Nineteenth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1933

Federal Reserve Agent

Second Federal Reserve District

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FEDERAL RESERVE BANK OF NEW YORK

New York, March 22, 1934

SIRS:

I have the honor to submit herewith the nineteenth annual report of the Federal Reserve Bank of New York, covering the year 1933.

Respectfully yours,

J. HERBERT CASE,
Chairman and Federal Reserve Agent.

FEDERAL RESERVE BOARD,
Washington, D. C.

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The Banking Situation in 1933

The year 1933 brought to a dramatic climax the banking troubles of recent years, followed by a rapid reconstruction of the country's banking system upon a sounder basis. When the year opened the banking situation had the appearance of being better than a year previous in this district and in other parts of the country, as bank suspensions for several months had been less numerous than a year before, member bank indebtedness at the Reserve Banks had been largely paid off, and a considerable amount of excess bank reserves had accumulated in New York and other large centers, but before many weeks passed there was a new outbreak of banking troubles in important centers which spread rapidly.

In a final effort to prevent numerous bank closings and the attendant serious effects on the communities involved, attempts were made by local or State governments in other districts to relieve the pressure on the banks by limiting repayments of deposits. The first State-wide effort to meet the situation in this manner was in Michigan, where a bank holiday was declared, effective February 14. It soon became apparent, however, that this action instead of restoring confidence proved disturbing, not only in the communities affected, but also in surrounding areas. The result was a rapidly spreading movement on the part of depositors to withdraw their deposits in cash before restrictions were imposed by the institutions in which their funds were deposited. This movement forced bank holidays or drastic restrictions on the payment of deposits in one State after another, and ended in a general run on the banks and a banking crisis.

When bank holidays were declared in other States, the large New York banks were subjected almost at once to heavy demands for funds, first by industries needing funds for payrolls in the localities in which bank operations were restricted, then by banks in adjacent areas, and finally by their own customers. Nearly \$725,000,000 was withdrawn from the New York banks by other institutions throughout the country in the three weeks between February 12 and March 3, and although there was a partly offsetting movement of other funds to New York, a net loss of over

$400,000,000 to other localities resulted. In addition, the amount of currency required by the New York banks to meet the demands of their customers, including other banking institutions as well as individual depositors and corporations, totaled $545,000,000 during this period. These banks also bore the brunt of heavy withdrawals of foreign funds from this country, which were reflected in large earmarkings and exports of gold at New York. The principal losses of funds sustained by the New York banks on each day of this period are shown in the following table.

(In millions of dollars)

1933	Net loss of funds through transfers*	Net currency payments (—) or receipts (+)	Net gold exports and earmarks	Total
Feb. 14	— 22	— 12	— 11	— 45
Feb. 15	— 44	— 9	+ 2**	— 51
Feb. 16	— 8	— 17	— 8	— 33
Feb. 17	— 3	— 8	— 10	— 21
Feb. 18	— 14	— 3	— 12	— 29
Feb. 20	— 11	— 1	— 10	— 22
Feb. 21	— 23	+ 1	— 13	— 35
Feb. 23	— 8	— 17	— 18	— 43
Feb. 24	— 18	— 20	— 17	— 55
Feb. 25	— 28	— 15	— 14	— 57
Feb. 27	— 46	— 75	— 14	— 135
Feb. 28	— 13	— 62	— 17	— 92
Mar. 1	— 25	— 51	— 36	— 112
Mar. 2	— 53	— 80	— 23	— 156
Mar. 3	— 87	—176	— 78	— 341
Total	—403	—545	—279	—1,227

*Exclusive of Treasury transactions.
**Net import.

These demands on the New York banks reflected conditions throughout the country, and although as the banking crisis reached its climax, and restrictions on payments became more widespread, there were fewer and fewer localities in which deposits could be converted into cash, the withdrawals of currency from the Reserve Banks accumulated with great rapidity and reached a volume far beyond anything ever experienced previously within a similar period. In three weeks the amount was more than four times the total seasonal demand for currency between the end of July and Christmas in a prosperous year. The daily net payments of currency by the Federal Reserve Banks are shown in the following table, together with the weekly data on the amounts of gold coin and gold certificates paid to domestic banks or individuals and included in the currency payments. Reference to the preceding table will indicate that foreign takings of gold during this period were not quite as large as domestic hoarding of gold.

(Approximate figures in millions of dollars)

	Total money paid out		Gold coin and certificates*	
	Second District	All Reserve Districts	Second District	All Reserve Districts
Feb. 9	6	10	....	....
Feb. 10	4	11	....	....
Feb. 11	5	6	....	....
Feb. 13	0	1	....	....
Feb. 14	17	73	....	....
Feb. 15	12	48	....	....
Total for week	44	149	7	17
Feb. 16	18	62	....	....
Feb. 17	8	33	....	....
Feb. 18	3	11	....	....
Feb. 20	1	19	....	....
Feb. 21	—3**	9	....	....
Total for week	27	134	14	22
Feb. 23	17	56	....	....
Feb. 24	19	59	....	....
Feb. 25	14	57	....	....
Feb. 27	80	190	....	....
Feb. 28	84	200	....	....
Mar. 1	55	170	....	....
Total for week	269	732	68	124
Mar. 2	98	240	....	....
Mar. 3	183	455	....	....
Mar. 4	—1**	70†	....	....
Total for 3 days	280	765	118	150
Total Feb. 9 to Mar. 4	620	1,780	207	313

*Domestic payments which are included in total money paid out.
**Net receipts; no payments made in Second District on March 4.
†Banks in most States closed.

At the close of March 3 it became apparent that it would not be in the public interest to attempt further to meet the situation by continuing to pay out deposits in cash, as the outflow was accelerating rapidly instead of diminishing, and the cash resources and liquid assets of the banks were being dissipated at an increasing rate. On March 4, New York State and most of the other States which previously had not done so declared bank holidays or otherwise materially restricted the repayment of deposits, and on March 6 the suspension of banking activities was made complete by the declaration of a national holiday by President Roosevelt. The President's Proclamation prohibited all payments of gold and other currency which might facilitate hoarding, and all other banking operations except as authorized by the Secretary of the Treasury, during the period of the bank holiday.

Banking Reconstruction

The problem then became one of rebuilding the banking structure on a firm foundation, as it was clear that it would be disastrous to attempt the reopening of the banks except under conditions in which they would have the confidence of the public. In preparation for the reopening of the banks the so-called "Emergency Banking Act" was passed by Congress on March 9, in response to a special message from the President. In its various sections this Act provided, among other things, that the Secretary of the Treasury might require the delivery of any and all gold coin, gold bullion, and gold certificates to the Treasurer of the United States; that whenever necessary to conserve the assets of a National bank the Comptroller of the Currency might appoint a conservator to take charge of the bank; that National banks might issue preferred stock, which might be offered for subscription to the Reconstruction Finance Corporation; and that during the period of the emergency Federal Reserve Banks might issue circulating notes (Federal Reserve Bank notes) secured by any direct obligations of the United States or any notes, drafts, bills of exchange, or bankers acceptances acquired under the provisions of the Federal Reserve Act.

An Executive Order was then issued by the President on March 10 which provided for the licensing of banks upon approval by the Secretary of the Treasury, and also restricted transactions in foreign exchange and gold. On March 12 the President announced to the people of the United States that only such banks as were found to be in sound condition would be permitted to reopen, and that steps would be taken to reorganize and strengthen banks which could not at once be reopened.

During the bank holiday the condition of every member bank in this district, as revealed by examination reports and condition statements, was reviewed by this bank and by National or State examining authorities, and the Secretary of the Treasury issued licenses to banks which were found to be in such condition that they might safely be reopened immediately. Simultaneous reviews of banks in other districts were made by the other Reserve Banks and by examining authorities. On March 13 the banks in the largest centers were reopened under license, and on the next day banks in other clearing house centers were reopened, followed on March 15 by banks in all other localities. At the close of business on March 29 approximately 80 per cent of all member banks, having in the aggregate 90 per cent of the total deposits of all members banks, had been licensed to resume full operations. In this district 81 per cent of the member banks, with 97 per cent of the total deposits, were licensed promptly after the bank holiday. The remaining National banks which did not receive licenses were placed in the hands of conservators, and the State banks were placed under restrictions, where possible under the State banking laws, or were taken over by State banking departments for liquidation.

Work was at once begun on the task of rehabilitating or liquidating unlicensed banks. The officers of the Federal Reserve Bank of New York endeavored to aid the National and State supervisory authorities as far as possible in the work of preparing unlicensed banks for reopening. In every case where it appeared that with adequate strengthening of its capital or a sufficient reduction in its liabilities, a bank would serve a useful purpose in its community and would stand a reasonable chance of succeeding in the future, efforts were directed toward the reopening of the bank as promptly as possible.

The first attempt of supervisory authorities was to obtain additional capital from directors and stockholders of banks, so that the deposits would be amply covered. In many cases, however, it was not found possible to obtain sufficient funds in this way and it became necessary for the management of the banks to work out an agreement with the depositors, whereby the depositors would agree to a reduction in the amount of their deposits which would be immediately available, provided they received a claim prior to that of stockholders on any additional amounts recovered from the assets of the banks. In other cases new banks were organized to succeed unlicensed banks, which were then placed in liquidation. Some of the banks were able to qualify for licenses fairly promptly, but in many cases the reorganizations took considerable time so that several months elapsed before the banks could be reopened. Of the 177 banks that were

Number of additional banks in Second Federal Reserve District licensed or succeeded by new banks

1933	Members	Nonmembers	Total
April	10	4	14
May	15	2	17
June	11	1	12
July	4	0	4
August	5	1	6
September	5	1	6
October	5	0	5
November	6	0	6
December	15	1	16
Total	76	10	86

unlicensed at the end of March, 86 were licensed or were succeeded by other banks by the end of the year, as the accompanying table shows. Some of the remaining banks were placed in liquidation, but a considerable number were in process of reorganization at the close of the year.

