Sixteenth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1930

Federal Reserve Agent
Second Federal Reserve District

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Contents

FEDERAL RESERVE BANK
OF NEW YORK

New York, March 26, 1931

SIRS:

I have the honor to submit herewith the sixteenth annual report of the Federal Reserve Bank of New York, covering the year 1930.

Respectfully yours,

J. HERBERT CASE,
Chairman and Federal Reserve Agent.

FEDERAL RESERVE BOARD,
Washington, D. C.

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Banking Developments in 1930

Whereas in 1929 the stock market inflation and final crash was the dominating feature of the credit situation, in 1930 the developments in the field of finance reached their culmination in a series of banking difficulties. A business recession which had begun before the stock market decline became more severe thereafter, and about the time when some recovery appeared possible a combination of circumstances, including a severe drought over large agricultural areas in this country and threatening political unsettlement abroad, gave impetus to the recession until it was extended into one of the most severe depressions the country has known. The banks generally maintained their position well through the early months of the depression, but as its severity increased and the prices of commodities, real estate, and eventually of bonds, felt the impact, many banks incurred losses. A state of public apprehension tended to magnify the effects of these losses and certain banks were subjected to the severe and unusual strain of large withdrawals of deposits, with the result that many weaker banks were forced to close. The total number of banks failing throughout the United States during 1930 was 1,345 (of which over 100 were reopened), the largest number of failures in any recent year. The percentage of failures, after deducting the number of banks which reopened during the year, to the number of banks in operation was 5 per cent, which was the largest percentage of failures since 1893. The following table shows the failures in recent years classified by member and nonmember banks for the country as a whole.

BANK FAILURES IN RELATION TO BANKS IN OPERATION
(Suspensions less banks reopened during each year)

Year	Number of Banks				Per Cent Relationship of Failed Banks to Banks in Operation			
	Member Banks		Nonmember Banks		Number		Total Deposits	
	In Operation*	Failing†	In Operation*	Failing†	Member	Non-Member	Member	Non-Member
1921.....	9,745	60	21,067	381	0.62	1.81	0.17	0.91
1922.....	9,892	33	20,497	256	0.33	1.25	0.05	0.40
1923.....	9,856	110	20,322	501	1.11	2.47	0.17	0.76
1924.....	9,650	139	19,698	543	1.44	2.76	0.23	0.68
1925.....	9,538	132	19,303	418	1.38	2.17	0.19	0.49
1926.....	9,375	146	18,771	661	1.56	3.52	0.18	0.75
1927.....	9,099	113	17,962	454	1.24	2.53	0.16	0.47
1928.....	8,929	68	17,284	384	0.76	2.22	0.10	0.39
1929.....	8,707	76	16,623	508	0.87	3.06	0.15	0.70
1930.....	8,315	180	15,764	1,018	2.16	6.46	0.99	1.96
Average	9,311	106	18,729	512	1.15	2.83	0.24	0.75

*At middle of year. †For calendar year.

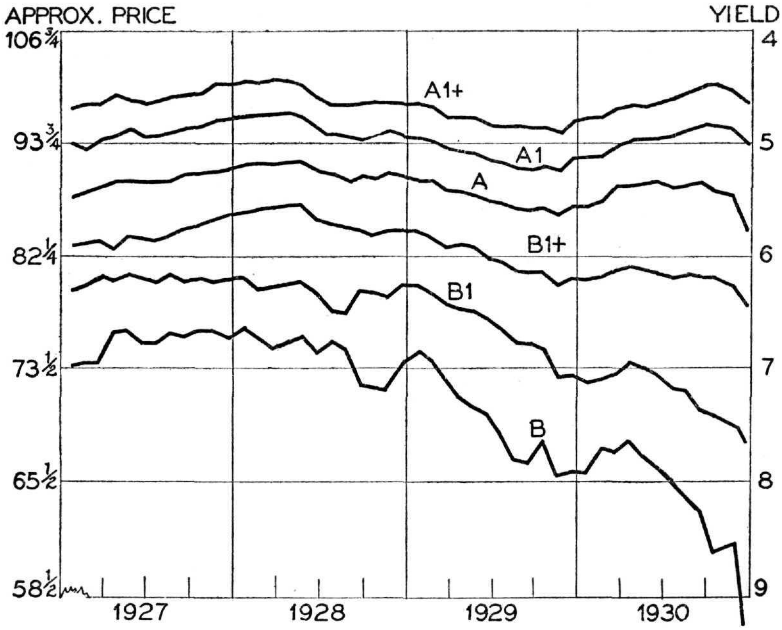
The numerous bank failures in the United States for the years from the depression of 1921 to 1929 were largely concentrated in rural districts and a majority of them were related in one way or another to the long agricultural depression, though speculation in land was also an underlying cause of failures in Florida and elsewhere.

These were influences of relatively small importance in the Second Federal Reserve District, for this territory is more largely dominated by industrial activity which was carried on at a continuously high level with few interruptions during the years from 1922 to 1929. In fact, during these years there were only four member banks suspended in this district, all of which were later reopened, and only twenty suspensions of small nonmember institutions.

The economic events of 1930, however, were of a character to put to a test the banks in this district as well as in other parts of the country. In the autumn of 1930 it became clear that the depression was not a short term movement such as was experienced in 1924 and 1927, but a much more severe decline. At two points particularly was the position of certain banks adversely affected, the value of their assets based upon securities and the value of those based directly or indirectly upon real estate.

As far as the decline in the value of stocks was concerned the banks as a whole were not seriously affected. Few of them held any appreciable amounts of common stock, and their loans to customers on stock collateral were generally protected by sufficient margins so as to show relatively small losses in most cases. In those banks where the decline in common stock values became a matter of serious concern it was usually due to the operations of subsidiary or affiliated companies.

A decline in bond values in the last few months of the year was of greater importance to the banks. While prices of bonds of the highest grade showed little depreciation, declines in earnings of many less strong concerns, together with general public apprehension as to the business future, were accompanied by a severe decline in prices of bonds of many companies, and for certain types of bonds there ceased to be any ready market. The relative movement of prices of different grades of domestic corporation bonds is illustrated in the accompanying diagram. A similar situation existed in other types of bonds and, in particular, the bonds of a number of foreign countries which were going through political and economic disturbances were adversely affected. A large part of the banks of the district were but little affected by these developments because their bond portfolios consisted of bonds of high grade. But in many of



Prices of high grade bonds advanced during most of 1930, and showed little depreciation during the last few months of the year while those of lower grade issues declined substantially (Ratings of the Standard Statistics Company; averages computed by Irving Trust Company)

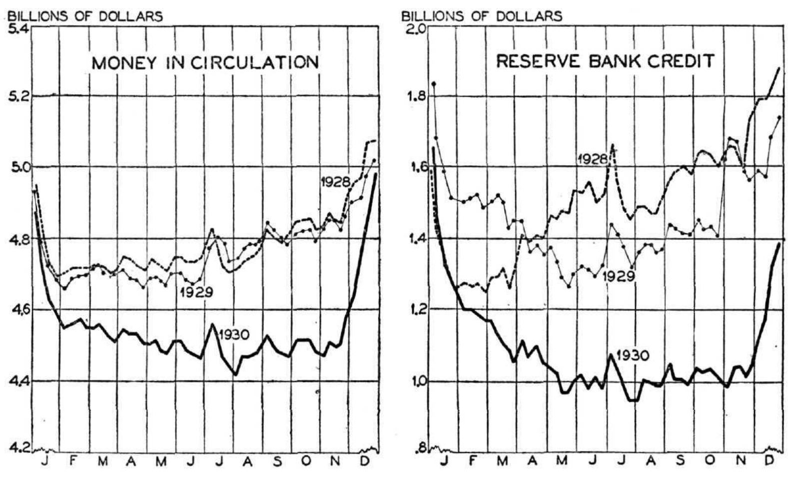
the smaller banks where the practice of paying high interest rates on deposits had led to a selection of bonds with high coupons, these declines in bond prices resulted in a depreciation of assets which in a number of cases proved embarrassing.

