1,151,906.81
Brooklyn.....	Brooklyn Trust Co. ....	80,541,258.38
Do.....	Franklin Trust Co. ....	35,397,147.55
Do.....	Manufacturers Trust Co. ....	15,031,812.26
Do.....	Peoples Trust Co. ....	31,376,550.02
Buffalo.....	Buffalo Trust Co. ....	9,624,217.56
Do.....	Citizens Commercial Trust Co. ....	18,971,655.31
Elmira.....	Chemung Canal Trust Co. ....	7,301,857.80
New York City:		
Do.....	Bank of America.....	53,142,576.95
Do.....	Bank of the Manhattan Co. ....	77,352,106.80
Do.....	Bankers Trust Co. ....	348,716,132.77
Do.....	Central Trust Co. ....	227,145,177.86
Do.....	Columbia Trust Co. ....	116,989,761.33
Do.....	Corn Exchange Bank <sup>1</sup> .....	161,838,224.38
Do.....	Equitable Trust Co. ....	308,484,680.75
Do.....	Fidelity Trust Co. ....	15,588,505.06
Do.....	German American Bank.....	11,743,400.68
Do.....	Germania Bank.....	9,007,106.55
Do.....	Grace & Co.'s Bank, W. R. ....	6,675,523.47
Do.....	Guaranty Trust Co. ....	701,118,786.37
Do.....	Irving Trust Co. <sup>1</sup> .....	39,724,638.23
Do.....	Mercantile Trust & Deposit Co. ....	7,373,524.48
Do.....	Metropolitan Bank.....	41,620,741.62

<sup>1</sup> Admitted to membership prior to Jan. 1, 1916.

Location.	Bank or trust company.	Resources.
New York—Continued.		
New York City.....	Metropolitan Trust Co.....	\$72,199,002.79
Do.....	New York Trust Co.....	84,935,886.36
Do.....	Pacific Bank.....	16,866,754.73
Do.....	Scandinavian Trust Co.....	16,944,327.51
Do.....	Union Trust Co.....	86,701,578.94
Do.....	United States Mortgage & Trust Co.....	96,068,086.07
Do.....	United States Trust Co.....	77,455,086.50
Ogdensburg.....	St. Lawrence Trust Co.....	929,679.49
Oneida.....	Madison County Trust & Deposit Co.....	2,224,325.64
Rome.....	Rome Trust Co.....	3,627,405.80
Syracuse.....	City Bank.....	8,239,911.66
Utica.....	Citizens Trust Co.....	10,641,931.22
Do.....	Oneida County Trust Co.....	2,428,746.94
Do.....	Utica Trust & Deposit Co.....	11,850,975.96
Watertown.....	Northern New York Trust Co.....	7,151,603.95
Total.....		2,851,735,682.75

The payments to capital stock of the Federal Reserve Bank made by these institutions amounted to \$6,773,700; their reserve deposits on December 31, 1917, were \$241,680,500.43 and the amount of their rediscounts and loans with the Federal Reserve Bank on that date were \$69,693,287.12.

Ten national banks in the district were liquidated during the year, of which five went out of business for one reason or another and five were converted into trust companies. Twelve new national banks have commenced business in the district this year.

The relations with member banks during the year have been more active, not only owing to the transactions which the Federal Reserve Bank has had with each member, as well as nonmember, bank in connection with subscriptions to Liberty bonds and with many of them in connection with sales of certificates of indebtedness, but also owing to the increasing number of member banks which have had occasion to rediscount or obtain advances during the year, the total number of such banks having been 322. With the New York City banks the relations and cooperation have been particularly close.

New York City being the principal money market and the financial center of the country, it became apparent when the United States entered the war that the banks of this city not only had a duty to perform to the Government and to their own customers, but had a responsibility to the whole country as well. They have recognized and carried out these obligations in a spirit of whole-hearted patriotism, and frequently at a sacrifice of normal banking profits. By close cooperation among all the important banks of the city, every requirement of the Government has been promptly and fully met, and a generous amount of the resources of these banks has been placed at the disposal of the Federal Reserve Bank for the general stabilization of the money market. Had this spirit and this recognition of responsibility been lacking among the New York City

bankers, the heavy financial burdens imposed upon the banking system could not have been discharged without both inconvenience and embarrassment to the Government and serious disturbance to the money markets and the business of the country.

Joint meetings of the clearing house committee and the executive committee of the directors of this bank have been held periodically, and this bank has been appointed as settling agent by every member of the New York Clearing House, including the Subtreasury of the United States, thereby enabling all clearing-house balances to be settled on the books of this bank, without the use of any currency whatever in such settlements. This arrangement is of great value to the Federal Reserve Bank in preventing the drain on its gold which would otherwise occur. The machinery of the Federal Reserve Bank for the rapid creation of credit in hitherto unprecedented volume having been tested during both the first and the second Liberty loan financing periods, there seems to be no longer any inclination to doubt the practical value of the system; on the contrary, among both the country and the city banks there seems to be a general recognition of the indispensability of the system to our banks in their conduct of the immense operations incident to the financing of the war.

#### RELATIONS WITH NONMEMBER BANKS.

The relations with the State institutions, as indicated in the foregoing paragraph, have also become active through transactions with many of them in certificates of indebtedness and with all of them in Liberty bonds. The transactions of the bank acting as fiscal agent of the Government have been on exactly the same basis with nonmember as with member banks, and no distinction has been made between the two classes in respect of the deposit of Government funds. Under authority of the Federal Reserve Board, a Federal Reserve Bank is authorized to accept from member banks paper discounted with them by nonmember banks, provided it was given to purchase or carry Liberty bonds or certificates of indebtedness, but only a very small volume of such paper has been presented to this bank for discount. Nonmember banks have also cooperated cordially and effectively with the Federal Reserve Bank by turning in gold coin and certificates in exchange for Federal Reserve notes.

The only note of discord in the relations with State institutions has been that which manifested itself in the development of the collection system. As already stated, a small number of State institutions are unwilling to remit at par to this bank for checks drawn upon them, and this bank, much to its regret, has been obliged to collect such checks at par either through express companies or by the establishment of local collecting agencies.

The amendment of June 21, 1917, permitted nonmembers to open accounts for clearing purposes with the Federal Reserve Bank and enabled them to contribute their gold to the strength of the bank. Balances thus carried with the Federal Reserve Bank at one time aggregated \$84,268,259.73, but the entrance into the system of the larger institutions reduced the amount of such balances to \$10,-317,630.16 on December 31.

The entrance of the United States into the war has effected a great change in the attitude of State banks and trust companies toward membership in the Federal Reserve system. On August 1, the Northern New York Trust Co. of Watertown, N. Y., and on September 28, 1917, the St. Lawrence Trust Co. of Ogdensburg, N. Y., became members, and following the entrance of the Guaranty Trust Co. of New York City, which joined on October 4, the great majority of the larger State institutions in New York City as well as a number from other places in the district have become members.

Several factors contributed to this important movement:

First, the amendment of June 21 under which the rights and duties of State institutions as members of the system were prescribed by law instead of being left to regulation by the Federal Reserve Board.

Second, the opinion of the Attorney General of the United States, dated September 10, to the effect that State institutions joining the system were not subject to the restrictions of section 8 of the Clayton Act.

Third, and by far the most important, the proclamation of the President of October 13, appealing to State institutions to join the system as a national duty.

Although the majority of the larger institutions have already joined the system there are, nevertheless, approximately 260 State banks and trust companies in the district with sufficient capital to qualify them for membership. Many of them are actively considering applying for membership in the near future, and it is hoped that before long the great majority of the State institutions will join, thereby coordinating and concentrating the entire banking power of the district and enabling every member bank in the district to give the fullest cooperation and assistance to the Government in financing the war.

The following extract from the report of the executive committee of the United States Trust Co. of New York City to its board of trustees is typical of the patriotic attitude which has led so many of the larger institutions to join the system:

During this company's entire corporate existence we have steadfastly adhered, in theory and in practice, to what we believed to be the fundamental distinction between a trust company and a bank. This distinction has heretofore rendered direct membership in the admirable Federal Reserve system neither necessary nor helpful to us. Our designated depository banks have

fully represented us in that system, and our business being strictly confined to that of a trust company as distinguished from the general banking business, we have heretofore considered only our own interest in determining the question of membership in the system. The situation is now, however, radically changed. The appeal of President Wilson and the urgent money needs of the country make it the duty of every financial institution to come forward with all the moral as well as financial aid which it can lawfully furnish. Whether the facilities afforded by membership in the reserve bank are useful to us or not, whether the conditions of membership would, having in view the restricted character of our business, in fact result in a slight pecuniary loss to us or not, such considerations are in our opinion as of no weight whatever, in view of the vital importance to our country under existing conditions of omitting no act which can, either directly or morally, either by the furnishing of resources or the exhibition of a spirit of hearty cooperation, tend to strengthen the financial system of the Nation.

#### RELATIONS WITH FOREIGN BANKS.

Under authority of paragraph (e) of section 14 of the act, and with the approval of the Federal Reserve Board, the Federal Reserve Bank of New York on May 3, 1917, concluded reciprocal arrangements with the Bank of England, appointing the latter its correspondent and agent. On June 20, 1917, the Federal Reserve Bank under its agreement with the Bank of England made payments in New York amounting to \$52,500,000 against gold in like amount earmarked and held in London by the Bank of England for the account of the Federal Reserve Bank of New York. Pursuant to arrangements with other Federal Reserve Banks and with the approval of the Federal Reserve Board, participations in this transaction were allotted to other Federal Reserve Banks to the amount of \$34,387,500.

On February 24 this bank applied to the Federal Reserve Board for authority to appoint the Bank of France its correspondent and agent, and approval was granted on February 26. Correspondence and arrangements of details are in progress looking to the completion of the relationship contemplated.

On August 23, with the approval of the Federal Reserve Board, a preliminary agreement was concluded between the Federal Reserve Bank of New York and the Bank of Italy providing that each should act as a correspondent of the other, which was confirmed by the board of directors of this bank on September 5 and by the superior council of the Bank of Italy on September 24.

