To the Stockholders of the
Federal Reserve Bank of New York:

I am pleased to transmit herewith the thirty-ninth annual report of the Federal Reserve Bank of New York reviewing the year 1953.

ALLAN SPROUL,
President.
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THE American economy continued into 1953 the further rise in output and employment that had begun in the fall of 1952. But during the second half of the year, without any dramatic reversal, and without falling below the previous record peaks achieved in 1952, the economy began to settle down. In contrast, most of the other leading countries outside the Soviet area had sagged somewhat or moved sideways in 1952, but by mid-1953 nearly all were again increasing their aggregate production.

The free world, having met the test of reconversion and rehabilitation after World War II, and then of revived military burdens as a result of Communist aggression in Korea and potential aggression in other areas, faced in 1953 the further test of sustained economic performance. Through World War II and the Korean experience, the economies of the Western World had amply demonstrated their capacity to produce, swiftly and in vast quantity. After World War II, they had further demonstrated that economies based primarily upon private ownership and incentives, and guided primarily by consumer demand expressed through the functioning of market prices, could accomplish quickly and without distress the changeover to peacetime production for consumer needs. There had also been a considerable widening of world trade, as barriers obstructing the flow of goods and services were gradually lowered or removed.

The test faced in 1953 was that of adjustment to the high level of activity previously attained through the effects of the war and postwar forces. In particular, the challenge lay in demonstrating that the change from the conditions that had produced unusually rapid growth to a more nearly normal peacetime economy could be made without serious recession and unemployment. This question, which came increasingly to the fore in the latter part of 1953, is also the largest economic question for the year ahead.
Readjustment in the United States

It was largely accidental that the turn in the United States coincided with the final ending of hostilities in Korea in July 1953. That outcome had been anticipated, and discounted, over the long period of stalemate and negotiations that began in 1951. But the rapid build-up of the defense program in 1951, and the continued substantial growth of that program through the first half of 1952, had generated inflationary pressures which were only gradually brought under control. With defense spending virtually stabilized after the middle of 1952, and with increasingly effective general restraint exerted by credit and other indirect controls, the remaining direct controls were abandoned early in 1953 and the economy was able to work off its immediate inflationary potentials by midyear.

At the same time, some of the principal heavy goods sectors of the economy, notably steel and automobiles, were approaching a phase of readjustment in their operations, following years of rapid expansion in production to catch up with backlogs of demand. Most other sectors had already passed through such phases during preceding years, with readjustment rolling from one industry to another while the economy as a whole continued strong, offsetting or absorbing the impact of readjustment in individual industries while the total output of goods and services continued to grow. Some industries, such as textiles, apparel, and leather and rubber products among the nondurables, and such consumer durables as television, although their initial major readjustments seemed to have been accomplished, faced again during 1953 the prospect of another round of inventory correction. Such correction, when it came, would exert a depressing influence of some magnitude upon current production and employment. Alongside these changes in the manufacturing and distributive sectors of the economy, there was a special problem of adjustment from war and postwar conditions in agriculture. Although apparent for several years, the paradoxical nature of the problem became particularly striking during 1953 as agricultural output remained at the 1952 peak while farm incomes again dropped materially, as they had in 1952.

None of these developments, apart from those in agriculture, had emerged at the beginning of 1953. Although it was unmistakable by the close of the year that the combined impact of the various readjustments in process was producing some over-all decline in economic activity, the economy was still in the throes of expansion when the year began. The need then was to hold in check the remaining forces of inflation—
to prevent a bubble on the boom that could burst with suddenness and set off a sharp and cumulative downward movement. To help forestall such a development, in an effort to assure an atmosphere of orderliness for the basic readjustments that lay further ahead, the Federal Reserve System had allowed strong credit demands to exert their tightening effect upon the money and capital markets during 1952. In January 1953, the System further confirmed the policy of restraint. The discount rates of the Federal Reserve Banks were raised from 1 3/4 per cent to 2 per cent. As reserve funds were absorbed, or released gingerly in brief periods of market strain, through the System's open market operations, the banking system had become increasingly dependent upon borrowing from the Reserve Banks to meet fluctuations in reserve needs. The combined effect of the restrictive open market operations, of the caution engendered among banks by dependence upon borrowing, and of the higher discount rate was to place banks under considerable pressure to restrict expansion of their loans.