Somewhat the same comments may be made with regard to the effect of the year's decline in real estate values. First mortgages on high class properties were not generally affected by the year's developments, but second mortgages and bank loans predicated directly or indirectly upon real estate equities in many cases had to be classified as doubtful.

Under these circumstances and in view of frequent press announcements of bank failures in other districts, it was not unnatural that some public apprehension should arise with regard to the safety of banking institutions concerning which there appeared to be any possible ground for question. As a consequence several banks were subjected to withdrawals of deposits such as only banks in a very strong position could withstand. The most serious failure in this district was that of the Bank of United States, on December 11. This was a bank with 59 branches scattered over the city and about $160,000,000 of deposits at the time of closing. The position of this bank had been weakened largely through the operations of a number of subsidiaries to which the bank had made loans, and which had large commitments in real estate. As the weakness of this bank's position became known, vigorous efforts were made to find a means by which the bank's business might be reorganized without a liquidation. The risks involved in the undertaking at a time of such disturbed conditions prevented the completion of any satisfactory arrangement, and the bank was closed on December 11 after heavy withdrawals of deposits for two days previous.

UNUSUAL CURRENCY DEMAND

The closing of this bank was followed by large withdrawals of deposits from several other New York City banks doing business with a somewhat similar type of customer and in the same general localities. These banks called upon the Reserve Bank for large amounts of currency. Other banks also increased their currency holdings to be prepared with cash on hand for any exceptional withdrawals. These large demands for currency occurred at a time of year when currency demand is ordinarily at its maximum for the holiday season. In a single week ended December 13 over $170,000,000 of currency was drawn from the Federal Reserve Bank of New York. For the country as a whole the withdrawals of currency from the Reserve Banks during this general period, over and above the usual seasonal requirements, totaled more than $300,000,000 before the emergency passed and the return flow began early in the new year. This exceptional demand upon the Federal Reserve Banks, largely concentrated in New York and occurring at the time of



The unusually large increase in the demand for currency in December 1930, at the time of disturbed banking conditions, was met by a large increase in Federal Reserve credit

maximum seasonal demand, was met without any disturbance to general credit conditions. Call money rates rose from 2 to 2½ per cent for three days and then reverted to 2 per cent.

The banks secured the extra currency they required partly by borrowing at the Reserve Banks, and partly through an increase in Federal Reserve holdings of Government securities and bankers acceptances. The acceptances which member banks had acquired in larger amounts than ever before during the easy money period of preceding months provided a particularly convenient means for securing funds. The effect of these operations on the position of the Federal Reserve Bank of New York is indicated by the reserve percentage which declined from 82.7 on December 10 to 76.0 on December 17, a relatively small change in view of the exceptional demand for funds.

This whole episode, both in size and character, provided a new test of the mechanism of the Federal Reserve System, though the emergency was exactly the type which the Reserve System was designed to meet. The framers of the Federal Reserve Act were thinking in terms of the currency demand at the time of the panic of 1907, a kind of demand which was approached more nearly this past December than at any previous time in the history of the System. The facilities of the System were adequate to meet the demand speedily and effectively.

BANKING PRACTICES

The events of the year have called attention to banking practices requiring close scrutiny. They have emphasized the dangers of security operations as an adjunct to banking, and have raised question with regard to the activities of subsidiary and affiliated security companies.

The events of the year have also emphasized the necessity for liquidity of a certain portion of a bank's assets. Under ordinary circumstances withdrawals of deposits are limited in amount and can be foreseen and provided for to a considerable extent, but the growth of apprehension with regard to a bank's position, and sudden and large withdrawals of currency by depositors are a wholly different kind of occurrence, and to be prepared for such an emergency each banking institution should maintain in addition to its cash reserves a substantial percentage of its deposits in assets which can either be liquidated rapidly or can be used promptly as a basis for loans from its Federal Reserve Bank or its city correspondent. One interesting development of the year in this direction has been a large increase in bank holdings of acceptances. While this development is mainly a reflection of very easy money conditions, it may be hoped that the experience banks have had with the holding of acceptances, and the ease with which these holdings may be liquidated or used for securing Federal Reserve funds, may lead to a continuance of the practice even at times when money conditions are firmer.

The large depreciation that a number of banks have experienced in their bond investments may well lead to a scrutiny by banks generally of their methods of selecting investments. The two greatest difficulties in this direction observable in this district have been the selection of bonds for high yield rather than safety, and the too great reliance of many bankers upon the salesmen of bond distributing houses whose primary interest lies in the sale of new and unseasoned issues. The tendency to select bonds too largely for high yields is in part a logical consequence of a lack of flexibility of banking institutions in adjusting their rates of interest paid on deposits and their dividend payments to changing economic conditions. A compelling reason for the selection of high yield bonds of doubtful quality, which have shown large depreciation in recent months, appears to have been the payment of high rates of interest on deposits. An analysis of the profit and loss statements of a considerable number of member banks in this district appears to indicate that over a period of years few have been able to operate at a profit if they paid a 4½ per cent rate on time deposits. During the past year, with interest rates generally at low levels, and with some losses on securities even in well-managed institutions, a 4 per cent deposit rate has been difficult to maintain profitably. At times like these a greater flexibility in the rate of interest paid on deposits and correspondingly a greater flexibility in dividend payments might save many banks from taking serious losses. In any event recent experience indicates that lower yield, high grade bonds have proved a more profitable investment for banks than second or third grade bonds with higher yield.

VALUE AND LIMITATIONS OF SUPERVISION

The supervision of banking has been carried in this country to an extent hardly approached in any other country. No bank can be organized without the consent of National or State authorities, and under the terms of the National and State laws all National and State banks are required to be examined periodically by the Comptroller of the Currency and by the State banking departments, respectively. Copies of the reports of the examinations of all member banks in this district, whether made by the Comptroller of the Currency or by the State banking authorities are furnished to the Federal Reserve Bank. Furthermore, the Federal Reserve Act gives the Federal Reserve System the authority to make "special" examinations of member banks so that while the law does not contemplate that the Reserve System should assume the primary responsibility for the examination of banks, it may, if necessary, make special or supplementary examinations.

But no power of examination alone will be adequate wholly to insure the depositors against loss resulting from fraud, dishonesty, or even incompetence in the management of a bank. There are limits to the power of the bank examiner. He cannot himself form an infallible judgment as to the character and capacity of all a bank's borrowing customers. His estimate of the value of a bank's assets depends not a little upon the help he gets from the bank's officers. A complete survey of all a bank's affairs would take an impossibly large examining staff an impossible length of time. He has little disciplinary power short of closing the bank, which is the very thing he is seeking to avoid. His suggestions are apt to be taken most seriously by the banks which need them least and least seriously by those which need them most.