Negotiations are in progress for the arrangement of reciprocal relations with certain other foreign banks.

#### THE FISCAL AGENCY OF THE UNITED STATES.

During the early part of 1917 the operations of this bank as fiscal agent and depository of the United States were limited as before to

receiving from Government collectors of customs and internal revenue their various receipts and paying checks and warrants drawn upon the Treasurer of the United States and coupons of United States bonds.

Immediately following the entrance of the United States into the war, however, the functions and responsibilities of the Federal Reserve Bank as fiscal agent of the United States were enlarged at the request of the Secretary of the Treasury to include the following:

- (a) The sale and redemption of certificates of indebtedness;
- (b) The sale and delivery of Liberty bonds, the payment of coupons thereon, the exchange of bonds of small denomination for bonds of large denomination, and vice versa, and the conversion of bonds of one issue into bonds of another issue;
- (c) The administration of deposits of the United States Government in depositary banks in this district resulting from sales of certificates and bonds, and the examination, approval, and custody of the securities pledged to secure such deposits;
- (d) Later, the sale of war-savings stamps and thrift stamps.

At all times throughout the period in which the bank has performed these functions and undertaken these responsibilities as agent of the Treasury Department its work has been lightened and its burdens made possible by the vigorous and cooperative way in which the bank has been supported in the various requests and recommendations which it has made.

The method of conducting these operations will be described in the succeeding paragraphs.

#### CERTIFICATES OF INDEBTEDNESS.

On March 27 the Secretary of the Treasury offered to Federal Reserve Banks \$50,000,000 certificates of indebtedness due June 30, 1917, at 2 per cent. This bank subscribed for \$25,000,000 and was allotted \$20,000,000, the balance being taken by the other reserve banks.

On April 19 the Secretary of the Treasury offered for subscription through Federal Reserve Banks \$200,000,000 of 3 per cent certificates of indebtedness due June 30, 1917, for which subscriptions were received in this district aggregating \$135,650,000, and a similar amount allotted. This issue, like some of the later ones, was oversubscribed, and \$68,205,000 was issued beyond the original amount offered. In subsequent issues allotments were restricted to the amount originally offered. From the following table it will be seen that, out of a total of \$3,843,501,000 offered, the subscriptions received through this bank amounted to 67 per cent and the amount allotted through this bank amounted to 64 per cent of the total. The largest volume of

these certificates outstanding at any one time in this district during the first Liberty loan financing period was \$479,962,000, and during the second Liberty loan financing period was \$1,467,543,000. The cooperation of the banks in this district, particularly of those in New York City, in purchasing these certificates, was of a most gratifying character. Individual bank subscriptions during the second Liberty loan financing period ran as high as \$145,000,000 and \$150,000,000. Of the 1,076 banks (not including savings banks) outside of New York City, 308 purchased certificates of indebtedness, but of these only about one-half were what might be termed regular purchasers. The others participated in only one or two of the issues.

*United States certificates of indebtedness issued during 1917.*

Date of issue.	Rate of interest.	Maturity date.	Total amount of issue.	Amount subscribed through Federal Reserve Bank of New York.	Amount allotted through Federal Reserve Bank of New York.
	<i>Per cent.</i>				
Mar. 31.....	2	June 30, 1917	\$50,000,000	\$25,000,000	<sup>1</sup> \$20,000,000
Apr. 25.....	3	.....do.....	268,205,000	135,650,000	135,650,000
May 10.....	3	July 17, 1917	200,000,000	98,512,000	98,512,000
May 25.....	3½	July 30, 1917	200,000,000	175,231,000	125,300,000
June 8.....	3½	.....do.....	200,000,000	116,000,000	100,500,000
Aug. 9.....	3½	Nov. 15, 1917	300,000,000	211,054,000	175,000,000
Aug. 28.....	3½	Nov. 30, 1917	250,000,000	188,837,000	152,938,000
Sept. 17.....	3½	Dec. 15, 1917	300,000,000	204,347,000	204,347,000
Sept. 26.....	4	.....do.....	400,000,000	212,100,000	212,100,000
Oct. 18.....	4	Nov. 22, 1917	300,000,000	179,475,000	179,475,000
Oct. 24.....	4	Dec. 15, 1917	685,298,000	543,683,000	543,683,000
Nov. 30.....	4	June 25, 1918	690,000,000	494,070,500	494,070,500
<b>Total.....</b>			<b>3,843,501,000</b>	<b>2,578,959,500</b>	<b>2,441,575,500</b>

<sup>1</sup> Not offered for public subscription, but taken by Federal Reserve Bank of New York.

In order that payments for the large amounts of certificates of indebtedness subscribed for in this district might not disturb the banking situation, arrangements were made beginning with the issue of April 25 to redeposit as large a portion as possible of the funds paid in. This, in effect, amounted to a payment for the certificates by credit on the books of the subscribing banks, and in later issues this was the practice actually pursued. In this manner disturbance to the money market from the absorption of this large volume of certificates was reduced to a minimum. The Federal Reserve Bank itself purchased from time to time various amounts of these certificates of indebtedness from banks and bankers, and on several occasions advanced substantial amounts to the Treasury for temporary requirements through the purchase of special certificates running for a few days, not included in the totals above referred to.

The sale of certificates of indebtedness in anticipation of both Liberty loans enabled the banks to create the short credit required by the Government pending the creation of long-time credit through the

purchase of bonds by investors. With each issue of bonds the short bank credits were, in effect, converted into long investment credits.

#### FIRST LIBERTY LOAN.

On May 3 the Secretary of the Treasury announced an issue of \$2,000,000,000  $3\frac{1}{2}$  per cent 15-30 year Liberty loan bonds exempt from all taxes, except estate or inheritance taxes, imposed by authority of the United States or its possessions or by any State or local taxing authorities.

In making the announcement the Secretary advised that the subscription books would close on June 15, and requested the Federal Reserve Banks in each district to act as a central agency for receiving subscriptions, taking payment of subscriptions and delivering the bonds after allotment. He also requested the Federal Reserve Banks to form an effective organization and carry on an energetic campaign for the successful flotation of the loan.

The governor of the Federal Reserve Bank of New York appointed a Liberty loan committee for the district, composed of 12 New York City bank presidents and private bankers, together with an alternate for each. At the first meeting of this committee, on May 7, the governor of the Federal Reserve Bank was appointed chairman, the secretary of the bank was appointed secretary, and a plan of organization was determined upon which involved the appointment of subcommittees on distribution, on publicity, and on the receipt and payment of subscriptions. An executive manager was also appointed. The committee met daily except on Saturdays throughout the campaign, and on several occasions, at the request of the Treasury Department, sent subcommittees or representatives to Washington to confer upon some of the many details which were required to be settled in connection with securing and receiving subscriptions and delivering the bonds.

The committee on distribution consisted of 12 members, and owing to the active nature of the work assigned to this committee alternates were also appointed. The chairman of the committee was a member of the Liberty loan committee. All of the members were partners of leading bond houses or officers of banks or corporations having bond departments. This committee had charge of organizing the campaign to obtain subscriptions to the loan throughout the entire district, and met daily during the campaign.

The committee on publicity carried on a well-organized, vigorous, and effective publicity campaign, reaching all parts of the district, and included in its activities the organization of meetings, the creation of a speakers' bureau, which supplied speakers for over 1,000 meetings, the use of large quantities of newspaper and periodical

news and advertising space, largely contributed by advertisers, and the distribution of posters and other literature. Most of the staff of the publicity department were volunteers from banks, banking houses, and newspapers, and the cooperation of many and varied interests was given ungrudgingly to further the efforts of the committee.

The committee on receipt and payment of subscriptions organized a staff of about 300 men and women loaned by New York banks, bond houses, and insurance companies to serve during the period of the campaign and of the subscription payments. This force worked tirelessly in handling the immense amount of detail incidental to the receipt, allotment, and adjustment of subscriptions and the receipt of payments. Some confusion was apparent at times, owing to lack of opportunity for careful organization, to the fact that the entire force were volunteers, and to the unfamiliarity of most of the banks with transactions of the character involved; but, considering the magnitude of the task and the circumstances attending it, the work was handled with reasonable promptness and efficiency. The committee received subscriptions amounting to \$1,186,788,400 from 978,959 subscribers. Interim certificates were issued as partial or full payment was made on the bonds, the total number of pieces of such certificates being 2,090,524. The total number of pieces of bonds of the first Liberty loan issued to December 31 was 1,181,469. During the campaign it became apparent that the department dealing with the subscriptions to and deliveries of bonds should become an integral part of the Federal Reserve Bank, and on October 1 the Federal Reserve Bank took over the department, released most of the staff to the institutions by which they had been loaned, and began the organization of a permanent staff.

Early in the campaign an informal statement was issued from the Treasury Department indicating the extent to which subscriptions might be expected from each of the Federal Reserve districts on the basis of their respective banking resources. Although the quota of subscriptions expected from the Second Federal Reserve District was \$600,000,000, one of the early decisions of the Liberty loan committee was to establish \$1,000,000,000 as the minimum amount of subscriptions which the committee should endeavor to obtain in this district, and the whole campaign was organized to this end.

The campaign fell naturally into two divisions: (a) New York City; (b) places outside of New York City.

#### CAMPAIGN IN NEW YORK CITY.

In New York City the campaign was organized largely along professional and occupational lines, and the following committees were

appointed, each composed of leading men in their respective occupations:

National banks.	Engineers.
State banks.	Architects.
Trust companies.	Physicians.
Savings banks.	Dentists.
Railroads.	Savings and loan associations.
Industrial corporations.	Sale of "baby" bonds.
Public utilities.	Real estate.
Insurance.	Automobile trade.
Municipal employees.	Wholesale merchants.
Stock exchange houses.	Retail merchants.
Professions.	Hotels.
Lawyers.	Printing houses.

These committees were composed entirely of volunteer workers, a very large number of whom participated actively in the campaign. To supplement the work of these occupational committees, a group of about 400 bond salesmen organized in teams with captains, made a house-to-house canvass in New York City with substantial results.