At the same time, partly because of the cumulative tendencies to be expected after a period of sustained economic expansion, partly because of business expectations that credit might become tighter through the year as the Treasury came in to compete for funds during its low-revenue periods, and partly because of such other factors as the usefulness of borrowed funds in reducing corporate excess profits tax liabilities, business demand for credit remained unusually high. Very little of the customary spring repayment of loans actually occurred. As a counterpart, business inventory continued to grow, with additions of 6.3 billion dollars occurring during the second quarter of the year, while the annual rate of gross national product rose 7.5 billion.

Expansion that rests so largely upon an increasing rate of inventory accumulation is inherently unstable. To have nourished unrestricted growth of inventory through a ready availability of credit during the early part of the year would have aggravated the unstabilizing influences. Consequently, the System continued a restrictive policy. Not until May was it clear that the limitations on the availability of bank reserves were becoming broadly effective in restraining bank lending policies. But by that time, the continuation of restraint over a relatively long period had led the money and capital markets to develop cumulative forces of their own, intensifying the degree of restraint. This tendency was aggravated by the upward revisions of estimated Treasury borrowing needs over the
remainder of the year and by other factors which the market interpreted as further tightening influences superimposed on the expected demands of business for plant and equipment financing and for seasonal needs. Bond prices slumped and mortgage funds began to dry up. As market forces thus produced a degree of tightness that ran beyond System objectives, the System quickly stepped in, before the middle of May, to begin reversing these further tightening influences.

After the peak of credit tightness was reached at the beginning of June, the System continued to provide funds through purchases of Treasury bills, as it had done on an appreciable scale in May, and the Board of Governors lowered reserve requirements effective early in July. These steps were taken to prevent seasonal and other credit demands from causing any further tightness of the credit and capital markets, once the risks of inflation had passed. Over the remainder of the year, as sagging tendencies became more apparent in the economy, the System took further action to assure an ample supply of funds to meet seasonal and other needs for credit and currency. By October, market rates of interest on Treasury bills, for example, were down to 1¼ per cent, from the peak of 2½ per cent reached at the beginning of June. Seasonal credit demands exerted some upward pressure on short-term rates later in the year, but credit was at all times readily available.

Thus, with some assistance from flexible monetary and credit policy, this country had met during 1953 one of the recurrent tests that confront market economies. A period of sustained growth had passed over into a stage of consolidation, and substantial readjustments had begun, without an explosion at the turning point. Speculative excesses, and a credit boom, had been avoided while the economy was still in the zone of further inflationary danger. Influences that had, in earlier years, been among the principal initiating causes of a sudden and spiraling downturn had apparently been neutralized during 1953. But there are also other tests. Market economies have demonstrated their great capabilities for innovation, development, and growth, but the question arising once more in 1953 was whether these gains must necessarily be paid for by undergoing cyclical extremes of prosperity and depression. Although the experience in 1953 provided reassuring evidence that the turning point from expansion to readjustment could be passed without an immediate and sharp downswing, the ability of the economy to complete the readjustments without developing serious recession had not yet been fully tested.
At the end of 1953, this major test was still ahead. So much had been done since World War II toward building a high consumption (high standard of living) economy, that prospects for stability had become increasingly dependent upon consumer behavior. Consumers had refuted the forecasts of a slump at the end of World War II by providing active demand for the nation's enlarged capacities. They were also partly responsible for the waves of anticipatory buying that augmented inflationary pressures following the Korean outbreak, and again early in 1951. And they could produce an opposite outcome if, after a phase of gradual decline in total output and employment related to realignments in the production of key sectors of the economy, they should begin widespread retrenchment, reducing their spending in anticipation of further unemployment or of decisive reductions in prices.