Unless we are willing to delegate to central authorities autocratic control of the details of banking, the real responsibility for sound banking must rest with the management of each bank and with the development of a sound banking tradition. Indeed a great majority of the failures in past years have been due not to violations of law punishable by governmental authorities, but rather to errors of judgment or wilful abuses within the law. Thus, the public's best protection from loss must be found in the earnest and diligent exercise of the responsibility placed upon the boards of directors of the individual banks to see not only that the bank's operations do not violate the law but also that they do not abuse to the detriment of the depositors the privileges afforded by the law.

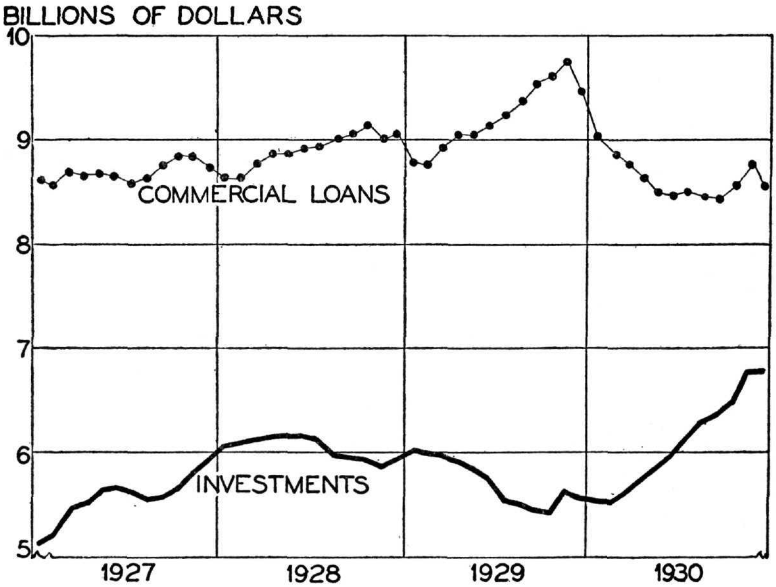
Credit Policy

The discount and open market policy of this bank during 1930 was probably a less influential factor than in 1929. In a period of declining business activity the function of a bank of issue becomes as a rule largely negative and finds expression in the removal of obstacles to the free use of credit rather than the exercise of a positive influence upon the credit and business situation. During 1928 and 1929 the Reserve System had taken a number of vigorous steps towards restraining an excessive increase in the volume of bank credit. These steps included a reduction in the System holdings of United States Government securities from about $600,000,000 at the beginning of 1928 to $140,000,000 in October 1929, and increases in the discount rates of Federal Reserve Banks from a 3½ per cent level prevailing at all the Reserve Banks at the beginning of 1928 to a 5 per cent level at the other Reserve Banks, and a 6 per cent level at the Federal Reserve Bank of New York in August 1929. These changes had resulted in placing upon member banks a greatly increased responsibility for the amount of Federal Reserve credit in use, as indicated by a growth in the bills discounted by member banks from about $450,000,000 early in 1928 to over $1,000,000,000 in the late summer of 1929. In the case of the Federal Reserve Bank of New York the increase in discounts of member banks during this period was from $85,000,000 at the beginning of 1928 to a high point of $440,000,000 in the summer of 1929. Considering the increasing rates which member banks paid on this volume of discounts it may be seen that the pressure exerted on these banks was very considerable.

After the stock market had broken in the autumn of 1929 and evidences of business depression were multiplying, it clearly became the duty of the Reserve System to remove this pressure, and the policy action of late 1929 and throughout 1930 may be thought of as a reversal of the action of 1928 and the first nine months of 1929. From October 1929 to the early summer of 1930, the security holdings of the Reserve Banks were increased to about $600,000,000 or approximately the same figure as at the beginning of 1928. Subsequent temporary purchases were made over the end of the year to relieve an emergency banking situation and to avoid any possible money stringency at that time. The effect of the System's purchases in late 1929 and during 1930 was to enable the member banks to repay to the Reserve Banks the debts incurred in 1928 and 1929. This same end was furthered by a retirement of currency from circulation, due to the business depression, and by gold imports from abroad. The net result was to enable the member banks to reduce their indebtedness to less than $200,000,000 or the lowest figure since 1917. Simultaneously the price these banks paid for money borrowed from the Reserve Banks was reduced by successive stages as shown for the Federal Reserve Bank of New York in the following table.

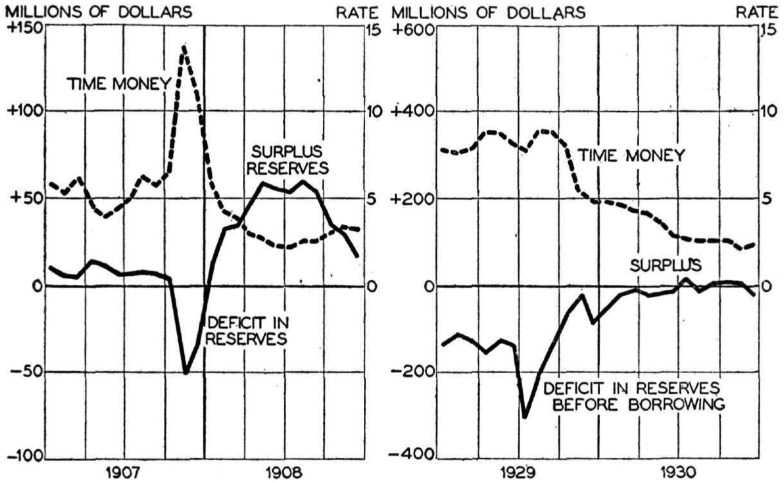
Date Effective	Discount Rate
	Per Cent
August 9, 1929	6
November 1, 1929	5
November 15, 1929	4½
February 7, 1930	4
March 14, 1930	3½
May 2, 1930	3
June 20, 1930	2½
December 24, 1930	2

These operations taken together relieved the member banks from that pressure toward liquidation which they had been under. The banks thus found themselves again in a position to advance funds freely to their customers. The ease of their position is indicated by a considerable increase in their investments practically offsetting a decline in commercial loans due to depressed business.



The reduced demand for commercial loans ("all other" loans) was practically offset by an increase in the investments of the Weekly Reporting Member Banks during 1930

It may be noted that this action of the Reserve System in removing the various forms of pressure applied in 1928 and 1929 was closely in keeping with those normal tendencies toward the release of credit which characterized previous severe business depressions in this country. In the diagram on page 14 a comparison is made between recent events and those following the money panic of 1907. Before the establishment of the Federal Reserve System the return of currency from circulation, accompanying a business depression and reduced industrial payrolls, rather promptly brought about a condition of extreme ease in the money market; for the currency, as it was returned to the vaults of the banks, created excess reserves and the banks seeking to employ these funds poured money into the money market, where it rather promptly reduced interest rates to low levels. The operation of these factors in 1907 and 1908 is shown in the left hand diagram on the following page.



Before the Federal Reserve System the funds released by business during depressions caused the accumulation of surplus reserves in New York banks and extremely easy money conditions; now funds released tend to be absorbed through the retirement of Federal Reserve credit so that there is less tendency for surplus funds to accumulate in New York

Under the Federal Reserve System the amount of Federal Reserve credit in use at any time provides a certain amount of absorptive power for any funds which are released by business depression. Currency returning from circulation does not immediately have the effect of building up surplus bank reserves but is ordinarily used by the banks to repay any discounts they may have at the Reserve Banks or is absorbed through a reduction of some other form of Federal Reserve earning asset such as, for example, through a decline in Federal Reserve bill holdings as the maturities of bills in Federal Reserve portfolios exceed the amounts of bills offered to the Reserve Banks.