The total amount subscribed in New York City was \$987,269,450.

#### CAMPAIGN OUTSIDE OF NEW YORK CITY.

To assist and advise in the campaign outside of New York City five subcommittees of the distribution committee were appointed, their respective territories being eastern New York, central New York, western New York, northern New Jersey, and Fairfield County, Conn. These five district committees were composed of partners of leading bond houses. They did not become responsible for or undertake local selling campaigns, but acted in an advisory capacity, assisted in organizing local committees and maintained direct contact between the district headquarters at the Federal Reserve Bank and the various local committees, helped the work of the local committees, and furnished them all the literature and material available as the campaign progressed. Owing to the compactness of the Second Federal Reserve district it was possible to have this form of organization, permitting direct contact with headquarters instead of contact through the medium of subcommittees, and experience has demonstrated its effectiveness and desirability where possible.

The governor of the Federal Reserve Bank wrote a letter to the banks in this district outside of New York City, asking their officers, in consultation with other bankers in the same place, to undertake the formation of local committees to secure subscriptions for the bonds. Each locality was advised of the amount of subscriptions which it was expected to obtain, the amount being based largely on local banking resources. These local quotas proved helpful to the local com-

mittees by giving them a definite figure toward which to direct their campaigns. No uniform plan of organization was proposed. Each committee was free to operate in the manner which it considered most effective, some making short campaigns after thorough advance preparation, while others carried on the campaign during the entire selling period ending June 15.

In all some 231 local Liberty loan committees were formed, nearly all of which worked with remarkable zest and enthusiasm, and a large number of the localities covered by these committees exceeded the quotas assigned to them by the Federal Reserve Bank, based on the expectation of raising \$1,000,000,000 in the Second Federal Reserve district.

The total amount subscribed outside of New York City was \$199,518,950.

#### THE CAMPAIGN IN GENERAL.

The progress of the organization at first was hampered by lack of opportunity for preliminary preparation and to unavoidable delay in settling important details of the issue until the campaign had been in progress for some time. These handicaps were in large measure overcome and an effective organization was developed through the large number of efficient and experienced men in every part of the district who were willing, as a patriotic duty, to devote their whole time and energy to the campaign.

Early in the campaign a women's committee for the district was organized in cooperation with the women's Liberty loan committee, and headquarters were established in New York. An organization was effected for the canvass of New York City, as well as in some of the larger places outside of New York City, and very effective work was done by the committee and by a large number of women who volunteered to assist in obtaining subscriptions.

On June 10 the Treasury Department began the publication of the amount of subscriptions reported in each of the 12 Federal Reserve districts. The first publication, which was only one week before the close of the campaign, showed a total of \$1,300,000,000, the subscriptions reported for this district being \$588,000,000. At the same time publicity was given to the subscriptions reported in the various localities in this district. Although undoubtedly the figures published by the Treasury Department were below the amount of subscriptions which had actually been made up to the date of publication, owing to the slowness with which returns were made by the banks outside of the Federal Reserve cities, the publicity which was given to district and local quotas stimulated very great activity throughout the last week of the campaign, and when the books closed in this district it was found that the total subscriptions

had exceeded the \$1,000,000,000 aimed at and actually amounted to \$1,186,677,400, out of a total of \$3,035,226,850 for the entire country.

The following table shows the number of subscribers, the amount of subscriptions, and the allotments actually made, subdivided into five different classes graded as to size of subscription.

Amount.	Number of subscribers.	Amount of subscriptions.	Allotment.
\$50 to \$10,000.....	973,614	\$274,019,550	\$274,019,550
\$10,050 to \$50,000.....	3,582	172,693,700	127,460,850
\$50,050 to \$100,000.....	778		
\$100,050 to \$250,000.....	285	79,173,300	35,628,000
Above \$250,000.....	700	660,901,850	180,723,250
Total.....	978,959	1,186,788,400	617,831,650

The banks of the district, almost without exception, threw themselves into the campaign with energy and enthusiasm, working early and late to obtain subscriptions, agreeing to loan at moderate rates to bond purchasers who wished to borrow, operating for purchasers of small denomination bonds, partial payment plans which entailed much additional clerical work and supervision, taking custody of bonds for safekeeping, and subscribing themselves for substantial amounts of bonds. Without such complete cooperation on the part of the banks the great success of the loan could not have been achieved.

The bond houses placed themselves at the disposal of the Liberty loan committee, and the general organization of the selling campaign was placed almost wholly in the hands of the experienced bond men who thus volunteered. Besides organizing the campaign they also secured a large volume of subscriptions from their clients.

Employers of labor in industrial centers and elsewhere cooperated by bringing the bonds to the attention of their employees, and providing partial payment plans by which small denomination bonds could be purchased and paid for gradually out of salaries or wages.

The campaign called forth a patriotic effort of great intensity on the part of many thousands of volunteer workers who devoted themselves to the one purpose of making the loan a tremendous success.

#### SECOND LIBERTY LOAN.

On September 27 the Secretary of the Treasury announced that he would offer for subscription between October 1 and 27 three billion or more dollars of United States 4 per cent, 10-25 year, convertible gold bonds due November 15, 1942, the exact amount of bonds to be issued depending on the amount of subscriptions received. He stated that he hoped subscriptions in excess of \$5,000,000,000 would be received from not less than 10,000,000 subscribers, and that bonds would be allotted in excess of \$3,000,000,000 to the extent of not

over one-half of the amount by which the subscriptions exceeded \$3,000,000,000. The new series of bonds were made subject to (a) State or inheritance taxes, (b) graduated additional income taxes, commonly known as surtaxes, and (c) excess profits and war profits taxes now or hereafter imposed by the United States.

As before, informal apportionment was made by the Treasury Department of the amounts expected to be raised in the various districts, the quota of the second district being a minimum of \$900,000,000 (proportionate share of \$3,000,000,000) and a maximum of \$1,500,000,000 (proportionate share of \$5,000,000,000). The Liberty loan committee determined from the outset to endeavor to reach the maximum figure set for the district.

The headquarters organization was continued for the second Liberty loan campaign with certain changes which made for greater effectiveness and with great expansion in the number of committees and number of workers who volunteered their services. The Liberty loan committee was enlarged from 12 to 15, and the distribution committee from 12 to 22. The publicity committee was not reappointed, but its work was carried on by a director of publicity. The committee for handling bond subscriptions was not reappointed, as its work had been assumed by the Federal Reserve Bank. No executive manager was appointed, but an executive secretary was appointed for the distribution committee and the executive committee of the distribution committee was enlarged to include the director of publicity, with a view to obtaining coordination at headquarters of all efforts at distribution.

The campaign, as before, was organized in two main subdivisions: (a) New York City; (b) the district outside of New York City.

#### THE CAMPAIGN IN NEW YORK CITY.

The work in New York City was organized on the same general lines as in the preceding campaign, but with ample time for preparation the field was covered much more intensively.

The various occupational committees of the first campaign were increased, and with the assistance of an advisory trades committee the following committees were organized and active during the campaign, covering over 30,000 concerns in Greater New York through the medium of approximately 15,000 volunteer workers:

Art dealers, art publishers, etc.	Books.
Automobile and allied.	Brewers.
Bakers and confectioners.	Butter, eggs, and cheese.
Banks, national.	Caps.
Banks, State.	Carpenters.
Banks, savings.	Carpet and rug.
Blanket.	Cement workers.

Chemical and drug.  
 Children's dress manufacturers.  
 China, toy, and house furnishing.  
 Cloaks, suits, and shirt manufacturers.  
 Coal.  
 Collars and cuffs.  
 Corset.  
 Cotton goods.  
 Decorators.  
 Department stores.  
 Distillers.  
 Dry dock and repair company of  
     Brooklyn.  
 Electrical.  
 Elevator manufacturers.  
 Fish.  
 Fur.  
 Furniture.  
 General contractors.  
 Glove.  
 Hardware.  
 Hats.  
 Hide and leather.  
 Hotels.  
 Industrial committee.  
 Insurance companies.  
 Iron League.  
 Jewelry.  
 Laces, trimmings, etc.  
 Ladies' garments.  
 Leather-glove industry.  
 Leather goods (small), trunks and  
     bags.  
 Lighting fixtures.  
 Linen.  
 Lumber.  
 Machinery and machine tool.  
 Marble.  
 Meat, wholesale and retail.  
 Men's clothing.  
 Mens' neckwear.  
 Men's underwear.  
 Metal ceiling.  
 Metal doors and windows.  
 Metal furring.  
 Milk.  
 Mosaic.  
 Municipal employees.  
 New York Cotton Exchange.  
 New York Produce Exchange.  
 New York Stock Exchange, houses.  
 Notion.  
 Ornamental iron workers.  
 Painters.  
 Paints and varnishes.  
 Paper boxmakers.  
 Paper manufacturers.  
 Perfumery and soap.  
 Plastering.  
 Plumbers.  
 Poultry.  
 Produce and fruits.  
**Professions.**  
 Public utilities.  
 Real estate.  
 Refrigerator manufacturers.  
 Restaurants.  
 Retail grocers.  
 Ribbon.  
 Roofers and sheet metal.  
 Rubber.  
 Savings bank.  
 Shipping, import and export.  
 Shirts, pajamas, and boys' blouses.  
 Shoe retailers and jobbers.  
 Shoes, wholesale and retail.  
 Silk and velvets.  
 Spice.  
 Sporting goods.  
 Stationery.  
 Steam and hot water.  
 Steam railroads.  
 Storage warehouse and van owners  
     trade.  
 Sugar trade.  
 Suspenders and garters.  
 Talking machines, pianos, and musical  
     instruments.  
 Tile.  
 Tobacco.  
 Toilet preparations, specialties.  
 Trust companies.  
 Umbrellas and cane.  
 Upholstery and lace curtains.  
 Wall paper.  
 Wholesale grocers.  
 Wine.  
 Wire workers.  
 Women's cotton and silk underwear.  
 Women's dress and waist industry.  
 Women's hosiery and knit underwear.  
 Women's millinery.  
 Women's neckwear.  
 Women's organizations.  
 Woodworkers.  
 Woolens and worsted.  
 Wrapper and kimono manufacturers.  
 Yarns and art goods.