The counterinfluences in the event of such an unpredictable development would, under free market conditions, lie very largely in the producing and selling capabilities of business enterprise, bringing more goods to the consumer market at attractive prices. But full dependence upon offsetting market adjustments might not be enough to avoid the cyclical extremes that had at times followed corrective realignments in the past. Moreover, although this country had moved a long way since World War II toward restoring free market conditions, and although a large part of the remarkable achievement of recent years was attributable to that movement, a number of rigidities had also been introduced over recent decades. Price supports, wage laws and agreements, and "fair trading" of many products at the retail level, for example, impelled by whatever social need, were still added impediments to the free functioning of the market price mechanism.

On the other hand, traditional assumptions concerning the operations of free markets have never been fully realized in the past, and governments have for generations been trying to find effective reinforcements for their economies—measures or methods which, while preserving the essential vitality of the market place environment, would exert a general stabilizing influence upon the direction of over-all economic activity. The institution of central banking had itself emerged out of this search. And developments in the American economy following the last great depression and World War II had, at least potentially, increased the opportunities for effective monetary and credit control, while also opening up important new possibilities for Government action of a general stabilizing character.
In the American economy of 1953, a large and widely distributed Government debt provided the central bank with a broad range through which its open market operations could exert a contracyclical influence upon the credit and capital markets. A vast potential counterbalance to depression could also be created through the Government's fiscal policy. The high tax rates necessitated by the prolonged growth of Government expenditures provided leverage for increasing the spending power of consumers, as well as the incentives of business, through suitably timed tax reductions. Stimulus of that kind, exerting its influence through the free choices expressed by consumer demand and through business response to more profitable opportunities for production — without imposing the deadening effects of state dictation over individual decisions — might greatly strengthen the forces promoting stability in the modern market economy. In addition, a number of so-called “built-in” stabilizers had been put in place since the last great depression. Some, such as social insurance, were broadly consistent with the framework and the freedoms of a market economy; others were not; but all would tend to hold back, or cushion, the effects of general economic decline. Much had been learned, too, about the scheduling of needed public works to provide some counterweight to any substantial shrinkage in employment and production.

Balancing influences might produce more harm than good if they were invoked so quickly, and with such force, as to prevent the prompt though gradual correction or realignment needed as the economy adapted to changing patterns of consumer preference. But, suitably guided, they could serve to check the momentum of any cumulative downward force which might feed upon itself, after having been set off initially by the processes of essential readjustment. Thus, through helping to check decline and encouraging the underlying forces of sustained growth to reassert themselves through the mechanism of the market economy, Government and, to some extent, the central banking system had become able to play a greater role in the effort to approach nearer to sustained prosperity.

The year 1953 was also a pioneering year in working out the relationships between flexible monetary controls and the debt management aspects of Government operations. The year provided a convincing demonstration of the marked effects produced by relatively moderate shifts in monetary and credit policy, when the public debt is large and thus provides a medium through which the effects of changes in policy can be transmitted readily and widely. But it was also a year in which the Treasury had to place in
the market some 46 billion dollars of refunding and new money issues (exclusive of regular weekly Treasury bills, aggregating 19½ billion at the year end, that must be rolled over four times during the year). The fact that nearly a third of this Treasury borrowing was successfully completed early in the year, during a phase of increasingly restrictive money and capital market conditions, indicates the progress that had been made in establishing a *modus operandi* between necessitous Treasury borrowing and a flexible monetary policy. There were temporary difficulties at times, to be sure, and procedures for handling the interrelations between System policy and Treasury operations can no doubt still be improved. But the import of the year’s experience was promising for the future, in making clear that the needs of Treasury finance did not have to stand in the way of flexible adaptation of System policy to changing economic and credit conditions.

At the end of 1953, there was as yet no evidence of cumulative downward movement calling for a full mobilization of either the System’s or the Government’s powers for resisting depression. After a year in which it had established new records in employment, income, and production, the American economy could move from a position of strength to meet the challenge of 1954.