At the end of 1933 there were 1,071 commercial banks licensed to conduct full operations in this district, as compared with 1,414 banks in operation at the high point at the end of 1927. In the country as a whole the total number of licensed banks of all kinds at the end of 1933 was under 15,000, or less than half the number in operation at the high point in 1921.

While a part of the reduction in the number of active banks has been due to mergers, a much larger part has been due to bank failures. In this district there were few failures until the end of 1929, but since that time 176 banks, or about 13 per cent of all commercial banks have been placed in receivership, and in addition there were 56 banks still unlicensed on December 31, 1933. For the country as a whole the rate of bank suspensions

Year	Second Federal Reserve District				Total for United States			
	Number of Suspensions		Per cent of Suspensions to Banks in Operation		Number of Suspensions		Per cent of Suspensions to Banks in Operation	
	Member	Non-member	Member	Non-member	Member	Non-member	Member	Non-member
1915	0	1	0.00%	0.16%	20	132	0.26%	0.70%
1916	0	1	0.00	0.16	9	43	0.12	0.22
1917	0	2	0.00	0.30	3	46	0.04	0.23
1918	0	0	0.00	0.00	3	44	0.04	0.22
1919	0	0	0.00	0.00	3	59	0.03	0.30
1920	0	0	0.00	0.00	21	146	0.22	0.71
1921	1	5	0.13	0.81	71	434	0.73	2.09
1922	3	0	0.38	0.00	62	305	0.63	1.50
1923	0	4	0.00	0.63	122	524	1.24	2.62
1924	1	5	0.12	0.78	160	615	1.64	3.12
1925	0	0	0.00	0.00	146	472	1.52	2.46
1926	0	0	0.00	0.00	158	818	1.67	4.36
1927	0	2	0.00	0.29	122	547	1.32	3.02
1928	0	3	0.00	0.45	73	426	0.81	2.45
1929	0	6	0.00	0.92	81	578	0.92	3.45
1930	4	7	0.43	1.09	188	1,164	2.21	7.23
1931	44	36	4.81	5.81	516	1,778	6.41	12.08
1932	11	3	1.31	0.54	331	1,125	4.57	8.84
1933*	45†	26‡	5.44	4.83	613	1,170	8.99	10.11

*Includes banks placed in liquidation or receivership, licensed banks placed on a restricted basis, and nonlicensed banks absorbed or succeeded by other banks. In addition there were 56 banks in the Second District and 1,905 banks in the entire country unlicensed at the end of 1933, many of which were in process of reorganization.

†Includes 14 unlicensed member banks which were succeeded or absorbed by other member banks.

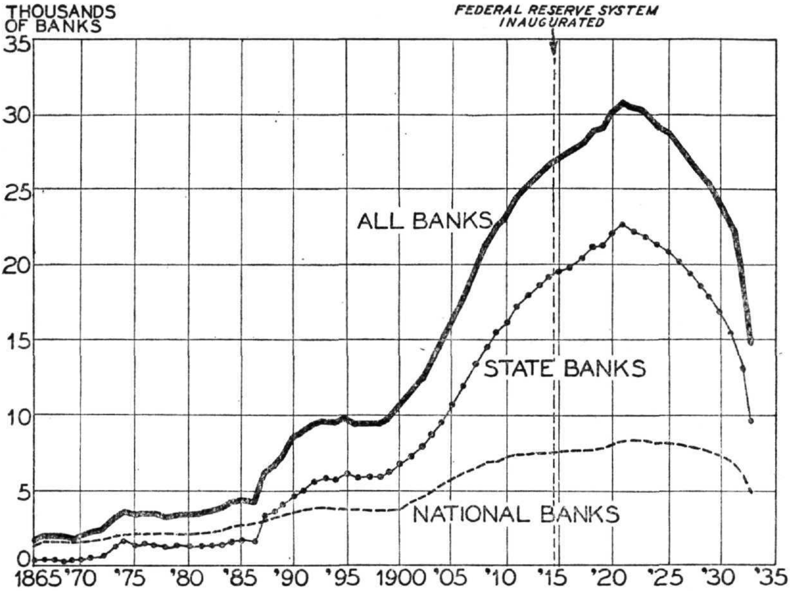
‡Includes 7 nonmember banks which were subsequently reopened.

has been much higher; since 1921 the number of bank suspensions has been equal to more than 40 per cent of the number of banks in operation in that year.

The immediate cause of this extraordinary record of bank failures during recent years undoubtedly was the most severe business depression in the history of this country, one phase of which was a violent fall in commodity prices and the most drastic decline in property and security values within the past century. These conditions inevitably caused a depreciation in the nominal or market value of bank assets without a proportionate reduction in deposit liabilities. It must be recognized, however, that the more severe stages of the depression and collapse in values since 1929 have been accentuated by the high rate of bank failures and the accompanying liquidation of bank assets, and that the banking structure of this country had serious weaknesses that made it especially vulnerable.

These weaknesses in many cases have had their roots in the divided responsibility for the chartering and regulation of banks in this country. The parallel development of State and National banking systems led especially to laxity in the chartering of new institutions, so that far too many banks came into being during the prosperous years. Between the late '90's and 1921 the total number of banks in the United States increased from less than 10,000 to more than 30,000. The greatest expansion was in institutions operating under State charters, which increased from about 6,000 to over 22,000 during this period, but there was also an increase in the number of National banks from less than 4,000 to about 8,000. As the diagram on the next page shows, this expansion in National banks occurred largely before 1914, when the Federal Reserve System was organized, while the expansion in the number of State banks continued for several years afterward.

In this district the chartering of new banks was not nearly as rapid as for the country as a whole, and as the preceding data have indicated the proportionate number of banks closed in recent years has been considerably less. Data on the number of banks in operation are not available for the entire district back of 1914, when district lines were established, but are available back to 1900 for New York State which constitutes the greater part of the district. The total number of banks in the State increased from 737 in 1900 to 957 in 1914 and to 1,151 at the high point in 1927, an increase for the entire period of about 56 per cent, as compared with an increase of more than 200 per cent for



Number of Banks in Operation in the United States on June 30, each year (Latest figures are for June 1933 and exclude unlicensed banks)

the United States as a whole. National banks in New York State had their most rapid increase before the Federal Reserve System was created, while banks operating under the jurisdiction of the State Banking Department had their principal growth between 1914 and 1926. Even though the chartering of new banks did not proceed as rapidly in this district as in other parts of the country, it was true nevertheless that a number of communities became overbanked, and many banks were created which did not have an adequate chance of success.

The Banking Act of 1933 contained numerous provisions designed to eliminate or prevent the recurrence of weaknesses in the banking structure of this country. One section, which provided for the insurance of bank deposits, tended to expedite the work of strengthening the banking system, as it required nonmember banks to qualify for admission to the benefits of the plan by the end of the year. It created a Federal Deposit Insurance Corporation, and directed the Corporation to establish by January 1, 1934, a Temporary Fund for the purpose of establishing a limited insurance of deposits, and to set up a permanent plan for the insurance of deposits on a more extensive scale by July 1, 1934. Under the Temporary Fund the Corporation is required in the event of the closing of a member of the Fund to pay "not more than $2,500 on account of the net approved claim of the owner of any deposit."

In order to provide funds for the Corporation, $150,000,000 was appropriated to cover payment by the Secretary of the Treasury for capital stock of the Corporation; the Reserve Banks were required to subscribe to Class B stock in an amount equal to one-half of their surplus on January 1, 1933 (amounting in the aggregate to approximately $140,000,000); and every member bank and nonmember bank admitted to the benefits of the Permanent Fund was required to subscribe to Class A stock of the Corporation in an amount equal to ½ of 1 per cent of its total deposits. For participation in the Temporary Fund, the banks were required to pay to the Corporation amounts equal to ½ of 1 per cent of the deposits to be insured.

All member banks of the Reserve System were required to become members of the Temporary Fund on or before January 1, 1934, and provision was made for the admission of nonmember banks after certification as to their solvency by State supervisory authorities and examination and approval by the Corporation. This hastened the work of strengthening the banks, as it was found advisable in many cases for the nonmember banks to sell preferred stock or capital notes to the Reconstruction Finance Corporation in order to enable them to enter the Fund in strong condition. The work of examination and negotiation for capital aid took considerable time, and the task of preparing the great number of nonmember banks for the insurance of their deposits was a formidable one. The Federal Reserve Banks cooperated in every way possible with the Federal Deposit Insurance Corporation, the State examining authorities, and the Reconstruction Finance Corporation in the work of examining nonmembers and enabling them to qualify, and this cooperation between the various agencies, aided by a coordinating agency in the Treasury Department, resulted in the admission of most of the nonmember banks as well as all member banks to the benefits of the temporary deposit insurance fund on January 1, 1934. In the Second Federal Reserve District nearly all of the banks were able to qualify for admission to the Fund by that date.

In this district the condition of member banks also was reviewed and many banks were assisted in rearranging their capital structures and in preparing to obtain additional capital funds through the sale of preferred stock or capital notes to the Reconstruction Finance Corporation. A number of the strongest banks in the district supported this movement by selling preferred stock or capital notes to the Corporation.