A house-to-house canvass of Greater New York was conducted by the metropolitan canvass committee with the assistance of some 35,000 volunteer workers. The entire city was divided among these workers on the basis of election districts and the workers in each election district were furnished with the names of all the voters in the district. The results of this house-to-house campaign were far more effective than those accomplished in the first campaign with less detailed preparation.

A number of booths were operated in public squares, on crowded street corners, and in hotels, which served not only as centers for the receipt of subscriptions and the sale of \$50 and \$100 bonds, but also as places from which addresses could be made.

In order that subscriptions received at public meetings, booths and theaters, as well as by the metropolitan canvass committee, might be promptly allocated to banks situated near the residences of subscribers, a subscription department was organized which at one time had as many as 150 workers. This department distributed a very large number of subscriptions, avoided much confusion and congestion which would otherwise have occurred, and made many subscriptions effective which otherwise would not have been followed up.

A very successful parade of trade and other organizations, with about 50,000 people in line, and led by a British tank, was held on the day after Liberty Loan Day. The German submarine "UC-5," which had been captured by the British and sent over for exhibition during the campaign, was set up in Central Park, rechristened "U-Buy-A-Bond," and visited by hundreds of thousands of people.

The total subscriptions received in New York City was \$1,140,629,300.

#### THE CAMPAIGN OUTSIDE OF NEW YORK CITY.

The general plan of organization which had hitherto prevailed was continued during the second Liberty loan campaign. In order to assist the various local organizations more effectively, the five district committees at headquarters were increased to eight, each committee having a somewhat smaller territory to cover. Through these eight district committees the central Liberty loan committee and the headquarters organization were kept in close touch with the work in every part of the district, and invaluable assistance was rendered in determining the membership of the local committees, all of which were appointed by the chairman of the central Liberty loan committee. The number of local committees operating in the second campaign was about 1,050, as compared with 231 in the first campaign. As a suggestion to the local committees a plan book was issued outlining certain methods of operation which had been found effective. Partial payment cards were furnished upon request to

local committees for use in industrial establishments and banks. As in the first campaign, quotas were assigned to each locality, and local publicity given to the progress in filling these quotas resulted in many cases in rivalries between places and an increased volume of subscriptions. Each local committee laid out its plan of organization along the lines which it considered best adapted to its territory, and while a great variety of appeals was made through meetings, advertising, circularizing, and otherwise, the most effective method everywhere of securing actual subscriptions appeared to be a personal canvass properly planned and directed.

The total subscriptions received from places outside of New York City was \$409,824,200.

#### THE CAMPAIGN IN GENERAL.

The publicity work during the second Liberty loan campaign was under a director of publicity and subdivided into four bureaus—news, advertising, features, and service.

The news bureau placed news items and articles with newspapers and periodicals of all kinds. It obtained approximately 16,000 columns of newspaper publicity, exclusive of advertising. Among the 2,436 newspapers of the district it placed 41,800 articles, 2,752 editorials, 1,116 cartoons, 489 photographs, and 2,000 articles in foreign language newspapers. The bureau had a staff of 40 well-known writers who volunteered their services.

The advertising bureau obtained 1,563 pages of paid newspaper advertising, of which 353 were in New York City. This space was obtained entirely from advertisers who either donated space they had themselves contracted for, or furnished the means of obtaining space, no space being requested from the newspapers themselves. Much of the advertising was illustrated. Forty-five million pieces of literature were distributed. Eighty thousand square feet of electrical and painted sign space was donated, a 24-foot poster prepared in cooperation with the national organization was pasted upon all unused billboards of suitable size in the district, and various other novel devices were employed.

The feature bureau dealt with the publicity and educational work in theaters and moving-picture houses, among labor organizations, boards of commerce and trade, clubs, societies and fraternal organizations, churches and church societies, farming and agricultural societies, political parties, and foreign language organizations and newspapers. It also arranged the Liberty loan parade in New York City, the exhibition of the captured German U-boat and the British tank, and the flight of aeroplanes over New York City.

The service bureau had charge of the routine work of the publicity, including the purchasing, information, stenographic, bookkeeping,

filing, auditing, poster and literature distribution, shipping, messengers, mail, and telephone departments.

The speakers' bureau was continued during the campaign as an independent organization. It had about 150 speakers and furnished speakers for about 1,000 meetings, indoors and outdoors, both in New York City and in other parts of the State. As in the first campaign the four-minute men rendered invaluable service.

The commissioner of education in New York State appointed two representatives to act at headquarters during the campaign, and through the cooperation of the school authorities, State and local, a very effective campaign was carried on among the teachers and pupils of the schools of New York State.

The women's committee in the second campaign had its headquarters with the men's committees, and a much more detailed organization was perfected. The women's Liberty loan committee, with headquarters at Washington, appointed a chairman for the district and chairmen for each of the three States represented in the district, although in the case of chairmen for New Jersey and Connecticut, parts of their districts were outside of the Second Federal Reserve District. The women not only carried on an effective campaign in New York City, but formed committees in 479 other places outside of New York City, and, although organized separately, cooperated harmoniously with the men's committees throughout the campaign and secured subscriptions in excess of \$41,000,000.

The campaign opened October 1 and closed October 27, and was therefore about two weeks shorter than the preceding campaign. It soon became evident that in order to secure \$1,500,000,000 of subscriptions, the maximum amount assigned to this district, it would be necessary for a considerable volume of the subscriptions to be carried by credit. Accordingly, the phrase "borrow and buy" was used freely in all parts of the district, and the banks in New York City and many other places cooperated generously by offering to make loans on the bonds at the coupon rate of interest. It was felt that the obligation of the borrowers to pay off their loans on Liberty bonds during the months succeeding the campaign would be an important stimulus toward effecting the necessary savings.

As in the preceding campaign, the central Liberty loan committee and the distribution committee at headquarters met daily, and the staff at headquarters was increased greatly over that of the preceding campaign. The banks and bond houses throughout the district again gave the heartiest cooperation. Almost the entire work throughout the district was carried on by volunteers who labored with untiring energy and zeal to make the loan a success. The number of workers throughout the district was probably over 100,000, and their devo-

tion to the cause in which they were enlisted was inspiring and beyond all praise.

The publication of the subscriptions received in the 12 Federal Reserve districts was begun by the Treasury Department on October 15. As before, reports of subscriptions came in slowly until the last week, but the early publication of the subscriptions received as compared with the subscriptions expected was given much publicity and attention in the newspapers, and undoubtedly had the effect of stimulating rivalry between the various districts and greatly increasing the amount of subscriptions received. The subscriptions received from soldiers and sailors, largely on the partial-payment plan, aggregating \$53,000,000, appeared as part of the subscriptions received in this district, since whenever necessary they were financed, at the request of the Secretary of the Treasury, through a group of New York banks.

On October 15, the Treasury Department began to furnish this bank with actual bonds in denominations of \$50, \$100, \$500, and \$1,000 for sale over the counter during the campaign. About \$59,000,000 worth of these bonds were sold in this district during the campaign and a much larger amount could have been sold had the bonds been available.

The total amount of subscriptions received in this district was \$1,550,453,000, and the total number of subscribers 2,178,359, the distribution being as follows:

Size of subscriptions.	Number of subscribers.	Amount subscribed.	Allotment.
\$50 to \$10,000.....	2,170,301	\$441,100,700	\$441,001,200
\$10,050 to \$50,000.....	5,889	168,376,500	168,376,500
\$50,050 to \$100,000.....	1,099	100,722,650	90,790,900
\$100,050 to \$200,000.....	414	68,166,700	51,374,800
Above \$200,000.....	756	772,136,750	412,874,350
Total.....	2,178,359	1,550,453,000	1,164,367,450

On October 27, at the close of the campaign, the central Liberty loan committee issued the following statement which accurately summarizes the campaign:

The second Liberty loan has been a complete success. How high the over-subscription will go can not be known for several days. It is estimated that the total subscriptions received will reach \$1,500,000,000, and what is equally important, the total number of subscribers in this Second Federal Reserve District is greatly in excess of the number of subscribers to the first loan. Both in the total amount received and in the number of subscribers, the results are beyond our expectations. The reports from the other Federal Reserve districts would indicate a similar surpassing of the estimates.

This great success of the loan has been due to two factors. The first is the spontaneous outburst of patriotic feeling and effort that has been common to the whole country. The second is the excellent work of the organizations in

every Federal Reserve district. Without this latter the campaign could not possibly have gained its stupendous success.

Naturally our own observation has covered particularly the Second Federal Reserve District. As to this we desire to go on record as stating that we have never before witnessed such an extraordinary response in the way of organized, effective work, and unremitting, intelligent effort. From the moment the campaign started this spirit was manifest, and as time went on it daily grew in loyalty and intensity. The record which the Second Reserve District has made is, indeed, a proud one, and it is a record achieved by the united effort of all—by the villages and hamlets throughout the State as much as by the larger towns and cities. To all the workers who have thus made this result possible we wish publicly to make this expression of our appreciation.

Of greater import even than the securing of a great loan for the Government has been this unparallel evidence of a Nation bound together and animated with a single spirit of mutual good-will and devotion to the country.

#### RECEIPTS AND DELIVERIES.

The receipt of subscriptions and payments for the second Liberty loan was handled by the officers and about 150 permanent employees of the Federal Reserve Bank.

Owing to arrangements which had been made to print the bonds more rapidly no interim certificates were issued in connection with the second Liberty loan, and the work of the bond-issue division of the bank was accordingly much simplified.

The terms of payment prescribed by the Treasury Department were as follows: Two per cent with application; 18 per cent on November 15, 1917; 40 per cent on December 15, 1917; 40 per cent on January 15, 1918.