**Economic Strength Abroad**

Meanwhile in other countries, most notably in Western Europe, 1953 had shown a very different pattern. The lull in 1952 that had followed successful monetary and fiscal efforts to contain inflation continued into the early months of 1953. But by mid-1953, expansion had become general, including countries of such varied economies and problems as Finland and Greece, Italy and Norway. There were, of course, some deviations from the common pattern. Industrial production in Germany and Canada, and in India and Japan, for example, had expanded quite rapidly through part or all of 1952, as well as 1953. France, on the other hand, even fell below her 1952 performance, partly because of the inroads of serious nation-wide strikes upon production in the third quarter of the year. While industrial production in most Latin American countries apparently moved sideways with occasional declining tendencies, through both 1952 and 1953, raw materials output in these countries and in most primary-producing countries rose to new peaks in 1953. Agricultural
output was good in most countries, although not generally up to the unusual volume of 1952.

The prevailing impression at the close of 1953 was one of renewed strength. Visible inflation had largely subsided in 1951. The physical recovery of most domestic economies that had occurred following the early postwar years was consolidated in 1952, with relatively little forward movement. In 1953 domestic expansion was resumed. Moreover, the burdens of defense preparation seemed to be better borne, without upsetting economic balance. While most government budgets remained in deficit through 1953, the needed borrowing appeared to have been generally financed without inflationary consequences. External trade also grew. And most significantly, the gold and dollar holdings of the rest of the free world rose by 3.9 billion dollars, or by 21 per cent, over the twenty-one months following March 1952.

There were many explanations for this encouraging record; some depending on unique developments in one country, some related to American economic and defense assistance, and some depending on the fortunate combination of good harvests and current improvement in the terms of trade for manufacturing countries. But an important part of the answer seemed to lie in renewed reliance upon the functioning of the market place economy. Planning, more or less detailed, had served, and had often served well, for the tasks of concentrating a nation’s economic effort upon war or recovery from war, and for filling out patterns of production and distribution that had already been developed or established in earlier years. But when the enlargement upon old routines had been generally completed, and expansion depended upon the imaginative development of new products and new techniques to fulfill new and growing consumer demands (both at home and abroad), economies subject to detailed controls and the confining routines of centralized planning began to fall behind. The stimulus and guidance for experimentation, and for the allocation of resources to new tasks, was provided by the restoration of individual incentives and the functioning of a price mechanism that reflected the "priorities" of consumer choice.

Two outstanding examples tended to confirm this explanation. The Federal Republic of Western Germany, which paced the advance through 1953, had largely abandoned direct controls in 1949. The United Kingdom, having gradually dropped one wartime control after another, had by 1952 begun vigorously energizing the forces of market supply and demand.
Both countries also recognized a need for giving over-all orientation to their economies through broader and more diversified use of monetary and fiscal measures than had been customary in earlier years. Both enjoyed substantial gains in internal production through 1953. West Germany, despite the dislocations of war, and dismemberment from her granary and natural markets in the east, and despite the impact of ten million displaced refugees upon her employment and available resources, had steadily reduced unemployment from 10 per cent of the employable urban labor force in 1950 to 5 per cent at the end of 1953. Actual employment had risen more than 15 per cent over the same period; agricultural production by roughly 20 per cent; and industrial production by nearly 50 per cent. Gains in Britain were less striking because the initial levels were not relatively so low, and employment had continued "full" throughout the post-World War II period. But industrial production, having advanced only imperceptibly from 1950 through 1952 in the United Kingdom, rose by about 5 per cent in 1953.

The gains in the foreign trade and in the monetary reserves of these and other countries, and the temporary as well as the lasting factors contributing to these gains, are described further in later sections of this Report. The reassuring implication of the gains, however, was that dependence upon extraordinary dollar assistance had greatly declined, and that trade within Western Europe and between Western Europe and the rest of the world had moved considerably nearer to a self-sustaining basis.