Similarly gold imported into the United States on such occasions tends ordinarily to be used by member banks to repay debt rather than to be used as a basis for expansion of bank credit. The action of the Reserve System in the latter part of 1929 and in 1930 in facilitating by security purchases a reduction in the discounts of member banks had the effect of diminishing the absorptive power of Federal Reserve credit and creating a position where the return of currency from circulation and gold imports might have something more nearly approaching their normal pre-war effects on the bank position and the volume of bank credit.

The principal economic advantage of a return to easy money conditions on the occurrence of a business depression is probably to be found in the market for new securities. During a period of high money rates and business expansion such as that of 1929 bond prices decline and new issues of bonds tend to be restricted. For this reason certain types of new enterprises are in turn delayed, though the effects of this development on business are usually not felt until the depression comes, partly because other types of activity are sufficient to carry business along, and partly because it always takes some months for new financing to find expression in new construction or other new enterprise. In times past the resumption of an active bond market and new financing in volume appears to have preceded business recovery from depression.

The reestablishment of relatively easy money conditions early in 1930 had an immediate encouraging effect upon the bond market and the market for new securities. Bond prices rose during the first nine months of 1930, reflecting substantial purchases of bonds by savings banks and by the commercial banks in principal centers. During this period the investments of member banks increased by nearly a billion dollars. During the first seven months of the year new bond issues exceeded those of the same period of 1929 by $1,500,000,000. An analysis of these issues indicated that to a large extent their proceeds were destined for use by borrowers whose ability to obtain new capital was impaired during 1928-1929.

As the mid-year was passed, however, further progress in this direction was interrupted for a time by a series of unfavorable developments at home and abroad. The realization that we were in a major world-wide depression was gradually being borne in on the business community. This adverse psychological factor coupled with the drought and banking difficulties was the principal disturbing influence at home. Abroad there were political and economic disturbances which made it practically impossible to sell foreign securities in the United States.

The effect of all these developments on bond prices has been indicated previously by the diagram on page 7. The corresponding effect upon the volume of new issues of bonds is shown in the following table.

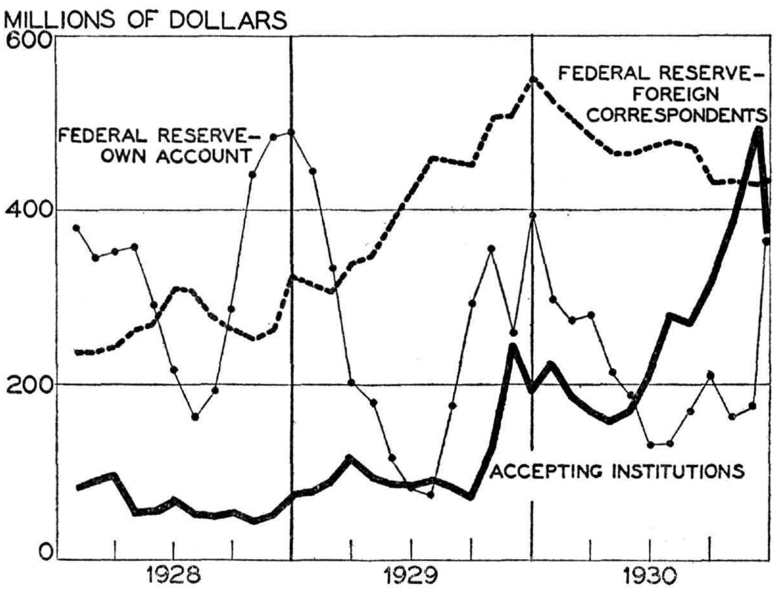
NEW BOND ISSUES, EXCLUDING REFUNDING
(Monthly average volume; in millions of dollars)

1930	Domestic corporate	Municipals, etc.	Foreign	Total
January-July	335	125	102	562
August-December	116	131	22	269

Not only was the issuance of foreign securities stopped, but the market for domestic securities, except those of prime quality, was disrupted. Thus easy money was prevented by a series of untoward events from fostering a continued recovery in the bond market which might in its turn have hastened the recovery from depression.

The Bill Market in 1930

The events of the year led to unusual developments in the bill market worthy of special comment. With the commercial demand for funds much restricted and with their borrowings from the Reserve Bank liquidated, the New York City banks found difficulty at times in employing all of their funds, particularly since they were desirous of maintaining an exceedingly liquid position and were therefore reluctant to tie up their funds in long time investments. Consequently the accepting banks tended to hold their own acceptances in their portfolios for a considerably longer time than usual before discounting them in the market, and the city banks generally also were large purchasers of acceptances of other banks. As a result the acceptance holdings of the New York City banks and banks in other principal centers reached larger totals than at any previous



Large holdings of acceptances by the member banks in 1930 provided them with a secondary reserve, part of which was sold at the end of the year to meet the unusual demands on the banks at that time

time since the bankers acceptance market was organized. When this tendency reached its height at the end of November the New York Federal Reserve District member banks held $313,000,000 of acceptances and all accepting banks throughout the country $493,000,000 or nearly one-third of the total amount of acceptances outstanding. The acceptance holdings of all accepting banks compared with the total outstandings at the end of each month from 1928 to 1930 are shown in the following table.

ACCEPTANCES HELD BY ACCEPTING BANKS AND TOTAL ACCEPTANCES OUTSTANDING AT THE END OF EACH MONTH 1928–1930

(In millions of dollars)

End of Month	Own Acceptances Held	Acceptances of Other Banks Held	Total	Total Acceptances Outstanding
1928				
January	49	31	80	1,058
February	45	45	90	1,056
March	48	51	99	1,085
April	29	27	56	1,071
May	29	29	58	1,041
June	27	44	71	1,026
July	23	30	53	978
August	26	24	50	952
September	29	24	53	1,004
October	22	22	44	1,123
November	25	25	50	1,200
December	27	49	76	1,284
1929				
January	24	55	79	1,279
February	34	55	89	1,228
March	29	88	117	1,205
April	32	63	95	1,111
May	27	60	87	1,107
June	36	48	84	1,113
July	24	66	90	1,127
August	34	48	82	1,201
September	32	39	71	1,272
October	31	98	129	1,541
November	70	174	244	1,658
December	59	132	191	1,732
1930				
January	63	157	220	1,693
February	71	112	183	1,624
March	72	95	167	1,539
April	55	103	158	1,414
May	63	103	166	1,382
June	64	141	205	1,305
July	63	216	279	1,350
August	95	172	267	1,339
September	131	186	317	1,367
October	172	212	384	1,508
November	180	313	493	1,571
December	89	282	371	1,556

The total dollar amount of bills outstanding at the end of 1930 was slightly less than at the end of 1929, largely due to lower prices of agricultural and other commodities the movement or storage of which was financed by bills. The reduction from this source was partially offset by some tendency for additional financing to come to New York because of lower rates here than in some of the European money centers. The market rates for bills compared with the buying rate of the Federal Reserve Bank of New York were as follows during the year:

CHANGES IN MINIMUM BUYING RATE OF FEDERAL RESERVE BANK OF NEW YORK FOR 90 DAY BANKERS ACCEPTANCES AND OPEN MARKET RATE IN EFFECT ON SAME DATES