From November 15 to 19 the following payments for bonds were received:

In full:

By banks -----	\$807, 858, 086
Individuals -----	15, 010, 080
Cash sales during campaign-----	59, 051, 300
	<hr/>
	881, 919, 866
20 per cent payments-----	67, 320, 114
	<hr/>
	949, 239, 980
	<hr/> <hr/>

These payments were made in the following manner:

By book credit-----	687, 741, 746
By Treasury certificates of indebtedness-----	153, 972, 000
By cash-----	107, 526, 234
	<hr/>
	949, 239, 980

Between Saturday noon, November 17, and Monday noon, November 19, deliveries of bonds were made by registered mail and over the counter to a total of \$237,342,550, which, added to the amount previously sold for cash, made total deliveries to that date of

\$296,393,850, or 1,062,918 pieces. The amount of bonds delivered up to and including December 31, was \$746,180,100, and the number of pieces, 2,170,665.

The bond-issue division of the Federal Reserve Bank also undertook the exchange of interim certificates of the first Liberty loan into definitive bonds, and definitive bonds of the first issue into definitive bonds of the second issue. The number of employees engaged in this work at its busiest period was 125; the number of pieces received from owners for conversion to December 31, 1,624,336; and the number issued, 1,887,188. This division also undertook to exchange \$1,000 bonds of both issues for equivalent amounts of bonds of smaller denominations, and vice versa. Up to December 31 the number of pieces handled was 171,804.

LIBERTY LOAN EXPENSE.

The expenses incurred by the bank in handling the Liberty loans were made with the understanding that the bank would be reimbursed by the Treasury Department for its expenditures. The following itemized list shows the expenses on account of the first and the second loans, as well as the amounts for which the bank was reimbursed up to December 31, the figures for the first loan including all expenses of departments engaged in handling matters relating to this loan up to December 31:

*First loan.*

Advertising.....	\$68. 89	Telephone, telegraph, and shipping.....	\$4, 357. 91
Buttons and badges.....	2, 192. 86	Stationery.....	23, 079. 19
Bond-issue division.....	127, 120. 12	Traveling expenses.....	6, 729. 27
Circulars.....	40, 455. 08	Miscellaneous.....	3, 085. 00
General expenses.....	45, 978. 34		
Posters and signs.....	18, 861. 85	Total.....	345, 351. 79
Publicity.....	10, 281. 84	Reimbursed to Dec. 31, 1917.....	297, 310. 39
Postage.....	12, 937. 94		
Rent.....	41, 195. 13	Net amount due.....	48, 041. 40
Salesmen.....	9, 008. 37		

*Second loan.*

	Department.				Total.
	Bond issue and certificates of indebtedness.	Government deposit.	Distribution.	Publicity.	
Salaries.....	\$51, 584. 71	\$16, 176. 30	\$32, 851. 15	\$26, 261. 49	\$126, 873. 65
Traveling expenses.....	255. 38		22, 003. 68	2, 664. 08	24, 923. 14
Printing and stationery.....	6, 159. 24	1, 629. 98	64, 818. 89	97, 382. 24	169, 990. 35
Equipment.....	9, 842. 90	1, 391. 60	6, 595. 79	1, 071. 04	18, 901. 33
Express.....	876. 33		5, 079. 41	5, 318. 27	11, 274. 01
Telegraph and telephone.....	439. 98	. 72	6, 968. 87	11, 205. 71	18, 615. 28
Postage.....	2, 321. 83		7, 705. 03	336. 71	10, 363. 57
Rent.....	6, 973. 80	1, 935. 64	6, 891. 39	2, 768. 10	18, 568. 93
Newspapers and directories.....	6. 00	24. 00	224. 00	827. 48	1, 081. 48
Miscellaneous.....	19, 913. 90	145. 86	43, 628. 71	75, 026. 50	138, 714. 97
	98, 374. 07	21, 304. 10	196, 766. 92	222, 861. 62	539, 306. 71
Petty cash fund.....					3, 055. 45
Total.....					542, 362. 16
Reimbursed to Dec. 31, 1917.....					242, 379. 94
Net amount due.....					299, 982. 22

## GOVERNMENT DEPOSITS.

The act of Congress approved April 24, 1917, under which the first Liberty loan was made, authorized the Secretary of the Treasury to deposit in such national banks, State banks, and trust companies as he might designate, upon the pledge of security, the proceeds arising from the sale of bonds and certificates of indebtedness. The responsibility for the appointment of depositaries, the receipt and approval of security, and the deposit and withdrawal of funds were placed upon the Federal Reserve Bank under the instructions and supervision of the Treasury Department. Duly qualified depositary banks were permitted to pay for certificates of indebtedness as well as Liberty bonds by opening book credits therefor in favor of the Treasury. A very large proportion of the deposits in depositary banks were created in this way, and the transfer of funds and disturbances to the money market were thereby reduced to a minimum. During the first loan period a special department with 32 employees, in charge of a volunteer committee appointed by the Federal Reserve Bank, the chairman of which was made an acting deputy governor, undertook all the work connected with the management of Government deposits. During the second loan period this department, with 54 employees, was operated as a department of the Federal Reserve Bank, with the same committee acting in an advisory capacity.

During the first loan period 306 banks qualified as depositaries by pledging collateral of a specified character with the Federal Reserve Bank. In order to facilitate the pledging of collateral, local custodians were appointed in 49 cities of the district. The largest amount of collateral held at any one time against redeposit of certificate of indebtedness funds was \$172,000,000; the largest amount of securities held against redeposits of Liberty loan funds was \$367,280,044 with local custodians and \$274,518,118 in the vault of the Federal Reserve Bank. The largest amount of Government funds on deposit at any one time was \$171,091,000 of certificate of indebtedness funds on June 11 and \$304,353,448.12 of Liberty loan funds on July 5. As the Treasury Department had stated that banks making payment for Liberty bonds by the use of certificates of indebtedness would receive preferential treatment in the apportionment of Government deposits, a readjustment of such deposits in depositary banks was accordingly made on July 19.

During the second Liberty loan campaign the redeposited funds were handled in the same manner but, at the request of this bank, a larger number of banks qualified as depositaries, 531 in all. The number of local custodians of securities was increased to 50. The largest amount on deposit with depositary banks was \$1,306,118.990.43 on November 30, while the largest amount of securities held

was \$1,943,625,476.27 on December 1. In order to be prepared for similar work during the next loan the department has been maintained intact and banks have been encouraged to retain their status as depositaries and to leave their securities pledged with the Federal Reserve Bank for this purpose. The number of qualified depositaries on December 31 was 530, and collateral held aggregated \$858,534,219.80.

#### WAR-SAVINGS AND THRIFT STAMPS.

Shortly before December 1 the Federal Reserve Bank was requested by the Secretary of the Treasury and the National War-Savings Committee, acting under the Treasury regulations, to maintain a supply of war-savings stamps and certificates and thrift stamps and cards for sale to agents of the first and second class, also to transmit applications for agencies when duly approved to the Treasury Department.

The following supply of stamps was received prior to December 31:

War-savings stamps (pieces) .....	4,000,000
Thrift stamps (pieces) .....	3,500,000

of which on December 31 the following amounts had been sold or consigned to agents:

	War-savings stamps.	Thrift stamps.	Total.
	<i>Pieces.</i>	<i>Pieces.</i>	<i>Pieces.</i>
New York City .....	242,022	735,421	1,027,443
New York State outside New York City .....	50,568	144,100	195,068
New Jersey .....	19,520	43,628	63,548
Connecticut .....	4,400	8,600	13,000
<b>Total</b> .....	<b>317,310</b>	<b>981,749</b>	<b>1,299,059</b>

#### ORGANIZATION OF THE BANK.

##### INTERNAL MANAGEMENT.

During the year the directors of the bank held 36 meetings. The executive committee, consisting of the governor or deputy governor, the chairman, and four of the directors (all of the directors serving upon it in turn), held 170 meetings. The committee on State bank membership held 26 meetings and other special committees held 14 meetings.

At the first meeting of the directors held in 1917 the officers of the bank were reelected for the ensuing year. With the increased scope of the activities of the bank, many additions to the staff of the bank, both official and clerical, have become necessary. J. Herbert Case, vice president of the Farmers' Loan & Trust Co. of New York, was

elected deputy governor September 26 and entered upon his duties October 8. George W. Davison, vice president of the Central Trust Co. of New York, served as acting deputy governor from June 6 to July 31, during which time he conducted in a volunteer capacity the Government deposit department of the bank. Fred I. Kent, vice president of the Bankers' Trust Co. of New York, was elected acting deputy governor September 26 to take charge of the licensing of exports of coin, bullion, and currency under the President's proclamation of September 7, and of other matters pertaining to foreign exchange. He resigned December 31 to act for the Federal Reserve Board in handling these and similar matters. Two additional assistant cashiers were elected during the year, Arthur W. Gilbert on June 6, and Adolph J. Lins on September 5. Two acting assistant cashiers were also elected on September 5 to take charge of the bond issue division of the bank, W. M. St. John, assistant cashier of the National Bank of Commerce of New York, and J. W. Jones, manager of the Long Island branch of the Irving Trust Co.

On January 1, 1917, the bank had 9 officers and 164 clerks; at the close of the year the staff consists of 16 officers and 829 clerks, the increase having been made necessary by the general expansion of the bank's business in all departments, and particularly by work connected with the Government financing. Following is a list of departments and the number of employees in each.

BANK DEPARTMENTS.		BANK DEPARTMENTS—continued.	
	Number of employees.		Number of employees.
Auditing and examination.....	29	Shipping.....	5
Bookkeeping and statements.....	15	Statistics.....	5
Chief clerk.....	7	Stenographic.....	23
Collection.....	11	Supply.....	2
Credit.....	11	Telephone operators.....	6
Distribution.....	5	Transit.....	167
Discount.....	21	Vault.....	2
Federal reserve agent.....	5	Watchmen and floormen.....	25
Filing.....	18	Wire transfers.....	7
General bookkeeper.....	1	Total.....	<u>496</u>
Mail teller.....	17		
Officers' mail.....	2	GOVERNMENT DEPARTMENTS.	
Miscellaneous.....	3	Bond exchange.....	99
Money.....	37	Bond issue.....	129
Night force.....	13	Government check.....	19
Note teller.....	8	Government deposit.....	52
Pages.....	9	Certificate of indebtedness.....	34
Paying teller.....	2	Total.....	<u>333</u>
Porters.....	17	Grand total.....	<u>829</u>
Receiving teller.....	3		
Return item and messenger department.....	17		
Secretaries.....	3		

The year 1917 has made heavy demands on the staff of the bank. The necessity of transacting promptly an unprecedented volume of business, in inadequate and crowded quarters, with many new and inexperienced clerks has thrown a strain on every member of the staff which has been none the lighter on account of the great amount of night work involved. In spite of the overwhelming tasks which have often been imposed upon the bank in connection with the Government financing, the work of the bank has been kept up and a spirit of cheerfulness and loyalty has prevailed among its employees throughout the year.