Important as the internal and external achievements of other countries were during 1953, they did not provide the basis for complacent confidence in the future. Much remained to be done if their domestic economies were genuinely to flourish, and if a reasonably free flow of international trade were to be re-established. Trade barriers were still high. Most currencies were still inconvertible into dollars. All countries nervously pondered the effects of an American recession upon their trade and upon their internal employment. A serious setback could still recall the restrictive measures of "planned economies" which might assure stability at some level, even though they lacked the touchstone to an energetic and sustained expansion in response to the free choices of consumers. A reversal could also bring increased restrictions on trade, and further controls over the convertibility of currencies.

Nevertheless, 1953 had brought a significant change in tone and decided forward momentum. The challenge to the other democratic coun-
tries, like that to the United States, was to find the proper blend, for the conditions of each country, between expanded governmental responsibility of a general nature and the full encouragement of individual enterprise. If this challenge could be met successfully, the promise was great for assuring reasonable economic stability while preserving the opportunities for growth and for rising standards of living that had been revealed by the rediscovery of the strength of market economies.

The American Economy in 1953

The nation's farms and factories, stores and offices, and all other private and public enterprises turned out goods and services totaling 367 billion dollars in 1953, a gain of 19 billion dollars or 5 1/2 per cent over 1952, the previous record year. Since prices remained relatively stable, the greater part of this increase represented a rise in the physical volume of output. Yet, although most business indicators rose to new peaks during the course of 1953, only a few were rising at the end of the year. The gross national product, which had been growing irregularly but continually since the end of 1949, started to decline in the third quarter of 1953. In the fourth quarter, the seasonally adjusted annual rate of gross national product had slipped back to 363 billion dollars, less than 1 per cent above the fourth quarter of 1952.

Adjustments at High Levels

Much of the change within the year originated in an underlying shift in the supply and inventory situation. At the beginning of 1953, many raw materials, particularly basic metals, were in relatively short supply; stocks of steel and of fabricated items and parts made from steel were still being replenished following the steel strike in the summer of 1952. Manufacturers usually found it necessary to place orders for substantial quantities of raw and processed materials well in advance and, where possible, they endeavored to maintain protective inventories of scarce materials. At the start of the year, the use of steel, copper, aluminum, and other strategic materials was still subject to Government controls and allocations (and many prices and most wages were still subject to Government stabilization measures). By the end of 1953, however, the situation was reversed. Controls had been lifted earlier in the year, and raw materials were, almost without exception, more plentiful. With
prompt delivery schedules, manufacturers found it possible to operate with smaller stocks of materials and to cover their needs for a shorter period in advance. New orders for finished goods as well as materials were cut, while stocks and commitments were worked down; the shortening of the time between ordering and delivery tended to reduce the backlogs of unfilled orders, even when final demand remained unchanged. In certain lines, output rose faster than demand in the early part of the year, and in others, notably farm machinery, a decline in final demand caused inventories to rise all along the line; as a result, production and factory employment were cut back in the latter part of 1953.

This process of inventory adjustment, together with lagging demand in certain lines, had widespread effects. The output of almost every major industry (on a seasonally adjusted basis) was lower in the fourth quarter of 1953 than it had been earlier in the year. Total industrial production, as measured by the revised Federal Reserve index, had declined approximately 7 per cent by December (on a seasonally adjusted basis) from the all-time record set in July. A considerable part of the decline centered, however, in the production of steel and motor vehicles which, without any seasonal adjustment of the figures, was down about 25 per cent from the March and April peaks. In part, this more pronounced decline represented a basic readjustment, as these industries scaled back their operations after years of maximum production to meet demand backlogs. In part, too, this particular decline reflected a re-emergence of seasonal patterns of production and demand in these industries. During the years of sellers' markets and shortages, production had several times been stopped or reduced by major strikes but there had been very little seasonal variation. With the return of buyers' markets to these sectors of the economy in 1953, some resumption of seasonal patterns was to be expected. It was too early to tell how far the readjustment would go, but it did seem reasonable to expect fluctuations of production below the absolute peak of capacity in the future.