The provisions governing membership in the Federal Deposit Insurance Corporation have tended to accentuate a movement, which had already been quite marked since the bank holiday, toward increased membership in the Federal Reserve System. The experiences of the banks during the past few years led many of the nonmember institutions to consider seriously the advantages of membership in the Federal Reserve System, and in New York State this movement was accelerated during the past year when the State Superintendent of Banks strongly urged all nonmember banks to apply for membership in the System. As a result, an unusual number of inquiries concerning membership in the System were received by the Federal Reserve Bank of New York during 1933. In all cases the banks were advised concerning the steps which would probably be necessary to enable them to qualify for membership, and those banks which appeared to be in satisfactory condition were advised to file formal applications, which were then forwarded to the Federal Reserve Board. Owing to the high standards required for membership in the Federal Reserve System, a considerable number of nonmember banks that considered membership were unable or unwilling to meet the conditions imposed, but, nevertheless, the number of banks admitted to membership in this district was the largest in many years. The details of changes in membership in the Federal Reserve System in this district during the past year are summarized on page 34 of this report.

Another provision of the Banking Act of 1933 prohibited the payment of interest on demand deposits by member banks, and authorized the Federal Reserve Board to regulate the amount of interest which could be paid on time deposits by member banks. The elimination of interest payments on demand deposits became effective immediately upon the passage of the Act on June 16, and on August 29 the Federal Reserve Board approved a regulation which defined the various types of deposits, and prohibited member banks from paying more than 3 per cent per annum, compounded semi-annually, on time deposits after November 1, 1933. These provisions made it possible to prevent the payment of such high interest rates as to cause banks to employ their funds in ways which sacrifice safety to high rates of income. It also enabled the banks to retain a larger part of their gross earnings, so that they can accumulate reserves with which to meet unavoidable depreciation of assets. While this measure reduced the income received by depositors, it also tended to protect their interest by increasing the safety of their funds.

The Strengthening of Bank Reserves

Coincident with the substantial progress that has been made since the bank holiday in the direction of eliminating weaknesses in the banking system, there were two factors tending to produce greater liquidity in the banks and to enlarge the base on which they could extend additional credit. These factors were, first, the heavy return flow of hoarded currency to the banks which started immediately after the bank holiday and continued in diminishing volume until autumn, and, second, renewed purchases of Government securities on a large scale by the Federal Reserve Banks. At the time of the bank holiday the indebtedness of member banks at the Reserve Banks rose to nearly $775,000,000 in the Second District and to more than $1,400,000,000 for the country as a whole, in both cases the highest levels since 1921. By the end of the year the indebtedness of member banks had been reduced to a little over $100,000,000 for the entire country, and excess reserves amounting to more than $800,000,000 had accumulated in member banks. The factors which were responsible for this extraordinary change in the reserve position of the banks between March 8 and December 27 are summarized in the following table.

	(Millions of dollars)
Reserve funds obtained through	
Redeposits of currency (net)	1,714
F. R. Bank purchases of U. S. securities	551
Increase in U. S. monetary gold stock	80
Increase in Treasury currency outstanding	76
Miscellaneous sources	87
Total	2,508
Reserve funds used for	
Retirement of discounts at F. R. Banks	1,303
Reduction in acceptances held by F. R. Banks	306
Total	1,609
Amount added to member bank reserves	899

The total volume of currency outstanding outside of the Treasury and the Federal Reserve Banks, which had risen in March to the unprecedented amount of more than $7,500,000,000, declined by the end of August to about $5,600,000,000 as the result of redeposits of hoarded currency, and thereafter showed only a moderate seasonal increase. In this district the return flow of hoarded currency to the banks from March to August is estimated at more than $600,000,000.

Included in this return flow of currency was a substantial amount of gold coin and gold certificates. Between March 4 and the middle of May over $300,000,000 of gold coin and about $500,000,000 of gold certificates were returned to the Reserve Banks—much larger amounts than were withdrawn during the banking crisis—so that the volume of gold coin and gold certificates outstanding declined to the lowest levels in many years. Under the President's Executive Order of April 5 holders of gold coin, gold bullion, and gold certificates were required to deliver their holdings to the Reserve Banks. This return flow of gold not only increased member bank reserves, but strengthened the reserve position of Federal Reserve Banks as well.

The Reserve Banks' purchases of $551,000,000 of Government securities between the early part of March and the middle of November, following purchases of more than $1,000,000,000 in 1932, carried the Government security holdings of the System to a far higher level than at any previous time. The total holdings at the end of 1933 were over $2,400,000,000, of which about one-third was held by the Federal Reserve Bank of New York. In this way the Reserve Banks contributed substantially to the excess reserves of member banks, on the basis of which additional bank credit can be extended as required.

Distribution of Excess Reserves

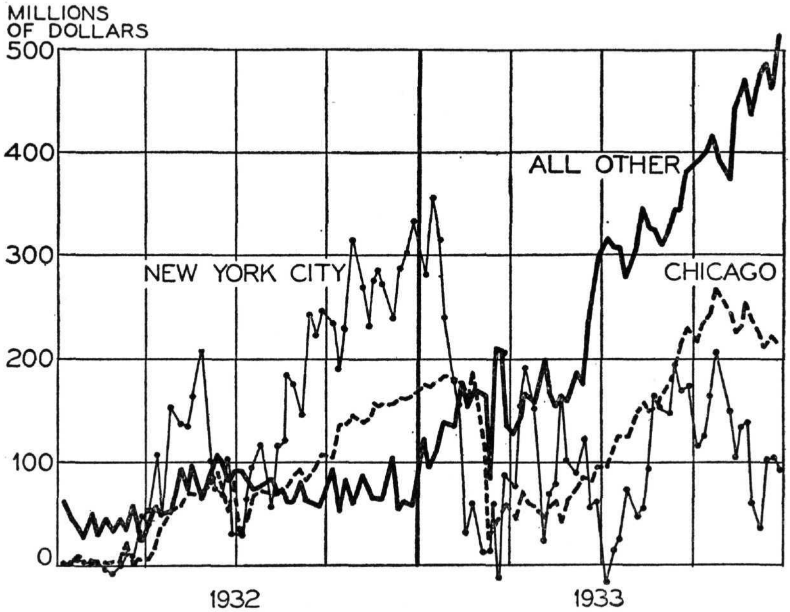
Contrary to the situation in 1932, when excess member bank reserves accumulated largely in New York and other principal cities, in 1933 excess funds were widely scattered among banks in all parts of the country. A survey of the reserve position of all member banks in this district as of November 1933, indicated that relatively more of the smaller banks than of the large city banks had high percentages of excess reserves. Only a few of the banks with more than $50,000,000 of deposits had more than 20 per cent of excess reserves, whereas over half of the banks with less than $5,000,000 of deposits had more than 20 per cent of excess reserves, and at least a quarter of these banks had more than 50 per cent excess. A summary of the result of this survey for the Second District is shown in the following table.

Excess reserves in per cent of required reserves	Number of banks grouped by amount of deposits			
	Under $5,000,000	$5,000,000 to $50,000,000	Over $50,000,000	Total
No excess	28	2	0	30
0 to 10	167	47	9	223
10 to 20	109	12	6	127
20 to 30	75	7	1	83
30 to 40	55	6	0	61
40 to 50	37	4	2	43
50 to 100	83	3	0	86
100 to 200	53	3	1	57
Over 200	24	0	0	24
Total	631	84	19	734

There are two principal influences which tended to produce the wide distribution of excess reserves; the first was the elimination of interest payments on demand deposits, and the second was Government expenditures. Immediately following the elimination of interest payments on demand deposits in June 1933, there were heavy withdrawals of funds by out of town banks from the New York City banks, and during the remainder of the year there was no such accumulation of commercial funds in New York as occurred in 1932. In fact, there was some evidence of a tendency for corporations to draw on their accumulated balances in New York for interest and dividend payments and to let a part of their receipts accumulate in banks in other localities. Altogether it is estimated that nearly $500,000,000 of bank and commercial funds was withdrawn from New York to other parts of the country during the last six months of 1933.

An equally important factor in the distribution of excess reserves was the financial operations of the Government. During the past year more than half of the funds raised by the Treasury through the sale of new securities were obtained in this district, largely in New York City, but Government disbursements here were considerably less. It is estimated that for the year 1933 the net amount of funds raised by the Government in New York and expended elsewhere was in the neighborhood of $500,000,000.