In recognition of increased living costs which war conditions have brought about and of the high pressure under which the entire staff has worked during the past nine months, the directors, at the close of the year, with the approval of the Federal Reserve Board, supplemented the normal compensation of all employees below the rank of cashier by an additional payment equal to 15 per cent of annual salaries not exceeding \$1,500, and 10 per cent of salaries exceeding \$1,500.

At the close of the year the staff of the bank consisted of 498 men and 351 women. Plans are being matured for the conduct of educational courses for both men and women, which will stimulate their interest in the work of the bank and afford opportunities for development and advancement.

#### BANK PREMISES.

During the year the offices occupied by the bank, at the time of the last report, on the ground and fifth floors of the Equitable Building, have been outgrown. The bank has, accordingly, engaged such additional space on the fourth and fifth floors of the Equitable Building as could be obtained and has also found it necessary to lease the entire building at 50 Wall Street. The Liberty loan committee and the departments which handle Liberty bonds have been placed on the fourth and fifth floors of the Equitable Building, while the transit, securities, Government deposit, collection, and bookkeeping departments of the bank and part of its auditing staff, have been transferred to 50 Wall Street. The total amount of space occupied at the close of 1917 was about 65,000 square feet.

The capacity of the large vault installed a year ago has become so taxed with Liberty bonds and other matter relating thereto that it has become necessary again to avail of the courtesy of the New York Clearing House Association and to use one of its vaults to store currency.

## ELECTION OF DIRECTORS.

To fill the vacancies caused by the expiration on December 31, 1917, of the term of Robert H. Treman and William B. Thompson, as directors of class A and class B, respectively, an election was held from November 20 to December 6. Of the 224 banks in the group which voted this year (banks having capital and surplus from \$66,000 to \$200,000) only 91 chose electors and 84 actually voted. The following candidates for the vacancies were nominated:

For class A director: P. A. Canfield, of Kingston, N. Y., nominated by 1 bank; John C. Leggett, of Cuba, N. Y., nominated by 3 banks; Robert H. Treman, of Ithaca, N. Y., nominated by 53 banks; C. P. H. Vary, of Newark, N. Y., nominated by 1 bank.

For class B director: Jacob Rice, of Kingston, N. Y., nominated by 1 bank; William B. Thompson, of Yonkers, N. Y., nominated by 54 banks.

At the closing of the polls it appeared that the following votes had been cast in the column of first choice:

For class A director: P. A. Canfield, 0; John C. Leggett, 2; Robert H. Treman, 79; C. P. H. Vary, 2.

For class B director: Jacob Rice, 1; William B. Thompson, 83.

Mr. Treman was declared elected class A director and Mr. Thompson class B director, each for a term of three years beginning January 1, 1918.

On January 31 Charles Starek, class C director, resigned and the Federal Reserve Board on February 9 filled the vacancy thus occasioned by the appointment of W. L. Saunders to serve for the unexpired term. He has been reappointed for the three-year term beginning January 1, 1918. On December 22 the Federal Reserve Board redesignated Pierre Jay chairman of the board and Federal Reserve agent for 1918.

## MEMBER OF ADVISORY COUNCIL.

On January 3 the directors reelected J. P. Morgan, of New York City, a member of the Federal Advisory Council from Federal Reserve District No. 2 for the year 1917.

## GENERAL BUSINESS CONDITIONS.

## BANKING POSITION OF THE DISTRICT DURING 1917.

The following table gives comparative figures for important items in the statement of members of the New York Clearing House Asso-

ciation, State banks and trust companies in New York State, and national banks in this district (in thousands of dollars):

	Dec. 30, 1916.	Dec. 29, 1917.	Decrease.	Increase.
<b>New York clearing house banks:</b>				
Loans, discounts, and investments.....	\$3,339,450	\$4,118,775	.....	\$779,327
Gold and lawful money.....	439,065	106,228	\$332,837	.....
On deposit with Federal reserve bank.....	193,698	561,439	.....	367,741
Net demand deposits.....	3,334,272	3,887,273	.....	553,001
Net time deposits.....	159,785	198,492	.....	38,707
National-bank note circulation.....	28,935	34,104	.....	5,169
<b>State banks and trust companies in New York State:</b>				
Loans and investments.....	Nov. 29, 1916. 2,626,604	Nov. 14, 1917. 3,076,129	.....	449,525
Due from banks, bankers, and trust companies.....	373,610	307,692	65,918	.....
Cash in vault.....	235,240	124,772	110,468	.....
Due from Federal reserve bank.....	( <sup>2</sup> )	183,367	.....	183,367
Customers' liability on acceptances.....	83,041	110,159	.....	27,118
Deposits.....	3,121,992	3,449,427	.....	327,435
Bills payable and rediscounts.....	521	97,676	.....	97,155
<b>National banks in district No. 2:</b>				
Loans and discounts.....	Dec. 27, 1916. 2,238,612	Nov. 20, 1917. 2,522,568	.....	283,956
Customers' liability on letters of credit and acceptances.....	62,495	73,529	.....	11,034
United States bonds and notes and certificates of indebtedness.....	87,420	967,189	.....	879,769
Stocks and bonds.....	600,792	616,236	.....	15,444
Due from Federal reserve bank.....	227,662	448,346	.....	220,684
Cash in vault.....	355,830	122,390	233,440	.....
Due from banks and bankers.....	211,865	190,856	20,999	.....
Due to banks and bankers.....	1,190,571	1,072,487	118,084	.....
United States deposits.....	( <sup>2</sup> )	699,495	.....	699,495
Deposits, demand and time.....	2,316,488	2,587,638	.....	271,150
Bonds and securities borrowed.....	8,540	94,435	.....	85,895
Bills payable and rediscounts.....	18,976	224,812	.....	205,836

<sup>1</sup> Includes United States deposits.

<sup>2</sup> Not shown separately.

Among the important changes shown in the statement of the New York Clearing House banks is the transfer of approximately three-fourths of the banks' holdings of gold and lawful money from their vaults to the Federal Reserve Bank, due to changes in reserve requirements, discussed earlier in this report, and also to the entrance of practically all of the large State banks and trust companies of the city into the Federal Reserve system. Loans, discounts, and investments show an increase of \$779,000,000, or 23.5 per cent, due principally to investments in or loans upon United States Government securities, the amount of such investments and loans on December 28, 1917, being \$604,000,000. Because of withdrawals of deposits from this center by banks in other districts, the increase in net deposits has been much less, totaling only \$590,000,000. The proportion of gold and lawful money in vault and deposited with Federal Reserve Bank to the aggregate net deposit liability shown above decreased from 18.15 per cent at the end of 1916 to 16.35 per cent at the end of 1917.

Loans and investments of State banks and trust companies in New York State increased \$449,000,000, while deposits show a much smaller increase, the difference being offset almost entirely by an increase in bills payable and rediscounts of \$97,155,000. Reserve de-

posits of \$183,000,000 have been placed with the Federal Reserve Bank, reducing cash in vault by \$110,000,000 and balances with banks and bankers by \$66,000,000.

The most important increases in the figures for national banks in the Second Federal Reserve District are \$880,000,000 in holdings of United States obligations, offset in part by an increase of \$699,000,000 in United States deposits. Loans and discounts show an increase of \$284,000,000, which is slightly greater than the amount of the increase in demand and time deposits. Reserves carried with the Federal Reserve Bank show an increase of \$219,000,000, reflecting transfer of cash from vaults to the Federal Reserve Bank.

The increase in the amount of bills payable and rediscounts of national banks and State institutions, whose reports are summarized above, from \$19,000,000 to \$322,000,000, is the most significant indication of the strain which has come upon the banking machinery of the district, the major portion of the rediscounting and borrowing having been with the Federal Reserve Bank.

#### MONEY RATES.

Money rates were relatively low in the early months of 1917 and continued so until some time after the declaration of war on April 6. Commercial paper was sold freely at rates ranging from 3 to 5 per cent; bankers' acceptances were sold on a basis of  $2\frac{1}{8}$  to  $3\frac{3}{8}$  per cent; call money rates were at or below  $2\frac{1}{2}$  per cent, and rates for time money approximated those for commercial paper.

A distinctly firmer tendency became apparent as the Government's preparations for placing the first Liberty loan progressed. Call money often touched 6 per cent, and with the higher call rates and the desire of the banks to keep their funds in available form, time loans on stock exchange collateral became difficult to obtain. Member banks in New York City availed themselves freely of the rediscount and loan facilities of the Federal Reserve Bank, with the result that, though rates were very firm, stability unknown in former periods of strain was given to the money market. Only once during the period of financing the first loan did call money go above 6 per cent. Following the installment payment on the first loan due June 28 and the maturity of certificates of indebtedness which had been issued in anticipation of the loan, rates for call money and commercial paper became easier and continued so for some weeks.

As the time for placing the second Liberty loan approached, rates again advanced, commercial paper advancing from  $4\frac{1}{2}$ -5 per cent in early August to  $5-5\frac{1}{2}$  per cent in the early part of September, and  $5\frac{1}{2}$ -6 per cent in October, where it remained until payment of the first installment on the second Liberty loan was made on Novem-

ber 15, when it declined to  $5\frac{1}{4}$ - $5\frac{3}{4}$  per cent. Another upward turn came during the last week of the year and carried the rates again to  $5\frac{1}{2}$ -6 per cent. The call money rate advanced early in September and ruled close to 6 per cent, with one loan of \$50,000 on September 25 at 7 per cent. Early in October, however, when the actual campaign for placing the second Liberty loan began, the rate declined to 4 per cent and remained steady at about that figure throughout the month of October and the first half of November, the steadiness in the supply of accommodation having been accomplished largely through the cooperation of all the banks in New York City with the Federal Reserve Bank and the Liberty loan committee. During the last few months of the year the rates quoted on time loans or collateral were  $5\frac{1}{2}$ -6 per cent and during the last week of the year call money rates again stiffened and held close to 6 per cent.