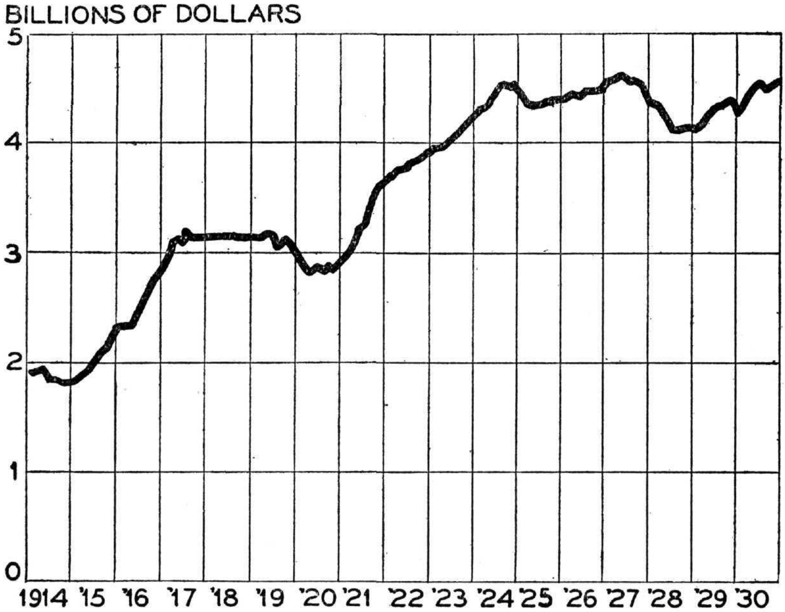
Date Effective	Federal Reserve Bank Buying Rate (Indorsed Bills)	Open Market Rate (Unindorsed Bills)
1930		
February 11	3⅞*	3¾
February 24	3¾	3¾
March 5	3⅝	3⅝
March 6	3½	3⅜
March 11	3⅜	3⅜
March 14	3¼	3⅛
March 19	3⅛	2¾
March 20	3	2½
May 1	2⅞	2¾
May 2	2¾	2⅝
May 8	2⅝	2½
May 19	2½	2½
June 5	2¼	2⅛
June 20	2	2
December 24	1¾	1⅞

*Changed from 4 per cent.

The large holdings of acceptances by the New York banks provided those banks with facilities for securing Federal Reserve credit at times of firmer money conditions without the necessity for their incurring indebtedness, for instead of borrowing at the Reserve Bank they sold bills either to the market or to the Reserve Banks. This facility was utilized to a large extent at the year-end, a time when in view of disturbed banking conditions the banks were particularly reluctant to show indebtedness at the Reserve Bank in the year-end reports. They met the unusual demands upon New York for funds for window dressing purposes largely by the sale of bills to the New York Reserve Bank. The acceptance holdings of member banks thus served as an effective secondary reserve in a difficult period, and helped to prevent any strain on the money market at the year-end.

Gold Movements

The net movement of $277,500,000 of gold into the United States during 1930 may be considered as the fourth of a series of great inward movements of that metal which have been features of the credit history of this country since the beginning of the World War in 1914.



The Monetary Gold Stock was increased $309,000,000 in 1930, of which $278,000,000 was imported

The first of these movements, that of 1915, 1916, and early 1917 brought $1,200,000,000 of gold to the United States, as most of the other principal commercial nations of the world partially abandoned productive enterprise for war, greatly increased their imports from this country, and paid for those imports quite largely with gold. The second and greatest inward movement began in the latter part of 1920 and continued until May 1927, with only a brief interruption during the last month of 1924, and the first six months of 1925. The tremendous inflow of gold during this period, which increased the holdings of the United States by $1,660,000,000, was due in large degree first to a lack of assurance among the peoples of the world regarding post-war European conditions, second to the fact that during much of the period the world's only important free gold market was in the United States, and third to a balance of trade generally favorable to the United States.

The movement which added $240,000,000 to the country's stock of gold during the last months of 1928 and the first ten months of 1929, sprang from a combination of circumstances including (a) reduced foreign borrowing of capital in this country, (b) the attraction of high money rates, and (c) transfers of funds from various parts of the world for participation in security speculation.

The 1930 import movement, which appears statistically as a continuation of the 1929 movement, began in January and was broken only in July and August when shipments of $65,000,000 were made to France. Net imports for the year, including earmarkings, totaled $277,500,000, and the country's gold stock, including retained domestic production, increased $309,000,000.

This latest movement may be broadly characterized as part of a movement of gold from debtor countries, raw material producing countries, outlying countries, to the creditor countries, the financial centers of the world. Although initially an important part of the gold moved was consigned to England, the chief ultimate recipients were France and the United States. These two countries which had increased their gold holdings by approximately $520,000,000 in 1929, added an additional $779,000,000 to their stocks in 1930, France taking $470,000,000 and the United States, $309,000,000. Gold flowed into the United States principally from Japan and China and from the countries of South America. Gold flowed into England, and thence into France, chiefly from Australia, Argentina, and Brazil, and from the mines of South Africa.

GOLD MOVEMENT TO AND FROM U. S. DURING 1930

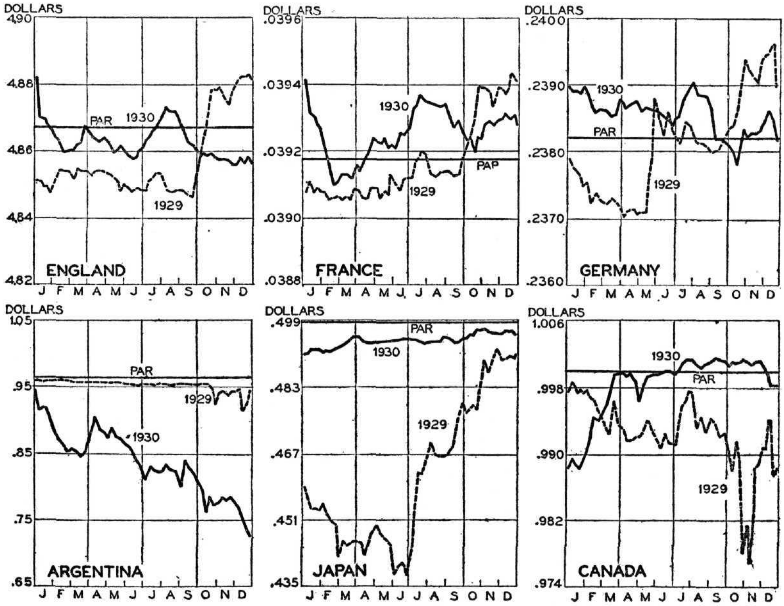
(Not including earmarking transactions)

Imports From		Exports To	
Japan	$156,600,000	France	$73,800,000
Brazil	87,800,000	Canada	36,700,000
Canada	43,600,000	Italy	3,000,000
China and Hong Kong	22,600,000	All Other	2,500,000
Mexico	20,800,000		
Argentina	20,300,000		
Colombia	9,100,000		
Uruguay	8,400,000		
Peru	6,900,000		
Venezuela	4,700,000		
All Other	15,300,000		
Total	$396,100,000	Total	$116,000,000

The causes of this large but highly concentrated movement of gold are not so easy to isolate nor to label. Imports from Japan followed the return of that country to the gold standard. But in general terms the whole movement may be ascribed to a world-wide unsettlement of commercial and financial relations which is in part a heritage of the World War and in part a consequence of more recent happenings in world affairs.

More specifically it represents the temporary embarrassment of a group of countries which, in many cases, borrowed heavily abroad during a period of relative prosperity, but which, during the subsequent period of severe business depression and reduced foreign trade, drastic declines in the prices of their principal products, and reduction or temporary destruction of their ability to borrow abroad, have had to pay in gold the service charges on previous borrowings and the balances due on current account.