Due to these withdrawals of funds, excess reserves in the large New York City banks at no time between the bank holiday and the end of 1933 reached as high a level as at the end of 1932, and on several occasions during the latter half of the year declined to small proportions. In fact, it was chiefly the heavy purchases of Government securities by the Reserve Banks which



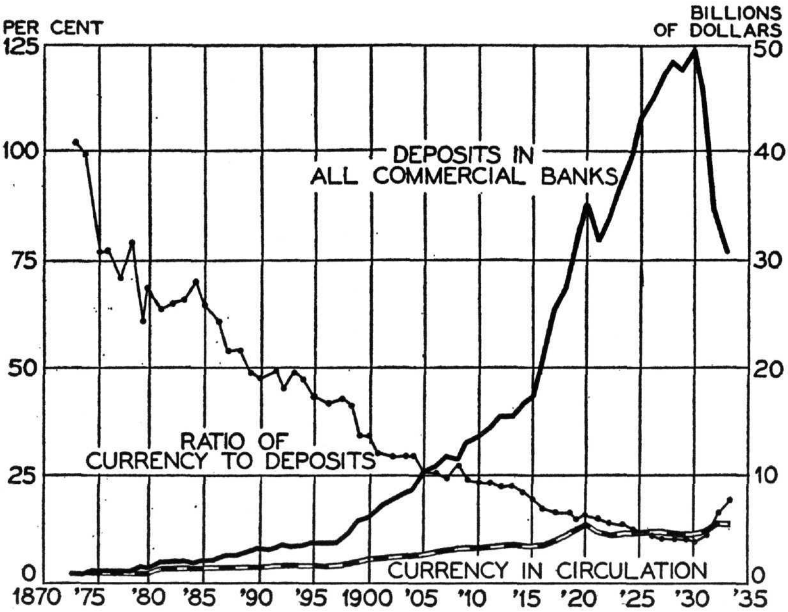
Excess Reserves Held at Federal Reserve Banks by New York City, Chicago, and Other Member Banks (Figures for banks outside New York and Chicago partly estimated)

enabled the New York banks to avoid recurrent deficiencies in their reserves in the latter part of the year. Meanwhile, as the accompanying diagram indicates, excess reserves of member banks in Chicago rose to even higher levels than in 1932, and excess reserves in other localities rose steadily throughout the last nine months of the year and reached a far larger aggregate amount than ever before.

The Money Supply—Currency and Bank Credit

The accumulation of reserves in excess of current requirements in member banks has provided a basis sufficient, if put into active use, for an expansion of the country's total money supply to a volume even larger than that of 1928 and 1929. In those years the reserves of member banks averaged around \$2,350,000,000, whereas at the end of 1933 member bank reserves were in the neighborhood of \$2,675,000,000.

The shrinkage in the money supply during the past four years has not been in the amount of currency outstanding, which in fact was \$900,000,000 larger at the end of 1933 than at the end of 1929. As the accompanying diagram shows, the importance



Relative Importance of Currency and Deposits in the Money Supply of the United States

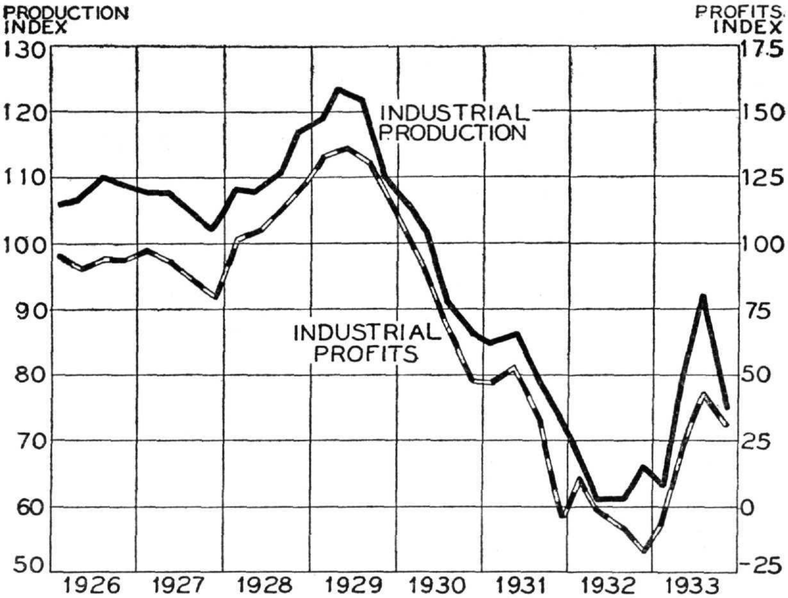
of currency in the money supply of the United States had been declining almost without interruption for more than fifty years prior to 1930, while the importance of bank deposits as a means of payment had been steadily rising. In 1873 and 1874 the amount of currency outstanding was approximately equal to the total deposits in all commercial banks. By 1890 the ratio of currency to deposits had dropped below 50 per cent, by 1910 to less than 25 per cent, and in 1930 to about 10 per cent. Subsequently the ratio has increased to around 18 per cent, due partly to an increase in currency outstanding as a result of hoarding, and partly to the rapid shrinkage in bank deposits between 1930 and 1933.

It is estimated that at the end of 1933 the volume of currency outstanding was at least 1½ billion dollars in excess of the amount of currency required for ordinary purposes at the prevailing levels of business and prices. Apparently most of this extra currency was still hoarded, and this assumption is supported by the fact that the increase in currency outstanding compared with earlier years was chiefly in the form of large denomination bills. In view of the steps that have been taken to assure the safety of depositors' funds since the bank holiday, there is no longer sound reason for hoarding, and a gradual return flow of currency into the banks may be reasonably expected in a volume at least sufficient to meet the increased currency requirements attendant upon recovery in business and in prices. With the widely prevalent use of checks in the settlement of personal and business transactions, the amount of currency that can be kept in actual circulation is limited; any extra amount of currency above usual requirements that comes into possession of individuals and business concerns ordinarily is deposited promptly in the banks and is returned by the banks to the Reserve Banks.

For a number of years past, changes in the active money supply of the country have been dependent mainly upon changes in the volume of bank deposits, and the volume of bank deposits in turn has been largely dependent upon the volume of bank loans and investments. The basis for a very large increase in the volume of bank credit and of deposits is now available in the excess reserves held by the banks.

There are important conditions other than ample bank reserves, however, which are requisite to expansion of bank credit. The first condition is a demand for credit on the part of borrowers whose ability to repay their borrowings appears reasonably assured; this is dependent not only upon competent management but also upon opportunities for the profitable use of funds. Another important condition is confidence on the part of depositors in the safety of the banks, and confidence on the part of the banks in the stability of their depositors, so that the banks will not be under pressure to maintain extraordinarily high ratios of liquidity. In view of the steps that have been taken during the past year to strengthen the position of the banks and to assure the safety of depositors' funds, this second condition may be considered to have been met.

Developments of the past year have also tended to increase the number of potential borrowers entitled to be rated as good credit risks. In a severe depression such as that of the past three years, the concerns that are able to maintain high credit ratings are chiefly those that are able to maintain ample cash resources and therefore are least in need of credit. Recently, however, many concerns have had their operations restored to a profitable basis and their credit standings improved as the result of the moderate recovery in business that has taken place



Federal Reserve Board's Index of Industrial Production Compared with Index of Net Profits of 163 Industrial and Mercantile Corporations since 1926. (For production index 1923-1925 average = 100; for profits index average for corresponding quarter of 1925-1929 = 100)

since the middle of 1932. The accompanying diagram shows the relationship that has obtained for a number of years past between changes in business profits and in the volume of industrial production. The fluctuations in profits are generally much wider than those in production, but for the purpose of showing more clearly in the diagram the similarity in direction of movement different scales have been used for the two curves. During the depression this close correspondence has been maintained, except that fourth quarter earnings especially in 1931 and 1932 have been affected by unusual year end charge-offs. The recovery in profits since the second quarter of 1932 appears to have lagged slightly after the upturn in industrial activity, but nevertheless has been substantial.

Thus far, however, no large increase in short term business borrowings from the banks has occurred. The volume of loans other than security loans made by weekly reporting member banks declined rapidly during the first two months of 1933, reflecting in part the sale by the banks of their holdings of bankers acceptances when they were under pressure, but subsequently the movement in the volume of these loans was more in accord with the seasonal movement of years of moderately good business than at any time since the beginning of the depression. New York City banks in particular showed a rather substantial increase in their loans between March and November but this was followed by a seasonal decline that left the volume of loans somewhat below that of a year previous. Reports from member banks in 89 other cities throughout the country showed a smaller increase during the autumn season, but the net decline for the year as a whole was much the smallest for any year since 1929.

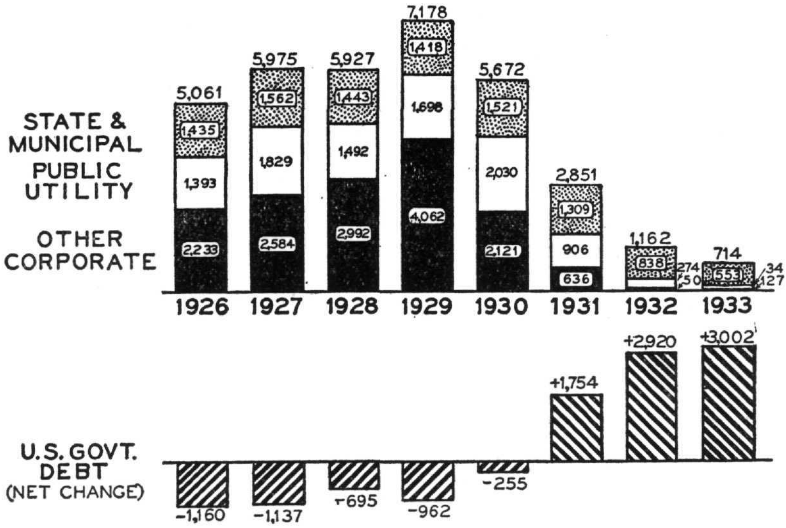
Security loans, after some further liquidation from January to March, increased moderately around the middle of the year in New York City banks, accompanying rising security prices, but subsequently declined again and for all reporting banks were slightly smaller in volume at the end of the year than at the beginning. Investments in securities other than Government securities showed no material change during 1933 and were in about the same volume as in 1932.