The tendency throughout the year has been toward firmer rates for loans of all kinds, and the preference given to Government borrowings tended to diminish somewhat the supply of credit available to other borrowers. Commercial paper and banker's acceptances, because of their availability for rediscount with the Federal Reserve Bank, have been less affected than loans on stock exchange collateral and have found a reasonably favorable market.

#### GOLD MOVEMENT.

The United States Treasury statement of money in circulation, dated January 1, 1918, shows gold in the country \$3,040,439,343, as compared with \$2,864,841,650 on January 1, 1917, an increase of \$175,597,693.

The gold production of the United States and its dependencies in 1917 was \$84,456,600. Imports of gold from all sources during the year were \$553,713,000. Gold exports were \$372,171,000, mainly to South American countries, Cuba, Spain, Japan, and India.

On August 13 the Federal Reserve Board requested the Federal Reserve Bank of New York to obtain information relative to the amount and destination of gold exports from this district to foreign countries. On September 7 the President declared an embargo on gold, silver, and currency shipments out of the country, placing in the hands of the Secretary of the Treasury and the Federal Reserve Board the enforcement of this embargo and granting discretion to issue permits for exports where not contrary to the public interest. Since that date, the Federal Reserve Bank has received and passed upon applications originating in this district for permission to export gold, silver, or currency and transmitted such applications with its recommendation to the Federal Reserve Board for final action.

## FOREIGN LOANS.

In the last annual report extensive foreign borrowings during the war were listed. During 1917 such borrowings almost entirely ceased, the principal loans placed being \$250,000,000 British Government one and two year secured notes in January, \$8,098,250 ten-year bonds of the Province of Buenos Aires in February, \$100,000,000 French Government two-year secured notes in March, \$4,000,000 five-year bonds of Genoa, Italy, \$2,400,000 twelve-year notes of Bolivia, \$100,000,000 one-year notes of the Dominion of Canada sold in August, and British treasury bills placed in several issues of \$15,000,000 each by Messrs. J. P. Morgan & Co., the amount of this issue outstanding at any one time not having exceeded \$100,000,000. During 1917 the Secretary of the Treasury, under authority of Congress, has advanced to the Governments of Great Britain, France, Italy, Russia, Belgium, Servia, and Roumania a total of \$3,656,129,750, receiving in exchange interest-bearing obligations of those nations.

## FOREIGN BANKING CONDITIONS.

The following statements show the condition of three leading European banks toward the end of 1916 and 1917:

## BANK OF ENGLAND.

	Dec. 27, 1916.	Dec. 27, 1917.
Circulation.....	£39,675,000	£45,943,000
Public deposits.....	52,116,000	42,003,000
Other deposits.....	128,728,000	124,161,000
Government securities.....	57,187,000	58,303,000
Other securities.....	106,461,000	94,888,000
Reserve.....	33,079,000	30,843,000
Bullion.....	54,304,915	58,337,469
Proportion of resources to liability..... per cent..	18.49	18.56

## BANK OF FRANCE.

	Dec. 28, 1916.	Dec. 27, 1917.
Gold.....	<i>Francs.</i> 5,075,914,550	<i>Francs.</i> 5,351,524,800
Silver.....	234,863,000	247,656,889
Discounts and advances.....	1,937,278,000	2,136,760,143
Circulation.....	16,678,817,000	22,336,799,276
Deposits.....	2,260,224,000	2,913,741,500
Treasury deposits.....	15,003,000	253,858,163

## IMPERIAL BANK OF GERMANY.

	Dec. 30, 1916.	Dec. 31, 1917.
Gold.....	<i>Marks.</i> 2,520,473,000	<i>Marks.</i> 2,405,500,000
Loans and discounts.....	9,603,767,000	14,596,100,000
Circulation.....	8,054,652,000	11,467,740,000

## NEW YORK STOCK EXCHANGE.

During the early months of the year, trading on the New York Stock Exchange both in stocks and bonds was quite active, but following our entrance into the war the tendency has been toward much lighter trading at decreasing prices. Bond prices had for some time shown downward tendencies and this movement quickly extended to stocks when it became apparent that companies which had profited greatly from war activities prior to our becoming a belligerent would not continue to be permitted to make and retain abnormal profits. As a result of this factor and the competition of Government securities, prices have shown an almost continuous downward trend and have reached levels lower than any recorded since the autumn of 1914. The New York Times record of the average prices of 50 representative stocks at the high point in 1917 was 90.40 on January 4, 1917, as against 101.51 on November 20, 1916, and 65.88 at the end of 1917, while the low of 57.43 for the year was touched on December 20. The price of 40 representative bonds at the beginning of 1917 was 88.63; the high for the year 88.48, January 26; low, 74.21, December 20; close, 76.80. A decided upward turn in the last week of the year, reflected in the figures given, followed the announcement of Government control of railroads.

The following record of comparative figures shows the volume of stocks and bonds dealt in on the New York Stock Exchange for the past seven years.

	Shares.	Bonds.
1917.....	\$184,536,371	\$1,052,346,950
1916.....	230,060,900	1,133,935,300
1915.....	173,155,644	955,525,200
1914.....	45,989,158	460,472,500
1913.....	76,134,996	497,158,600
1912.....	118,452,676	645,300,000
1911.....	127,376,149	878,933,700

## CROPS.

As crop planting time approached in the spring of 1917, realization that the world's food supply was in danger of falling materially below demand led to vigorous efforts throughout the country to increase the yield of staple products. This movement was greatly stimulated by the extremely high prices which such products commanded. As a result, a very much increased acreage was planted with resulting heavy yields of several of the more important commodities, though wheat production, upon which attention naturally centered, did not increase very greatly over the short crop of 1916. The corn crop of 3,159,494,000 bushels, valued at \$1,053,672,000, the

oats crop of 1,587,286,000 bushels, valued at \$1,061,427,000, and the potato crop of 442,536,000 bushels, valued at \$543,865,000, are the largest on record. Other crops whose production established records were rye, sweet potatoes, beans, onions, cabbages, and tobacco. The cotton production is estimated at 10,949,000 bales.

#### EXPORTS AND IMPORTS.

During the early months of the year exports and imports at the port of New York ruled very materially above those of the preceding year, but in later months have only approximately held their own as compared with a year ago, the difficulties of obtaining shipping space having contributed to the later restriction of foreign trade. Shipments to and from Europe, other than those made by the Government, have shown reductions, while there has been a substantial gain in trade with South American countries. Exports from this customs district for the calendar year 1917, not including Government shipments, aggregate \$2,937,000,000, a gain of \$147,000,000 over last year, and imports aggregate \$1,360,000,000, a gain of \$103,000,000.

#### GENERAL BUSINESS CONDITIONS.

The early months of 1917 were marked by great business activity, hampered in some degree by difficulties of transportation and embargoes on freight shipments which the railroads found it necessary to impose.

During the late spring, following our declaration of war against Germany, there was a temporary recession of activity in retail lines, occasioned, apparently, by a tendency of large sections of the population to economize. This movement, which created widespread apprehension among dealers in articles in the nature of luxuries, was short lived, and, with the coming of fall, business in most lines revived and became very active, the most marked exception being the building trade, which continued very quiet throughout the remainder of the year.

There have been very far-reaching adjustments in business and industry; such lines as machinery, munitions, steel products, cotton and woolen textiles and clothing and similar activities being stimulated by war conditions. On the other hand, the automobile industry, manufacturers of household furniture, manufacturers of various building materials, and many other lines have experienced curtailment of business to a marked degree, but this curtailment has, apparently, not been sufficiently great to offset the expansion in essential war industries; consequently excessively keen competition for rail-

road transportation facilities, for fuel supplies, and for the products of steel mills has taken place, with the result that the railroads, though doing all in their power to cooperate in handling the unprecedented volume of traffic pressed upon them, have been unsuccessful. Coal production and distribution, though 50,000,000 tons above the normal output, is still estimated by the United States Fuel Administration to be 50,000,000 tons short of the amount required for consumption.

Constantly increased difficulty in obtaining and retaining labor supply has been experienced by practically all industries, and heavy advances in the wage scales and salaries have been made in recognition of the higher costs of living. Prices of materials have increased steadily, and in many cases rapidly, so that the whole level of production cost and the selling price of finished products is materially higher than at the beginning of the year. Bradstreet's index number for commodity prices for December 1, 1917, is \$17.8113 as compared with \$13.6628 December 1, 1916, an increase of over 30 per cent.

The tendency on the part of business and manufacturing interests is to proceed with great caution in the purchase of materials and the manufacture of goods, buying orders being restricted, so far as possible, to immediate needs.

## APPENDIX.

### *Capital account reconciliation, Jan. 1, 1917, to Dec. 31, 1917.*

Capital paid in Jan. 1, 1917.....	\$11,865,750
<b>Sundry increases:</b>	
Due to increase in capital and surplus of mem- ber banks.....	\$473,150
Due to organization of new national banks.....	55,500
Due to admission of State banks and trust companies .....	6,391,300
	6,919,950
	18,785,700
<b>Sundry decreases:</b>	
Due to decrease in capital and surplus of mem- ber banks.....	2,250
Due to banks liquidated .....	98,600
	100,850
Paid-in capital Dec. 31, 1917.....	18,684,850

### *Summary of Federal Reserve notes.*

<b>Total issued to bank:</b>	
1914, 1915, 1916.....	160,480,000
1917 .....	415,000,000
	575,480,000
Less notes unfit for circulation retired 1914, 1915, 1916.....	\$53,476,235
Less notes unfit for circulation retired 1917.....	65,665,200
	119,141,435
Amount outstanding Dec. 31, 1917.....	456,338,565
<b>As follows:</b>	
In actual circulation.....	397,353,805
Held by Federal Reserve Bank Dec. 31, 1917.....	58,984,760

<b>On Dec. 31, 1917, the Federal Reserve agent held against Federal Reserve notes:</b>	
Gold certificates.....	250,598,565.00
Commercial paper.....	206,538,872.84

58 ANNUAL REPORT OF FEDERAL RESERVE BANK OF NEW YORK.

Total of Federal Reserve notes paid out by the Federal Reserve Bank of New York, by months, 1917.