The foreign exchanges have reacted to precisely those influences which precipitated the gold movements of 1930. The principal European exchanges were relatively stable, a reflection of the measure of equilibrium achieved in our relations with the countries of Europe during the year. The South American, Australian, and Far Eastern exchanges were quite uniformly weak and, in several instances, a free foreign exchange market was not maintained.



Course of foreign exchange rates at New York

Foreign Relations

During the past year the Federal Reserve Bank of New York, on behalf of itself and other Federal Reserve Banks, has maintained more or less active relations with the central banks of Australia, Austria, Belgium, Bulgaria, Colombia, Czechoslovakia, England, Finland, France, Germany, Greece, Hungary, Italy, Japan, Java, Latvia, Netherlands, Norway, Poland, Roumania, South Africa, Sweden, Switzerland, and Yugoslavia. The bank has also taken steps looking toward the growth of closer contacts with the central banks of South America. The principal new development in the foreign business of the bank during the year was the establishment on account for the Bank for International Settlements. On May 17, 1930, the account maintained with the Federal Reserve Bank by the Agent General for Reparation Payments was closed, and the funds remaining therein and the investments credited thereto were transferred to an account in the name of the Bank for International Settlements, which formally opened for business at Basle, Switzerland, on May 20, 1930.

The statutes of the Bank for International Settlements provide that initially its administration should be vested in a board of directors composed of the governors of the central banks of Belgium, France, Germany, Great Britain, Italy, Japan, and the United States of America, or their substitute nominees, and seven representatives of finance, industry, or commerce, appointed by the governors individually. In the event that any of the above named governors should be unable or unwilling to assume these duties and obligations, the statutes also provide that the governors of the other institutions named might invite two citizens of the country of the governor in question to become members of the board. In the case of the United States, the latter procedure was followed, and no officer of this bank or the System is an officer or director of the Bank for International Settlements.

The account opened for the Bank for International Settlements by this bank is of the same general nature, and subject to the same general terms and conditions as the accounts received from foreign central banks of issue. Provision is made for the investment of that institution's funds in this market in bankers acceptances and short-term United States Government securities, for earmarking of gold, and for performing the usual banking services which foreign banks require in this market, such as the safekeeping of securities, collections, payment of checks, and transfers of funds.

A unique factor does enter into relations with the Bank for International Settlements by reason of a provision in its statutes which gives to banks of issue a right of veto over the operations of the Bank for International Settlements in their respective markets, in order that they may be assured that its operations are in accord with their credit policies and conditions. To this end all of the funds of the Bank for International Settlements in a given market, in the currency of that market, are in the first instance handled through its account with the bank of issue in that market, which is thus in a position to understand the nature and volume of the operations carried out. This general rule of procedure has been followed by the Bank for International Settlements with regard to such funds as it has employed in the United States.

No new cooperative central bank credits to banks of issue for stabilization purposes were effected during 1930. The twelve months credit granted to the National Bank of Roumania in February 1929, in which the Federal Reserve System participated to the extent of $4,500,000 (agreeing to buy bills endorsed by the National Bank of Roumania up to this total amount) was, however, renewed for a second twelve months in February 1930.*

A number of the chief monetary and central banking measures of general interest which were adopted or promulgated in foreign countries during the past year are summarized in the following paragraphs:

The embargo on export of gold from Japan, which had been in effect since September 12, 1917, was removed January 11, 1930, placing that country once more on the full gold standard. The quotation of the Japanese yen in New York was below the gold export point from Japan to the United States at that time and fluctuated near the gold point during the remainder of the year. Concurrently $156,600,000 of gold flowed out of Japan to the United States in two movements, the first from January to the end of June and the second from the end of August until late November.

In Czechoslovakia the de jure stabilization of the Czechoslovak crown and its convertibility on the gold exchange standard received final legislative sanction on February 5, 1930. At par of exchange with the United States the Czechoslovak crown is now worth 2.96 cents.

The legal obligation of the Swiss National Bank to redeem its notes, which was suspended in June 1914, was again made effective in April 1930. Redemptions must now be effected, at the option of

*This credit expired in February 1931. No part of the credit was availed of at any time during the two years of its life.

the bank, in gold coin, gold bullion, or gold exchange. At the same time the bank's minimum gold reserve was fixed at 40 per cent of its note circulation, this minimum reserve to be held entirely in Switzerland.

The embargo on gold imports into Sweden, which had been in effect since March 1924, was raised in April 1930. In May 1930, the Bank of Sweden was authorized to hold 15 per cent of its gold reserve abroad and its note issue privileges were liberalized.

In Germany, with the coming into force of the New Plan on May 17, 1930, a number of changes in legislation governing the operations of the Reichsbank became effective. The chief among these changes were those relating to the retirement of foreign nationals from the general board of the bank, the conclusion of foreign supervision of note issue, and the establishment of statutory convertibility of the bank's notes in gold, gold bars, or in foreign exchange at the market value of the foreign currency in gold.

During May 1930 the Chinese National Government announced restrictions on the export of gold and prohibition of the import of silver coin, a reflection of the difficulties experienced by a silver using country when the gold price of that metal declines rapidly and substantially.

On August 1, 1930, the National Bank of Belgium announced the conditions upon which the bank would deliver gold bars for export, thus putting the gold bullion standard into actual practice in that country.

Export of gold from Argentina was resumed, under strict control and for Government account only, in October 1930. By the end of the year $20,000,000 of gold had been received in the United States from the Argentine Republic. Gold exports from Argentina had previously been effectively restrained by discontinuance of gold redemption of the country's currency at the Government Conversion Office in December 1929.

In Brazil, the Government Stabilization Office which was created by the Stabilization Act of December 18, 1926, and which issued convertible notes fully secured by gold and served as the official depository for the corresponding gold reserve, was abolished by a decree of the Provisional Government dated November 22, 1930. This decree provided for the transfer of the gold held by the Stabilization Office to the London Agency of the Brazilian Treasury. De facto stabilization of the country's currency had actually been abandoned toward the close of 1929.

Membership Changes in 1930

The number of member banks in this district continued to decline during 1930, due chiefly, as in the previous year, to mergers of member banks. Admissions of State banks and Trust companies to membership exceeded withdrawals from membership, and organizations of new National banks were more numerous than insolvencies among member banks. The number of nonmember banks in this district was reduced also, so that member banks continued to be 70 per cent numerically of all banks in the district.

NUMBER OF MEMBER* AND NONMEMBER BANKS IN SECOND FEDERAL RESERVE DISTRICT AT END OF YEAR

	December 31, 1930			December 31, 1929		
	Members*	Non-Members	Per Cent Members	Members*	Non-Members	Per Cent Members
National Banks......	759	0	100	769	0	100
State Banks**........	39	194	17	42	205	17
Trust Companies.....	116	201	37	120	199	38
Total............	914	395	70	931	404	70

*In actual operation at end of year.
**Exclusive of savings banks.

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1930

Total membership beginning of year	931
Increases:†	
National banks organized	8
Conversion of nonmember banks to National	1
Admission of State banks and Trust Companies	3
Total Increases	12
Decreases:	
Member banks combined with other members	20
Members absorbed by nonmembers	3
Withdrawals	2
Insolvencies	4
Total Decreases	29
Net decrease	17
Total membership end of year	914

†In addition to figures shown in this table, 8 nonmember banks were absorbed by members during the year. One National bank was converted to a Trust Company member.