The principal channel which has been opened for the expansion of member bank credit has been the purchase of new securities issued by the United States Government to finance the recovery program of the Administration. Member banks were heavy subscribers to new Government issues throughout the year, especially the large New York banks, and their holdings of such securities increased rapidly from March to June. After the middle of June, the distribution of new Government securities among business and financial institutions and individuals was stimulated by the elimination of interest payments on demand deposits, and, in addition, purchases of Government securities by the Reserve Banks absorbed a substantial volume, so that the holdings of Government securities by the weekly reporting member banks declined slightly in New York, and in other cities increased less rapidly after the middle of the year. However, the general level of Government security holdings in the reporting member banks during the latter half of 1933 was far higher than in any previous period, even including the World War.

On the whole, the volume of bank credit and of bank deposits increased moderately between the bank holiday and the end of the year, but remained far below the levels of the years just preceding the depression.

New Capital Issues and Business Activity

Flotations of securities to provide additional capital for industry have shown even less sign of revival than has short term commercial borrowing. The volume of public offerings of new securities other than those of the United States Government was even smaller in 1933 than in 1932, and was only a small fraction of the average annual volume for the whole period since the war.



New Security Issues—State and Municipal, Public Utility, and Other Corporate Issues, excluding Refunding, Foreign, and Investment Trust Issues, and Net Change in Interest Bearing Debt of the United States (In millions of dollars; Commercial and Financial Chronicle figures for domestic issues)

As in 1932, State and municipal issues constituted the greater part of the new financing. The remainder consisted largely of new issues by breweries and distilleries in anticipation of the repeal of the 18th Amendment. New capital issues by industries other than those just named were almost nonexistent.

At least partly as a result of the dearth of new capital, the activity of the important group of industries engaged in construction and the production of industrial equipment remained at very low levels until the latter part of the year. The extraordinarily rapid expansion of industrial activity between March and July carried to unusually high levels the activity of those industries which produce goods for consumption, including textiles, shoes, and food products. In some cases it became evident that the unusual demand for some of these products represented largely a restocking movement on the part of the wholesalers, retailers, and consuming industries, and even to some extent on the part of individual consumers, in anticipation of higher production costs and higher selling prices. When the increased costs became operative there was a fairly substantial curtailment of activity in these industries.

Increased employment in many consumer industries, and increased purchasing power in agricultural sections were reflected also in a substantially more than seasonal expansion in the demand for automobiles, and this in turn was an important factor in a considerable increase in the output of steel between March and July. The machine tool industry also showed some recovery in the summer; the percentage increase was very large, but the actual volume of business remained far below the average for recent years.

The stimulus to the heavy industries from these sources appeared to be waning during the autumn, accompanying curtailment in consumer industries, but near the end of the year there was a new upturn of moderate proportions in the heavy industries. An important factor in this upturn was the public works program of the Government, which, beginning in August, was reflected in an increasing volume of contracts for publicly financed construction work. By the end of the year the volume of contracts in the "public works and utilities" group reported by the F. W. Dodge Corporation was close to the highest levels ever reached. In addition, orders for rails and equipment were placed in substantial volume by the railroads with funds advanced by the Government. As the year closed, therefore, the financing of business, especially the heavy industries, was even more largely dependent upon the use of Government credit than was the case at the end of 1932. The combined total of Government and private security issues remained well under the average volume of security issues in previous years, and the proportion of Government to corporation issues was unprecedented.

In the past, recoveries from depressions have almost invariably been accompanied by a resumption of investment in private capital issues. An early reopening of the private capital market might be expected to hasten reemployment and business recovery, increase Government revenues, and lessen the need for Government borrowing and unusual Government expenditures.

Gold Movements and the Foreign Exchanges

During the opening weeks of 1933, the dollar was above parity with the other gold currencies and the monetary gold stock of the United States increased moderately as a result of imports, in continuation of the gain recorded during the second half of 1932. After reaching the high point for the year on January 18, however, the gold stock began to decline, and the loss of gold continued at an accelerated pace during February, accompanying the development of the banking crisis in this country and attendant weakness in the dollar in terms of other gold standard currencies. The gold loss occurred largely through the earmarking of gold for foreign account, reflecting further withdrawals from this country of short term foreign funds, which already had been reduced to small proportions at the beginning of the year. Between January 18 and March 3, the monetary gold stock declined $324,000,000 to approximately $4,240,000,000, an amount which, however, remained well above the average for the decade following the war.

The gold outflow came to an abrupt halt on March 4, when banking holidays were declared in practically all States which had not already restricted banking operations, and by the Presidential Proclamation of March 6 and the Executive Order of March 10 the export and earmarking of gold were prohibited, except for transactions licensed by the Secretary of the Treasury. Despite the restrictions on gold transactions, quotations on the dollar in terms of the leading gold currencies generally fluctuated within the gold export and import points between March 3 and April 13, and the gold stock rose $70,000,000, due to releases of gold from earmark for foreign account, imports from the Orient, and some return of gold bullion to the mints and assay offices out of domestic hoards.

During the observance of the Easter holidays abroad, however, foreign markets were closed and in a very narrow exchange market in this country foreign currencies advanced considerably against the dollar, so that gold exports became profitable. Licenses were granted on April 13, 15, and 17 by the Secretary of the Treasury, for the export of a total of $9,600,000 of gold to France and Holland, but effective April 20, the licensing of gold shipments was suspended by Executive Order of the President.

After the suspension of gold shipments, a rapid decline in the exchange value of the dollar began and by the end of April the dollar was quoted at a discount from parity of about 14 per cent, in terms of gold standard currencies. This depreciation of the external value of the dollar apparently was the result of an outflow of domestic and foreign funds in anticipation of further depreciation of the dollar, rather than of any change in this country's favorable balance of payments through merchandise and debt service accounts. In May, the dollar held much steadier, with the closing discount at about 16 per cent, but in June the sharp downward movement was resumed which by the middle of July had increased the discount on the dollar to about 31 per cent. Between the middle of July and mid-August a rising tendency of the dollar reduced the discount from parity to 25 per cent, but toward the end of August the discount again widened to 30 per cent.

On August 29, an Executive Order was issued which made it possible for gold produced in this country to be sold at a price higher than the statutory price of $20.67 per fine ounce. This Executive Order authorized the Secretary of the Treasury "to receive on consignment for sale . . . gold recovered from natural deposits in the United States," sales to be made "to persons licensed to acquire gold for use in the arts . . . or by export to foreign purchasers," and "at a price which the Secretary shall determine to be equal to the best price obtainable in the free gold markets of the world . . ." The Federal Reserve Banks were designated as agents for the making of such sales; gold was to be held for purchase by domestic buyers for two full business days following the day of certification by the mints and assay offices, and thereafter such gold as remained unsold was to be "offered for sale to foreign purchasers by the Federal Reserve Bank of New York."

Prior to the issuance of this order, the needs of industry and the arts for gold had been supplied by the Federal Reserve Banks under license from the Secretary of the Treasury; between April 1 and August 29 $3,427,000 of jewelers' gold bars were sold direct to applicants in this district, and $3,419,000 of such bars were sold by the New York Reserve Bank to other Reserve Banks to meet the requirements of their districts. On September 8, the Secretary of the Treasury first fixed a new gold price in accordance with the Executive Order of August 29. The price so fixed rose from $29.62 an ounce on September 8 to a high point of $32.28 on September 20, but subsequently declined as low as $29.00 on October 16, and the last official quotation prior to the taking over of this function by the Reconstruction Finance Corporation was $29.80 on October 24.

Sales of newly mined gold made through the Federal Reserve Bank of New York in compliance with the Executive Order of August 29 and the covering Treasury Regulations of September 12 were as follows:

	Fine ounces	Net proceeds	Average price paid to producers
Sold to trade.............	21,588	$654,848	$30.33
Sold abroad	376,120	11,671,426	31.03
Total	397,708	$12,326,274	$30.99

The first domestic sale was made on September 8 and the last on October 27. The first shipment of this gold for sale abroad took place on September 13 and the last on November 1.

In the month after the issuance of the Executive Order of August 29, the exchange value of the dollar dropped to a discount from parity of about 35 per cent, a new low for the dollar up to that time, but shortly after the beginning of October the dollar began to strengthen gradually, and the upward movement was accelerated following the announcement by the Government that a part of the Fourth Liberty Loan bonds would be called for payment before maturity. This recovery in the dollar reduced its discount against the gold currencies to about 28 per cent by October 20.

On October 25 an Executive Order was issued which authorized the Reconstruction Finance Corporation "to acquire gold which has been received on consignment by a United States mint or assay office." Under the authority of the Reconstruction Finance Corporation Act of January 22, 1932, as amended and supplemented, that Corporation, in its Circular No. 12 dated October 26, 1933, offered an issue of approximately $50,000,000 of notes maturing February 1, 1934, on a discount basis equal to interest at the rate of one quarter of 1 per cent per annum, payment to be made in gold "deposited at the mint or assay office where the application is made." The circular further provided that after the receipt of the gold at the mint or assay office had been certified to the Federal Reserve Bank of the appropriate district, the Corporation, acting through the Federal Reserve Bank as fiscal agent, would issue the notes "at the rate for such gold last announced by the Reconstruction Finance Corporation." This "rate" differed from the price previously fixed by the Secretary of the Treasury in that it was an independent American price, whereas the earlier prices had been an American approximation of the world market price. A rate of $31.36 a fine ounce of gold was first announced by the Corporation on October 25; the last and highest rate in 1933 was $34.06, fixed on December 18.