	To member banks.	To nonmember banks.
January.....	\$9,164,000	\$670,000
February.....	40,294,000	3,914,500
March.....	38,757,000	2,644,000
April.....	32,994,500	3,657,000
May.....	25,578,000	2,066,000
June.....	27,006,000	2,424,000
July.....	25,598,000	1,361,000
August.....	30,686,000	3,122,000
September.....	33,950,250	7,450,500
October.....	40,436,000	12,857,800
November.....	54,231,000	6,487,000
December.....	70,240,000	4,346,000
Total paid to nonmember banks.....	428,934,750	50,999,800
Total received from Federal Reserve agent.....	479,934,550	415,000,000

Movement of Federal Reserve notes between Federal Reserve Bank of New York and other Federal Reserve Banks, Jan. to Dec. 31, 1917.

From Federal Reserve Bank of—	Notes of Federal Reserve Bank of New York received.	To Federal Reserve Bank of—	Their notes shipped.
Atlanta.....	\$1,236,500.00	Atlanta.....	\$3,030,710
Boston.....	9,482,800.00	Boston.....	3,018,450
Chicago.....	3,425,000.00	Chicago.....	1,698,920
Cleveland.....	1,250,300.00	Cleveland.....	1,725,105
Dallas.....	599,420.00	Dallas.....	964,265
Kansas City.....	127,750.00	Kansas City.....	929,160
Minneapolis.....	330,500.00	Minneapolis.....	792,325
Philadelphia.....	11,169,602.50	Philadelphia.....	5,818,700
Richmond.....	999,100.00	Richmond.....	3,600,750
St. Louis.....	922,200.00	St. Louis.....	661,150
San Francisco.....	393,580.00	San Francisco.....	2,560,440
Total.....	29,997,052.50	Total.....	24,799,975

Summary of gold settlement fund operations, Jan. 1, 1917, to Dec. 31, 1917.

From or to Federal Reserve Bank of—	Amounts received and paid by the New York Federal Reserve Bank in settlement of accounts due.		Net gain.	Net loss.
	Received.	Paid.		
Boston.....	\$1,269,785,000	\$1,289,707,000		\$19,922,000
Philadelphia.....	1,986,687,000	1,665,135,000	\$321,552,000	
Cleveland.....	1,114,627,000	935,299,000	179,328,000	
Richmond.....	790,701,000	875,366,000		84,665,000
Atlanta.....	256,241,000	352,552,000		95,311,000
Chicago.....	1,196,324,000	1,505,874,000		309,550,000
St. Louis.....	338,856,000	335,296,000	3,560,000	
Minneapolis.....	235,475,000	338,041,000		102,566,000
Kansas City.....	240,207,000	203,552,000	36,655,000	
Dallas.....	227,794,000	280,949,000		53,155,000
San Francisco.....	770,196,000	910,253,000		140,057,000
Total.....	8,426,893,000	8,692,024,000	541,065,000	806,226,000
Loss.....	265,131,000			265,131,000

SCHEDULE SHOWING WHEN THE PROCEEDS OF ITEMS WILL BECOME AVAILABLE.

Immediate credit: New York (Manhattan, if received by 9 a. m.).

One day after receipt: Boston, Philadelphia, Richmond, Baltimore, and Roanoke.

Two days after receipt (business days): Members of clearing houses in Cleveland, Cincinnati, Chicago, Atlanta, Minneapolis, St. Paul, St. Louis, Kansas City, Mo., Kansas City, Kans. Banks in Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts,<sup>1</sup> New Hampshire, New Jersey, New York,<sup>1</sup> Pennsylvania,<sup>1</sup> Rhode Island, Vermont, and Virginia.<sup>1</sup>

Four days after receipt (business days): Members of clearing houses in Dallas, New Orleans. Banks in Alabama, Arkansas, Florida, Georgia,<sup>1</sup> Illinois,<sup>1</sup> Indiana, Iowa, Kansas,<sup>1</sup> Kentucky, Michigan, Minnesota,<sup>1</sup> Mississippi, Missouri,<sup>1</sup> North Carolina, Ohio,<sup>1</sup> South Carolina, Tennessee, West Virginia, and Wisconsin.

Eight days after receipt: Banks in Arizona, California, Colorado, Idaho, Louisiana,<sup>1</sup> Montana, Nebraska Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas<sup>1</sup> Utah, Washington, and Wyoming.

NOTE.—Two-day items we forward on Saturday will be available Tuesday; four-day items we forward Thursday will be available Tuesday, and those forwarded Friday and Saturday on Wednesday.

Operations in United States Government obligations during 1917.

Issue.	Purchased from United States Treasurer.		Purchased open market.	Sold, converted, or redeemed during 1917.	Balance on hand Dec. 31, 1917.
	Under section 18.	Other purchases.			
Conversion 3s, 1917-1947	\$1,776,500.00			\$521,000.00	\$1,255,500.00
2 per cent consols, 1930	2,105,000.00		\$222,550.00	2,327,500.00	50.00
Panama Canal, 1916-1936	100,000.00			100,000.00	
Panama Canal, 1918-1938	225,000.00		900,000.00	1,125,000.00	
1-year notes due Jan. 1, 1918	521,000.00			520,000.00	1,000.00
1-year notes due Apr. 1, 1918	1,255,000.00	\$1,532,000.00		750,000.00	2,787,000.00
1-year notes due July 1, 1918		750,000.00			750,000.00
1-year notes due Oct. 1, 1918		955,000.00			955,000.00
3 per cent, 1908-1918	50,000.00				50,000.00
3½ per cent 15-30 year Liberty loan bonds of 1917		1,500,000.00	26,200.00	1,118,900.00	407,300.00
3½ per cent 15-30 year Liberty loan bonds of 1917 (bonds and interest purchased)		57,386.68		53,535.54	3,851.14
4 per cent 10-25 year second Liberty loan bonds of 1917		25,000.00	3,429,698.50	2,600.00	3,859,198.50
2 per cent certificates of indebtedness due June 29, 1917		20,000,000.00		20,000,000.00	
3 per cent certificates of indebtedness, dated Apr. 25, 1917, due June 30, 1917			18,950,000.00	18,950,000.00	
3 per cent certificates of indebtedness, dated May 10, 1917, due July 17, 1917		7,332,000.00	1,500,000.00	8,832,000.00	
3½ per cent certificates of indebtedness, dated May 25, 1917, due July 30, 1917		814,000.00	2,590,000.00	3,404,000.00	
3½ per cent certificates of indebtedness, dated June 8, 1917, due July 30, 1917		4,977,000.00	1,846,000.00	6,823,000.00	
3½ per cent certificates of indebtedness, dated Aug. 9, 1917, due Nov. 15, 1917			5,005,000.00	5,005,000.00	
3½ per cent certificates of indebtedness, dated Sept. 17, 1917, due Dec. 15, 1917, called for payment Dec. 9, 1917		2,562,000.00	40,115,000.00	42,677,000.00	

<sup>1</sup> Except banks in cities referred to.

<sup>2</sup> Held for delivery to holders of participation certificates and not included in earning assets.

## Operations in United States Government obligations during 1917—Continued.

Issue.	Purchased from United States Treasurer.		Purchased open market.	Sold, converted, or redeemed during 1917.	Balance on hand Dec. 31, 1917.
	Under section 18.	Other purchases.			
3½ per cent certificates of indebtedness, dated Aug. 28, 1917, due Nov. 30, 1917.....			\$65,045,000.00	\$65,045,000.00	
4 per cent certificates of indebtedness, dated Sept. 26, 1917, due Dec. 15, 1917, called for payment Dec. 11, 1917.....			6,026,000.00	6,026,000.00	
4 per cent certificates of indebtedness, dated Oct. 11, 1917, due Oct. 18, 1917.....	\$100,000,000.00			100,000,000.00	
4 per cent temporary loan dated Oct. 16, 1917, due Oct. 18, 1917.....		10,000,000.00		10,000,000.00	
4 per cent temporary loan dated Oct. 17, 1917, due Oct. 18, 1917.....		20,000,000.00		20,000,000.00	
2 per cent temporary loan dated Oct. 29, 1917, due Oct. 31, 1917.....		20,000,000.00		20,000,000.00	
2 per cent temporary loan dated Nov. 15, 1917, due Nov. 19, 1917.....		150,000,000.00		150,000,000.00	
2 per cent temporary loan dated Nov. 19, 1917, due Nov. 20, 1917.....		150,000,000.00		150,000,000.00	
4 per cent certificates of indebtedness, dated Oct. 24, 1917, due Dec. 15, 1917.....			59,992,000.00	59,992,000.00	
4 per cent certificates of indebtedness, dated Nov. 30, 1917, due June 25, 1918.....		621,000.00	42,540,000.00	28,161,000.00	\$15,000,000.00

## United States bonds surrendered for conversion during 1917:

United States 2 per cent consols, 1930.....	\$2,327,500
United States Panama Canal, 1916-1936.....	100,000
United States Panama Canal, 1918-1938.....	1,125,000
	<u>3,552,500</u>

## Received by conversion during 1917:

Jan. 1: United States 1-year 3 per cent notes due Jan., 1918....	521,000
United States 3 per cent convertible bonds of 1917-1947.....	521,000
Apr. 1: United States 3 per cent convertible bonds of 1917-1947..	1,255,500
United States 1-year 3 per cent notes due Apr. 1.....	1,255,500
	<u>3,552,500</u>

Amount 1-year notes sold.....	520,000
Amount of conversion bonds sold.....	521,000