Operating Statistics

In view of the fact that complete statistics of the operations of each Reserve Bank are published in the annual report of the Federal Reserve Board, figures in detailed form for this bank are omitted from this report, with the exception of the following statement of condition, the statement of income and disbursements, and a table showing the volume of operations in the principal departments, including the Buffalo Branch.

STATEMENT OF CONDITION

Resources	Dec. 31, 1930	Dec. 31, 1929
Cash Reserves held by this bank against its deposits and note circulation:		
Gold held by the Federal Reserve Agent as part of the collateral deposited by the bank when it obtains Federal Reserve notes. This gold is lodged partly in the vaults of the bank and partly with the Treasurer of the United States	$420,729,395.98	$238,593,918.26
Gold redemption fund in the hands of the Treasurer of the United States to be used to redeem such Federal Reserve notes as are presented to the Treasury for redemption	14,032,365.61	16,813,705.22
Gold and gold certificates in vault	437,002,717.26	339,616,539.21
Gold in the gold settlement fund lodged with the Treasurer of the United States for the purpose of settling current transactions between Federal Reserve districts	135,357,795.77	154,835,138.11
Legal tender notes, silver, and silver certificates in the vaults of the bank (available as reserve only against deposits)	39,878,345.00	50,382,220.00
Total cash reserves	$1,047,000,619.62	$800,241,520.80
Non-reserve cash consisting largely of National bank notes, and minor coin	$22,285,136.09	$12,946,493.58
Loans and Investments:		
Loans to member banks:		
On the security of obligations of the United States	$24,441,400.00	$127,012,250.00
On the security of, or by the discount of, commercial or agricultural paper or acceptances	37,456,625.51	44,746,515.44
Acceptances bought in the open market	158,273,425.84	191,745,088.72
United States Government bonds, notes, bills, and certificates of indebtedness	283,331,150.00	239,205,400.00
Other securities	2,850,000.00	7,150,000.00
Total loans and investments	$506,352,601.35	$609,859,254.16
Miscellaneous Resources:		
Bank premises	$ 15,240,285.33	$ 15,663,777.65
Checks and other items in process of collection	190,455,756.71	220,003,280.94
All other miscellaneous resources	8,846,358.85	3,500,931.32
Total miscellaneous resources	$214,542,400.89	$239,167,989.91
Total resources	$1,790,180,757.95	$1,662,215,258.45

Liabilities	Dec. 31, 1930	Dec. 31, 1929
Currency in Circulation:		
Federal Reserve notes in actual circulation, payable on demand. These notes are secured in full by gold, and discounted and purchased paper	$384,976,316.50	$318,970,747.00
Federal Reserve notes in circulation	$384,976,316.50	$318,970,747.00
Deposits:		
Reserve deposits maintained by member banks as legal reserves against the deposits of their customers	$1,062,275,925.90	$985,790,644.26
United States Government deposits carried at the Reserve Bank for current requirements of the Treasury	4,113,369.64	5,851,460.29
Other deposits including foreign deposits, deposits of nonmember banks, etc	11,457,835.85	12,727,457.81
Total deposits	$1,077,847,131.39	$1,004,369,562.36
Miscellaneous Liabilities:		
Deferred items, composed mostly of uncollected checks on banks in all parts of the country. Such items are credited as deposits after the average time needed to collect them elapses, ranging from 1 to 7 days	$178,876,833.55	$187,720,689.22
All other miscellaneous liabilities	2,327,407.16	3,851,995.58
Total miscellaneous liabilities	$181,204,240.71	$191,572,684.80
Capital and Surplus:		
Capital paid in, equal to 3 per cent of the capital and surplus of member banks	$65,577,650.00	$67,301,450.00
Surplus—That portion of accumulated net earnings which the bank is legally required to retain	80,575,419.35	80,000,814.29
Total capital and surplus	$146,153,069.35	$147,302,264.29
Total liabilities	$1,790,180,757.95	$1,662,215,258.45

INCOME AND DISBURSEMENTS

The table on page 28 shows income and disbursements for the year 1930 compared with 1929. Total earnings in 1930 were about $9,000,000 less than in 1929, due to a considerable reduction in the volume of loans and investments, and to the lower level of interest rates in 1930. Both the amount of loans to member banks and the rates of discount on such loans were much lower than in 1929, and, although acceptance holdings showed little change, the income from these holdings was reduced because of the unusually low level of acceptance rates. These declines were partly offset by larger earnings from U. S. Government securities, due to an increase in the amount of securities held.

Operating expenses showed no material change from those of 1929, but the cost of new currency was reduced from the unusual amount in 1929, which had been caused by the printing of the new small sized notes to replace the larger currency formerly in use. Dividend requirements were somewhat larger than in 1929, due to a larger average amount of paid-in capital, contrary to the indication of the year-end figures in the preceding table, which were affected in 1929 by temporary adjustments incident to the merger of New York City banks.

The 1930 net income was considerably less than half that of 1929, but was sufficient to cover the 6 per cent dividend, with a margin of $574,605 which was added to surplus.

	1930	1929
EARNINGS:		
From loans to member banks and paper discounted for them	$1,910,378.30	$12,492,641.58
From bankers acceptances	1,917,936.89	3,522,642.34
From United States Government obligations	5,895,424.92	2,459,162.69
Other earnings	669,448.33	839,832.62
Total earnings	$10,393,188.44	$19,314,279.23
ADDITIONS TO EARNINGS:		
For sundry additions to earnings, including income from Annex Building	$1,647,494.18	$546,927.82
DEDUCTIONS FROM EARNINGS:		
For current bank operation. (These figures include most of the expenses incurred as fiscal agent of the United States)	$6,383,786.46	$6,313,909.95
For Federal Reserve currency, mainly the cost of printing new notes to replace worn notes in circulation, and to maintain supplies unissued and on hand, and the cost of redemption	442,777.54	738,555.41
For depreciation, self-insurance, other reserves, losses, etc	625,734.79	545,518.11
Total deductions from earnings	$7,452,298.79	$7,597,983.47
Net income available for dividends, additions to surplus, and payment to the United States Government	$4,588,383.83	$12,263,223.58
DISTRIBUTION OF NET INCOME:		
In dividends paid to member banks, at the rate of 6 per cent on paid-in capital	$4,013,778.77	$3,544,314.09
In additions to surplus—The bank is required by law to accumulate out of net earnings, after payment of dividends, a surplus amounting to 100 per cent of the subscribed capital; and after such surplus has been accumulated to pay into surplus each year 10 per cent of the net income remaining after paying dividends	574,605.06	8,718,909.49
Any net income remaining after paying dividends and making additions to surplus (as above) is paid to the United States Government as a franchise tax. No balance remained for such payments in 1930 or 1929.	....	....
Total net income distributed	$4,588,383.83	$12,263,223.58

VOLUME OF OPERATIONS

The following table shows that in general the volume of operations in the principal departments of the bank decreased slightly during the year 1930, contrary to the tendency of previous years.

	1930	1929
Number of Pieces Handled		
Bills discounted:		
Applications	14,002	20,151
Notes discounted	44,841	49,705
Bills purchased in open market for own account	96,173	94,335
Currency received and counted	730,751,000	709,940,000
Coin received and counted	1,520,441,000	1,574,002,000
Checks handled	187,951,000	190,373,000
Collection items handled:		
United States Government coupons paid	5,310,000	5,567,000
All other	2,531,000	2,600,000
United States securities—issues, redemptions, and exchanges by fiscal agency department	516,000	514,000
Transfers of funds	412,000	445,000
Amounts Handled		
Bills discounted	$5,713,832,000	$23,602,022,000
Bills purchased in open market for own account	2,024,458,000	1,999,130,000
Currency received and counted	4,949,160,000	5,285,713,000
Coin received and counted	261,586,000	238,003,000*
Checks handled	142,165,873,000	156,641,846,000
Collection items handled:		
United States Government coupons paid	233,820,000	237,610,000
All other	2,862,311,000	2,690,034,000
United States securities—issues, redemptions, and exchanges by fiscal agency department	4,165,601,000	3,155,408,000
Transfers of funds	73,520,472,000	67,426,244,000

*Revised.