On October 29 it was announced in Washington that the Reconstruction Finance Corporation would buy gold in foreign markets as well as in the United States. Payment for foreign gold also was to take the form of debentures of the Corporation and was to be made through the agency of the Federal Reserve Bank of New York. Acquisitions of gold by the Reconstruction Finance Corporation during the period of operations which extended through January 15, 1934, were summarized by the Corporation as follows:

	Number of ounces	Cost
Domestic	695,027	$23,363,754
Foreign	3,335,236	108,307,850
Total	4,030,263	$131,671,604

The first announcement that the Reconstruction Finance Corporation would purchase newly mined domestic gold was followed by an abrupt increase in the discount on the dollar from about 28 per cent to around 33 per cent. For a short time thereafter, however, rising quotations for the purchase of domestic gold by the Reconstruction Finance Corporation were not accompanied by a corresponding rise in foreign exchange quotations, until after the announcement was made that gold would be purchased abroad. A renewed rise in the foreign exchanges then occurred. In fact, the rise in the foreign exchanges proceeded more rapidly for a time than the rise in the gold quotation of the Reconstruction Finance Corporation, apparently reflecting sales of dollars in anticipation of further depreciation in the dollar, and the discount on the dollar increased temporarily to as much as 41.7 per cent. Around the middle of November, when it became apparent that gold purchases abroad by the Reconstruction Finance Corporation were limited in amount, foreign exchange quotations declined until the discount on the dollar was reduced to about 36 per cent, and approximately this level was maintained for the balance of the year.

In most of the gold transactions from May to December, gold was treated as a commodity rather than as a part of the monetary supply, and the gold purchased by the Reconstruction Finance Corporation was not included in the currently reported data on the monetary gold stock of the United States. For the year 1933 as a whole, however, the monetary gold stock showed a reduction from $4,513,000,000 to $4,323,000,000, due to the loss of gold prior to the banking holiday. The year's gold movements are summarized in the following table.

(In millions of dollars)

	Jan. 1-Mar. 4 inc.	Mar. 5-Dec. 31 inc.	Total 1933
Shipments:			
Exports	32.2	†325.8	†358.0
Imports	160.2	34.1	194.3
Net exports	*128.0	291.7	163.7
Gold earmarked here for foreign account:			
New earmarkings	343.7	1.6	345.3
Releases from earmark	14.8	342.1	356.9
Net release	**328.9	340.5	11.6‡
Gold released abroad for Federal Reserve Bank of New York	72.6	......	72.6
Net gain or loss from foreign transactions	—273.5	+48.8	—224.7
Net amount added to monetary gold stock from domestic sources	2.4	31.9	34.3
Total change in United States monetary gold stock	—271.1	+80.7	—190.4

*Net import. **Net earmark.

†Excludes exports of newly mined gold under Executive Order of August 29, 1933.

‡Excludes approximately $3,000,000 of gold which was released from foreign earmark account in exchange for gold delivered abroad.

With reference to the physical imports and exports of gold during the year, sources and destinations are indicated in the following table. The imports shown as coming from England include $40,500,000 of gold shipped from London to the United States in January 1933, following shipments of $22,900,000 in December 1932, out of the $95,550,000 of gold which was earmarked abroad for the Federal Reserve Bank of New York on December 15, 1932, in connection with the British debt payment due then; the remaining $32,200,000 was sold abroad during January 1933. The exports for the year 1933, which were considerably smaller than in 1932, represented to a large extent the repatriation by foreign central banks of gold which had been earmarked in the period just prior to the banking holiday. The export of this gold was permitted under licenses issued by the Secretary of the Treasury.

(In thousands of dollars)

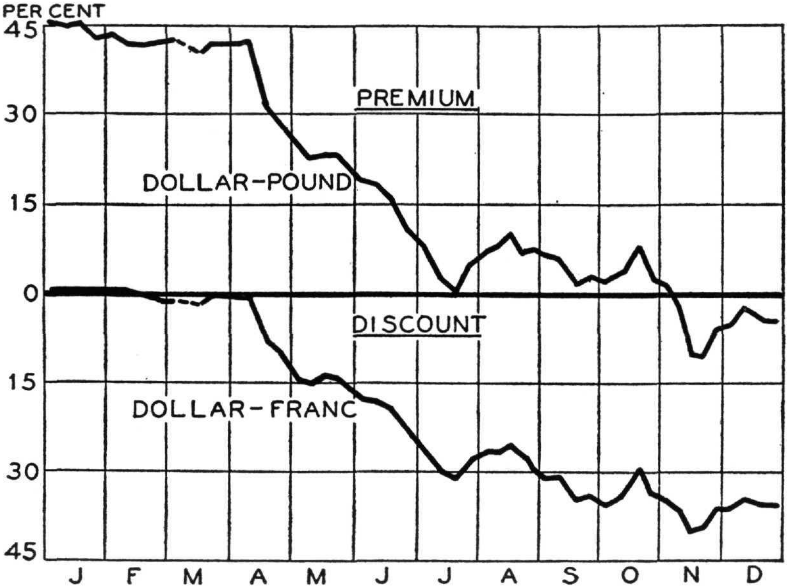
Country	*Exports to	*Imports from	**Net
Australia	....	3,176	+ 3,176
Canada	257	20,141	+ 19,884
Czechoslovakia	6,504	....	— 6,504
China and Hongkong	....	12,821	+ 12,821
England	39,384	51,827	+ 12,443
France	245,999	33,025	—212,974
Germany	1,803	....	— 1,803
Holland	14,899	21,645	+ 6,746
India	....	26,213	+ 26,213
Italy	24,044	....	— 24,044
Japan	....	6,702	+ 6,702
Mexico	579	4,859	+ 4,280
Norway	6,100	....	— 6,100
Philippines	....	5,743	+ 5,743
Sweden	5,002	....	— 5,002
Switzerland	11,630	....	— 11,630
All Other	1,871	8,130	+ 6,259
Total	358,072	194,282	—163,790

*These figures differ slightly from those published by the Department of Commerce for three principal reasons: first, because the ultimate source or destination of shipments was ascertained by this bank in cases where only the immediate source or destination was reported to the Department of Commerce; second, because exports of newly mined gold, under the Executive Order of August 29, 1933, were excluded as they were without effect on the gold stock; third, because certain imports were received on December 31, 1932, too late for purchase by the Assay Office until January 3, 1933.

** + Excess of imports; — excess of exports.

The course of the dollar in terms of gold and the gold currencies, which has been discussed in connection with gold movements and the various legislative measures enacted during the year affecting the status of gold in the United States, is indicated in the diagram on page 31, which also shows the movement of the dollar-sterling exchange rate.

The British pound sterling remained comparatively steady in terms of gold throughout the year, fluctuating between 28.22 per cent and 36.80 per cent discount against the French franc. The result was a persistent decline in the premium of the dollar against sterling until mid-July, when the previous parity rate of $4.866 was approached for the first time since 1931. In August and September, when the dollar declined once more against gold currencies, sterling did not attain parity with the dollar again, because the pound also declined in gold value after July. Early in November, however, sterling crossed the parity rate of $4.866, and throughout the remainder of the year the dollar was at a discount against the British currency. The highest sterling rate of the year was $5.52¼, reported in the course of trading on November 16, but by the close of the year the rate had declined to $5.15½.



Premium or Discount on the Dollar from Parity, in terms of Sterling and French Franc

The range of movements of the principal foreign exchange rates at New York during the year is shown in the following table.

(Closing cable rates)

Exchange on	December 31, 1932	1933 High	1933 Low	1933 December 30
Belgium	$ 1.1385	.2335	.1385	.2209
Denmark	.1726	.2430	.1515	.2302
England	3.3300	5.4300	3.3375	5.1550
France	.03903	.06550	.03901	.06210
Germany	.2381	.3995	.2331	.3775
Holland	.4018	.6748	.4008	.6367
Italy	.0512	.0882	.0511	.0832
Norway	.1715	.2735	.1716	.2590
Spain	.0816	.1356	.0815	.1304
Sweden	.1815	.2800	.1809	.2660
Switzerland	.1924	.3242	.1924	.3070
Canada	.8838	1.0350	.8262	1.0019
Argentina	.2581	.4234	.2539	.3383
Brazil	.0763	.0900	.0725	.0876
Uruguay	.4750	.7800	.4750	.7500
Japan	.2063	.3180	.2030	.3100
India	.2528	.4055	.2530	.3890
Shanghai*	.2725	......	......	.3413

* 1932 quotation for tael; 1933 quotation for new yuan dollar created April 6, 1933, with silver content 71.5 per cent of tael.

Foreign Exchange Division

The President's Executive Order of March 10, 1933, among other things, prohibited foreign exchange transactions "except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933," and stated that "every Federal Reserve Bank is authorized and instructed to keep itself currently informed as to transactions in foreign exchange which are prohibited." In compliance with this order, a foreign exchange office was created in the Federal Reserve Bank of New York, under the direction of Mr. Fred I. Kent, who was Director of the Division of Foreign Exchange of the Federal Reserve Board during the war. Upon the resignation of Mr. Kent on January 15, 1934, the functions of this foreign exchange office were taken over by the Foreign Department of the bank.

Foreign Relations

There was no change during 1933 in the number of foreign banks of issue with which relations are maintained by the Federal Reserve Bank of New York on behalf of all twelve Federal Reserve Banks, nor was there any notable alteration in the character of their accounts at this bank.

No new credit facilities were extended to foreign central banks in 1933 by the Federal Reserve Banks, but two of the three credits outstanding at the end of 1932 were repaid and the third was consolidated. On April 13, 1933, the Reichsbank repaid to all participants the balance of $70,000,000 then outstanding of the joint central bank credit of $100,000,000 which it had taken in 1931, as described in the Seventeenth Annual Report of this bank. The Federal Reserve share in the repayment was $17,500,000. Between August 16 and September 2 the Austrian National Bank repaid the full principal amount of 90 million gold schillings ($12,664,000 at par) then remaining of the credit of 100 million gold schillings originally granted in 1931 by a group of central banks and the Bank for International Settlements. Federal Reserve participation in this credit was approximately $975,000 at the time of repayment.

Two joint central bank credits totaling $20,570,000 originally granted in 1931 to the National Bank of Hungary, were consolidated, effective October 18, 1933, for a period of three years in the reduced amount of $19,307,000, following repayment of part of the principal. The aggregate Federal Reserve share of the consolidated credit was $3,557,000. By the terms of the contract of consolidation, the Federal Reserve Banks are ensured periodic repayment of part of the principal amount in gold, *pari passu* with other participants. For the unpaid balance of the credit the Federal Reserve Banks, as required by the applicable provisions of the Federal Reserve Act, continue to hold prime commercial bills endorsed by the National Bank of Hungary. These bills have a maturity of not more than three months and are subject to amortization provisions and to replacement by equally prime endorsed bills until the maturity of the contract on October 18, 1936.

Membership Changes in 1933

The number of member banks in this district decreased again in 1933, but the membership increased from 71 per cent of all commercial banks at the end of 1932 to 73 per cent at the end of 1933, the highest percentage since the System was inaugurated.

The reduction in the actual number of member banks was due entirely to a decrease in the number of National banks through insolvencies and mergers. There was a gain in membership among State banks and trust companies due to the fact that 18 of such institutions were admitted during the year.

Number of Member and Nonmember Banks in Second Federal Reserve District at End of Year (Unlicensed banks included)

Type of Bank	December 31, 1933			December 31, 1932		
	Members	Non-Members	Per Cent Members	Members	Non-Members	Per Cent Members
National Banks	650**	0	100	684	0	100
State Banks*	49	142	26	39	164	19
Trust Companies	108	158	41	104	169	38
Total	807	300	73	827	333	71

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

Changes in Federal Reserve Membership in Second District During 1933

Total membership beginning of year	827
Increases: (a)	
National banks organized (b)	16
Admission of State banks and Trust companies	18
Total increases	34
Decreases:	
Member banks combined with other members	7
Member bank combined with nonmember	1
Insolvencies	31
Withdrawal	0
Succeeded by newly chartered members (c)	15
Total decreases	54
Net decrease	20
Total membership end of year	807 (d)

(a) In addition to figures shown on this table, three nonmembers were absorbed by members during the year.

(b) Organized to succeed 13 banks under conservators, two licensed banks, and one bank in receivership.

(c) Includes two National banks whose successor banks were chartered in January 1934.

(d) Includes 50 unlicensed banks.

Operating Statistics

Since detailed statistics for each Federal Reserve Bank are published in the annual report of the Federal Reserve Board, only a brief summary of the statistics of operations of this bank is given in the following pages.

STATEMENT OF CONDITION

Assets	Dec. 31, 1933	Dec. 31, 1932
Cash Reserves held by this bank against its deposits and Federal Reserve 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	$573,706,093.74	$616,630,213.92
Gold redemption fund for Federal Reserve notes, in the hands of the Treasurer of the United States	10,706,936.10	6,155,156.59
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	164,758,658.66	103,792,488.24
Gold and gold certificates in vault	189,230,625.19	289,509,470.99
Other cash* (available as reserve only against deposits)	50,103,377.09	73,543,617.18
Total cash reserves	$988,505,690.78	$1,089,630,946.92
Redemption fund for Federal Reserve Bank notes, deposited with the Treasurer of the United States	$2,870,550.00	
Loans and Investments:		
Loans to member banks:		
On the security of obligations of the United States	$14,511,406.58	$25,332,250.00
On the security of, or by the discount of, commercial or agricultural paper or acceptances	14,160,575.19	24,973,979.93
On the security of other collateral under Section 10(b) of the Federal Reserve Act, as amended	11,676,809.45	2,829,347.12
Other loans	341,767.65	465,930.62
Bills bought in the open market	22,257,269.41	9,780,168.81
United States Government bonds, notes, bills, and certificates of indebtedness	836,755,450.00	733,353,950.00
Other securities	903,150.00	2,906,775.49
Total loans and investments	$900,606,428.28	$799,642,401.97
Miscellaneous Assets:		
Gold held abroad		$72,637,893.28
Checks and other items in process of collection	$126,521,195.83	118,169,814.77
Bank premises	11,066,289.25	†14,393,300.69
All other miscellaneous assets	30,057,754.04	25,545,469.28
Total miscellaneous assets	$167,645,239.12	$230,746,478.02
Total assets	$2,059,627,908.18	$2,120,019,826.91

*Does not include Federal Reserve notes or bank's own Federal Reserve Bank notes.
†Includes Annex Building, which is carried in "All Other Miscellaneous Assets" in 1933.

Liabilities	Dec. 31, 1933	Dec. 31, 1932
Currency in Circulation:		
Federal Reserve notes in actual circulation. As required by law, these notes are secured by gold; or notes, drafts, bills of exchange, or acceptances; or direct obligations of the United States	$651,086,245.00	$587,565,860.90
Federal Reserve Bank notes in actual circulation. As required by law, these notes are secured by direct obligations of the United States or by notes, drafts, bills of exchange, or bankers acceptances....................	54,007,550.00	
Total currency in circulation.............	$705,093,795.00	$587,565,860.90
Deposits:		
Reserve deposits maintained by member banks as legal reserves against the deposits of their customers	$1,036,523,489.48	$1,256,950,857.76
United States Government deposits carried at the Federal Reserve Bank for current requirements of the Treasury....................	742,071.89	1,950,307.04
Special deposits of member and nonmember banks operating under restrictions..........	5,116,054.01	
Other deposits including deposits of foreign correspondents, nonmembers, etc............	35,772,809.31	12,965,444.15
Total deposits	$1,078,154,424.69	$1,271,866,608.95
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 periods specified in this bank's time schedules, which periods range from 1 to 7 days after receipt by this bank, and are based on the average time required for collection.....	$119,762,308.72	$114,499,314.57
All other miscellaneous liabilities.............	10,591,554.96	2,410,521.19
Total miscellaneous liabilities............	$130,353,863.68	$116,909,835.76
Capital and Surplus:		
Capital paid in, equal to 3 per cent of the capital and surplus of member banks.......	$58,279,550.00	$58,619,100.00
Surplus accumulated from earnings. Under Sec. 12B of the Federal Reserve Act, each Federal Reserve Bank is required to subscribe to Class B stock in the Federal Deposit Insurance Corporation to the extent of one-half of its surplus as of January 1, 1933. The surplus account shown herewith is subject to that call	87,746,274.81	85,058,421.30
Total capital and surplus..................	$146,025,824.81	$143,677,521.30
Total liabilities	$2,059,627,908.18	$2,120,019,826.91

INCOME AND DISBURSEMENTS

The following statement shows the items of income and disbursements for the years 1933 and 1932. In 1933 total earnings were $1,575,000 larger than in 1932, due entirely to the income from increased holdings of United States Government securities. A reduction in the average volume of loans and of acceptances caused a sizable reduction in income from such assets.

Operating expenses were slightly larger than in the previous year due chiefly to additional work in connection with the bank

	1933	1932
EARNINGS:		
From loans	$2,572,465.16	$3,276,594.84
From bills bought in open market	288,117.42	932,504.88
From United States Government obligations	14,255,732.12	11,157,506.72
Other earnings	407,615.56	582,336.21
Total earnings	$17,523,930.26	$15,948,942.65
ADDITIONS TO EARNINGS:		
For sundry additions to earnings	$746,616.78	$1,362,375.51
DEDUCTIONS FROM EARNINGS:		
For current bank operation. (These figures include most of the expenses incurred as fiscal agent of the United States)	$6,515,226.40	$6,190,061.12
For Federal Reserve currency, mainly the cost of printing new notes to replace worn notes in circulation, to maintain supplies unissued and on hand, the cost of redemption, and tax on Federal Reserve Bank notes	537,125.04	186,667.16
For depreciation on bank premises, reserve for losses, etc.	5,020,469.25	530,039.45
Total deductions from earnings	$12,072,820.69	$6,906,767.73
Net income available for dividends, and additions to surplus	$6,197,726.35	$10,404,550.43
DISTRIBUTION OF NET INCOME:		
Dividends paid to member banks limited by law to the rate of 6 per cent per annum on paid-in capital	$3,509,872.84	$3,562,030.29
Additions to surplus. Under Sec. 7 of the Federal Reserve Act, as amended in 1933, all net income after dividends of 6 per cent, accumulates as a surplus fund	2,687,853.51	6,842,520.14
Total net income distributed	$6,197,726.35	$10,404,550.43
ADDITIONS TO SURPLUS ACCOUNT:		
Net income	$2,687,853.51	$6,842,520.14
Restoration of depreciation reserve on United States Government securities	....	3,138,746.82
Total additions to surplus account	$2,687,853.51	$9,981,266.96

holiday in March and the subsequent reopening and strengthening of the banks. Expenses covering the cost of new Federal Reserve currency, which includes the Federal Reserve Bank notes issued since March 1933, increased considerably, accompanying the large increase in the volume of currency outstanding during the banking crisis. About $5,000,000 of 1933 earnings was used to cover depreciation on bank premises, reserve for losses, etc. Regular dividends amounting to $3,509,873 were paid to member banks and $2,687,854 was added to surplus.