Changes in Directors and Officers

On February 27, 1930, Gates W. McGarrah, Class C director, Chairman of the Board of Directors, and Federal Reserve Agent, resigned to accept an appointment as an American Director of the Bank for International Settlements.

On the same date, J. Herbert Case, formerly Deputy Governor, was appointed by the Federal Reserve Board, as Class C director, and designated Chairman of the Board of Directors, and Federal Reserve Agent, to fill the unexpired term of Mr. McGarrah.

At a regular election in the fall of 1930, David C. Warner, President of the Endicott Trust Company, Endicott, New York, was elected by the member banks in Group 3 as a Class A director, for a term of three years, beginning January 1, 1931, to succeed Delmer Runkle of Hoosick Falls, New York, whose term expired December 31, 1930.

Samuel W. Reyburn, President of the Associated Dry Goods Corporation of New York, was reelected by the member banks in Group 3 as a Class B director to serve for a term of three years, beginning January 1, 1931.

The Federal Reserve Board reappointed Clarence M. Woolley, Chairman, American Radiator and Standard Sanitary Corporation, as Class C director for a term of three years from January 1, 1931.

The Federal Reserve Board redesignated J. Herbert Case as Chairman of the Board of Directors and Federal Reserve Agent for the year 1931, and reappointed Owen D. Young, Deputy Chairman of the Board of Directors for the year 1931.

The Federal Reserve Board appointed Edward G. Miner, President of the Pfaudler Company, Rochester, New York, as a director of the Buffalo Branch for a term of three years from January 1, 1931, to succeed Arthur G. Hough, of Batavia, New York, whose term as director expired December 31, 1930.

The Board of Directors of this bank reappointed George F. Rand, President, Marine Trust Company, Buffalo, New York, as a director of the Buffalo Branch for a term of three years, beginning January 1, 1931.

The Board of Directors of this bank reappointed Robert M. O'Hara, as Managing Director of the Buffalo Branch.

MEMBER OF FEDERAL ADVISORY COUNCIL

At a meeting on January 15, 1931, the Board of Directors of this bank designated Robert H. Treman, President of The Tompkins County National Bank, Ithaca, New York, to serve as the member of the Federal Advisory Council from the Second Federal Reserve District for the year 1931, to succeed William C. Potter, President of the Guaranty Trust Company, New York, whose term expired December 31, 1930.

CHANGES IN OFFICERS AND STAFF

On March 1, Allan Sproul, formerly Assistant Federal Reserve Agent and Secretary of the Federal Reserve Bank of San Francisco, was appointed Assistant Deputy Governor and Secretary.

On May 1, W. Randolph Burgess, formerly Assistant Federal Reserve Agent, was appointed Deputy Governor.

On June 1, E. O. Douglas was appointed Manager of the Foreign Department, and W. A. Scott, formerly Manager of the Foreign Department, was appointed Manager of the Government Bond and Safekeeping Department.

On July 21, Theodore M. Crisp was appointed Assistant Counsel of the bank.

DIRECTORS AND OFFICERS

January 1, 1931

DIRECTORS

Class	*Group*		*Term Expires Dec. 31*
A	1	CHARLES E. MITCHELL, New York City Chairman, National City Bank of New York	1931
A	2	THOMAS W. STEPHENS, Montclair, N. J. President, Bank of Montclair	1932
A	3	DAVID C. WARNER, Endicott, N. Y. President, Endicott Trust Company	1933
B	1	WILLIAM H. WOODIN, New York City President, American Car & Foundry Company	1931
B	2	THEODORE F. WHITMARSH, New York City Chairman, Francis H. Leggett & Company	1932
B	3	SAMUEL W. REYBURN, New York City President, Associated Dry Goods Corporation of New York	1933
C		J. HERBERT CASE, New York City, *Chairman*	1931
C		OWEN D. YOUNG, New York City, *Deputy Chairman* Chairman, General Electric Company	1932
C		CLARENCE M. WOOLLEY, Greenwich, Conn. Chairman, American Radiator and Standard Sanitary Corporation	1933

MEMBER OF FEDERAL ADVISORY COUNCIL

ROBERT H. TREMAN
President, The Tompkins County National Bank, Ithaca, N. Y.

OFFICERS OF FEDERAL RESERVE AGENT'S FUNCTION

J. HERBERT CASE, *Federal Reserve Agent*

WILLIAM H. DILLISTIN, *Assistant Federal Reserve Agent*

HERBERT S. DOWNS, *Assistant Federal Reserve Agent and Manager, Bank Relations Department*

HAROLD V. ROELSE, *Manager, Reports Department and Assistant Secretary*

CARL SNYDER, *General Statistician*

EDWARD L. DODGE, *General Auditor*

GEORGE W. FERGUSON, *Assistant General Auditor*

GENERAL OFFICERS

George L. Harrison, *Governor*

W. Randolph Burgess, *Deputy Governor*

Jay E. Crane, *Deputy Governor*

Arthur W. Gilbart, *Deputy Governor*

Edwin R. Kenzel, *Deputy Governor*

Walter S. Logan, *Deputy Governor and General Counsel*

Leslie R. Rounds, *Deputy Governor*

Louis F. Sailer, *Deputy Governor*

Charles H. Coe,
Assistant Deputy Governor

Ray M. Gidney,
Assistant Deputy Governor

J. Wilson Jones,
Assistant Deputy Governor

Walter B. Matteson,
Assistant Deputy Governor

James M. Rice,
Assistant Deputy Governor

Allan Sproul, *Assistant Deputy Governor and Secretary*

JUNIOR OFFICERS

Dudley H. Barrows,
Manager, Administration Department

Wesley W. Burt,
Manager, Accounting Department

Theodore M. Crisp,
Assistant Counsel

Edward O. Douglas,
Manager, Foreign Department

Edwin C. French,
Manager, Cash Department

Robert F. McMurray,
Manager, Collection Department

Jacques A. Mitchell,
Manager, Loan and Discount Dept.

Robert M. Morgan,
Manager, Bill Department

William A. Scott,
Manager, Government Bond and Safe-keeping Department

I. Ward Waters,
Manager, Check Department

BUFFALO BRANCH

DIRECTORS

DIRECTORS	*Term Expires Dec. 31*
Frederick B. Cooley, Buffalo President, New York Car Wheel Company	1932
Lewis G. Harriman, Buffalo President, M & T Trust Company	1932
George G. Kleindinst, Buffalo President, Liberty Bank of Buffalo	1931
Edward G. Miner, Rochester President, Pfaudler Company	1933
George F. Rand, Buffalo President, Marine Trust Company	1933
John T. Symes, Lockport President, Niagara County National Bank and Trust Company	1931
Robert M. O'Hara, *Managing Director*	1931

OFFICERS

Robert M. O'Hara,
Managing Director

R. B. Wiltse,
Assistant Manager

Halsey W. Snow, Jr.,
Cashier

Clifford L. Blakeslee,
Assistant Cashier