VOLUME OF OPERATIONS

The following table shows the volume of transactions in 1933, compared with 1932, in the operating departments of the bank where the volume of work can be measured by counting the number of transactions. The work in a number of these departments was somewhat reduced in 1933, but many other departments where the work can not be measured so precisely were more active in 1933 than in the previous year, particularly during and since the bank holiday.

	1933	1932
Number of Pieces Handled		
Bills discounted:		
Applications	18,459	34,122
Notes discounted	55,416	94,436
Bills purchased in open market for own account	39,799	61,102
Currency received and counted	596,588,000	600,166,000
Coin received and counted	940,727,000	1,015,189,000
Checks handled	143,372,000	157,079,000
Collection items handled:		
United States Government coupons paid	4,121,000	3,774,000
All other	2,641,000	2,638,000
United States securities—issues, redemptions, and exchanges by fiscal agency department	1,160,000	831,000
Transfers of funds	307,000	341,000
Amounts Handled		
Bills discounted	$4,753,386,000	$4,912,325,000
Bills purchased in open market for own account	387,051,000	356,347,000
Currency received and counted	3,709,098,000	3,545,484,000
Coin received and counted	207,095,000	165,048,000
Checks handled	57,739,743,000	70,642,227,000
Collection items handled:		
United States Government coupons paid	286,418,000	238,254,000
All other	1,682,712,000	1,970,659,000
United States securities—issues, redemptions, and exchanges by fiscal agency department	16,115,993,000	13,257,874,000
Transfers of funds	37,289,786,000	49,476,304,000

Changes in Directors and Officers

William H. Woodin, former President of the American Car and Foundry Company, New York, N. Y., a Class B director elected to serve until December 31, 1934, resigned on March 3, 1933 to become Secretary of the Treasury.

Albert H. Wiggin, director of the Chase National Bank, New York, N. Y., a Class A director, elected to serve until December 31, 1934, resigned on March 15, 1933.

As the result of a special election on May 3, 1933, George W. Davison, Chairman of the Board of Trustees, Central Hanover Bank and Trust Company, New York, N. Y., was elected by member banks in Group 1, to succeed Albert H. Wiggin, as a Class A director and Thomas J. Watson, President of the International Business Machines Corporation, New York, N. Y., was elected by member banks in Group 1, to succeed William H. Woodin as a Class B director of this bank.

At a regular election in the autumn of 1933, Cecil R. Berry, President of the Citizens National Bank, Waverly, New York, was elected by member banks in Group 3, as a Class A director for a term of three years beginning January 1, 1934, to succeed David C. Warner of Endicott, New York, whose term expired December 31, 1933; Robert T. Stevens, President of J. P. Stevens and Company, Inc., New York, N. Y., was elected by member banks in Group 3 as a Class B director for a term of three years beginning January 1, 1934, to succeed Samuel W. Reyburn whose term expired December 31, 1933.

The Federal Reserve Board reappointed Clarence M. Woolley as a Class C director of the bank for a term of three years beginning January 1, 1934.

The Federal Reserve Board redesignated J. Herbert Case as Chairman of the Board of Directors and Federal Reserve Agent for 1934, and redesignated Owen D. Young as Deputy Chairman of the Board of Directors for 1934.

The Federal Reserve Board reappointed Edward G. Miner, Chairman of Pfaudler Company, Rochester, New York, as a director of the Buffalo Branch for a term of three years, beginning January 1, 1934.

The Board of Directors of this bank reappointed George F. Rand, President of the Marine Trust Company, Buffalo, New York, as a director, for a term of three years, beginning January 1, 1934, and reappointed Robert M. O'Hara as Managing Director of the Buffalo Branch for the year 1934.

MEMBER OF FEDERAL ADVISORY COUNCIL

Walter E. Frew, Chairman of the Board of Directors of the Corn Exchange Bank Trust Company, New York, N. Y., was selected by the Board of Directors of this bank in May as a member of the Federal Advisory Council for the Second District, to succeed George W. Davison who resigned to become a director. At the first meeting in January 1934, Mr. Frew was reappointed to serve for the year 1934.

CHANGES IN OFFICERS

Edwin R. Kenzel, a member of the staff of the bank since November 1914, and Deputy Governor since May 19, 1920, died August 9, 1933.

Arthur W. Gilbart, a member of the staff of the bank since December 1914 and Deputy Governor since January 1, 1928, died November 18, 1933.

Other changes during the year were as follows:

On January 3, 1933, Donald J. Cameron, formerly Chief of the Foreign Accounts Division, was appointed Manager of the Foreign Department; Edward O. Douglas, formerly Manager of the Foreign Department, became Manager of the Collection Department; and Robert F. McMurray, formerly Manager of the Collection Department, was made a Manager of the Government Bond and Safekeeping Department and placed in charge of the Reconstruction Finance Corporation Unit.

On March 3, 1933, William H. Dillistin, Assistant Federal Reserve Agent, became also Manager of the Bank Examinations Department.

On March 15, 1933, Todd G. Tiebout was appointed Assistant Counsel.

In March 1933, Fred I. Kent was appointed to take charge of a special foreign exchange division created to perform the duties required of the bank by the Executive Order of March 10, 1933. Mr. Kent resigned this position in January 1934.

Robert M. Morgan, formerly Manager of the Bill Department, resigned on April 7, 1933.

On April 18, 1933, Edward O. Douglas, formerly Manager of the Collection Department, was appointed Manager of the Bill Department; Valentine Willis, formerly Chief of the Coupon Collection Division, was appointed Manager of the Collection Department.

On November 15, 1933, Felix T. Davis was appointed Assistant Counsel.

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

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

DIRECTORS AND OFFICERS

January 1, 1934

DIRECTORS

Class	Group		Term Expires Dec. 31
A	1	George W. Davison, Greenwich, Conn. Chairman, Board of Trustees, Central Hanover Bank & Trust Company, New York, N. Y.	1934
A	2	Edward K. Mills, Morristown, N. J. President, Morristown Trust Company	1935
A	3	Cecil R. Berry, Waverly, N. Y. President, Citizens National Bank of Waverly	1936
B	1	Thomas J. Watson, Short Hills, N. J. President, International Business Machines Corporation, New York, N. Y.	1934
B	2	Walter C. Teagle, Port Chester, N. Y. President, Standard Oil Company (New Jersey) New York, N. Y.	1935
B	3	Robert T. Stevens, Plainfield, N. J. President, J. P. Stevens & Company, Inc., New York, N. Y.	1936
C		J. Herbert Case, New York, N. Y., *Chairman*	1934
C		Owen D. Young, New York, N. Y., *Deputy Chairman* Chairman, General Electric Company	1935
C		Clarence M. Woolley, Greenwich, Conn. Chairman, American Radiator and Standard Sanitary Corporation, New York, N. Y.	1936

MEMBER OF FEDERAL ADVISORY COUNCIL

Walter E. Frew
Chairman, Corn Exchange Bank Trust Company, New York, N. Y.

OFFICERS OF FEDERAL RESERVE AGENT'S FUNCTION

J. Herbert Case, *Federal Reserve Agent*

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

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

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

Carl Snyder, *General Statistician*

Edward L. Dodge, *General Auditor*

George W. Ferguson, *Assistant General Auditor*

GENERAL OFFICERS

George L. Harrison, *Governor*

W. Randolph Burgess, *Deputy Governor*
Jay E. Crane, *Deputy Governor*
Ray M. Gidney, *Deputy Governor*
Walter S. Logan, *Deputy Governor and General Counsel*
Leslie R. Rounds, *Deputy Governor*

Louis F. Sailer, *Deputy Governor*

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

Charles H. Coe, *Assistant Deputy Governor*
J. Wilson Jones, *Assistant Deputy Governor*
L. Werner Knoke, *Assistant Deputy Governor*
Walter B. Matteson, *Assistant Deputy Governor*

James M. Rice, *Assistant Deputy Governor*

JUNIOR OFFICERS

Dudley H. Barrows, *Manager, Administration Department*
Wesley W. Burt, *Manager, Accounting Department*
Donald J. Cameron, *Manager, Foreign Department*
Felix T. Davis, *Assistant Counsel*
Edward O. Douglas, *Manager, Bill Department*
Edwin C. French, *Manager, Cash Department*
Herbert H. Kimball, *Assistant Counsel*
Myles C. McCahill, *Manager, Administration Department*
Robert F. McMurray, *Manager, Government Bond and Safekeeping Department*
Jacques A. Mitchell, *Manager, Credit Department*
Arthur Phelan, *Manager, Discount Department*
William A. Scott, *Manager, Government Bond and Safekeeping Department*
Todd G. Tiebout, *Assistant Counsel*
I. Ward Waters, *Manager, Check Department*
Valentine Willis, *Manager, Collection Department*

BUFFALO BRANCH

DIRECTORS

	Term Expires Dec. 31
Raymond N. Ball, Rochester President, Lincoln-Alliance Bank and Trust Company	1934
Frederick B. Cooley, Buffalo President, New York Car Wheel Company	1935
Lewis G. Harriman, Buffalo President, Manufacturers and Traders Trust Company	1935
George G. Kleindinst, Buffalo, *Chairman* President, Liberty Bank of Buffalo	1934
Edward G. Miner, Rochester Chairman, Pfaudler Company	1936
George F. Rand, Buffalo President, Marine Trust Company	1936
Robert M. O'Hara, *Managing Director*	1934

OFFICERS

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