Alongside the readjustments in steel and some consumer durables, and the inventory corrections in other lines, a basic readjustment was continuing in agriculture. Improved techniques and expanded acreage had greatly enlarged agricultural production through the war and postwar years. With the passing of war-induced needs, and with the recovery and expansion of agricultural production abroad, American agriculture necessarily faced realignment. The consequent readjustments (reflected mainly
through falling farm prices, as harvested acreage remained large and physical output rose) had produced an over-all decline of 8 per cent in realized net agricultural income in 1952, and despite heavy Government support measures there was a further 7 per cent decline in 1953.

In view of the extensive adjustments in process, the decline in overall economic activity through the end of 1953 was relatively moderate. Actually, total consumer demand continued at peak levels throughout the year, as can be seen in the accompanying chart, and the drop in gross national product of approximately 8 billion dollars (seasonally adjusted annual rate) between the record second quarter and the fourth was actually less than the reduction in expenditures caused by the shift in inventory policy. In the second quarter of 1953, business inventories were being accumulated at a rate of more than 6 billion dollars a year; by the fourth quarter, inventories were being liquidated at a seasonally adjusted annual rate of 3 billion dollars.

![Gross National Product, 1950-53](image-url)
Sources of Strength in the Economy

In recent years, much of the stimulus to expansion had come from the combined effects of increases in defense spending, new construction, and business expenditures on durable equipment. During 1953, however, these sectors taken together accounted for less than one third of the growth in gross national product. The rise in final demand during 1953 instead represented largely higher personal consumption expenditures.

Defense spending remained on a plateau after the second quarter of 1952. At that time it accounted for less than 15 per cent of the gross national product and, subsequently, varied slightly below that mark. The stretching-out or canceling of orders for defense goods served to curtail further growth in defense spending and, in the final quarter of 1953, the annual rate of national security expenditures was slightly less than it had been a year earlier. Spending by State and local governments increased by 2 billion dollars during 1953, reflecting the continued need for schools, highways, and other types of public works, brought about by our growing and shifting population and by wartime deficiencies in maintenance and new construction. At the end of the year, demand from these other governmental sources was still strong.

Business expenditures on new plant and equipment continued rising only through the third quarter of 1953, but the total for the year was up 5 per cent over 1952. Expansion of industrial plants slackened as defense-supporting investment passed its peak, but there was a strong demand for modernization of facilities and for investment in labor-saving or cost-cutting equipment. At the close of the year, businessmen were reportedly planning a sustained high level of plant and equipment expenditures for the opening months of 1954. Residential construction was off to a good beginning in 1953, but the number of new dwelling starts declined after April, in part because of the temporary stringency in mortgage funds. For the year as a whole, however, over 1.1 million new dwelling units were started, only slightly fewer than in 1952; and the seasonally adjusted annual rate of private housing starts began rising again in September, as mortgage money became more readily available. In the fourth quarter of 1953, total investment in new construction and producers' durable equipment was at an annual rate approximately 2 billion dollars greater than a year earlier.

Consumer expenditures rose to new peaks in 1953; in fact, the year-to-year increase from the fourth quarter of 1952 to the fourth quarter of
1953 was more than triple the combined rise in Government defense spending and private investment in construction and equipment. This high rate of consumer spending accompanied a corresponding increase in personal income, reflecting record employment and somewhat higher wages. Even toward the end of the year, when nonagricultural employment had declined slightly from its previous high, total personal income was only 1 per cent below the July peak.

One feature of the consumer goods market in 1953, particularly in the automotive field, was the aggressive competition among durable goods manufacturers for a larger share of the consumer's dollar. A total of 6.1 million passenger cars was produced, the second highest year on record. Despite stepped-up sales effort by automobile dealers, in many cases involving large trade-in allowances or cash discounts, total new car inventories at the end of 1953 were about one-fourth greater than they were at the beginning. Radio and television manufacturers likewise increased production faster than sales, expanding inventories considerably. Appliance sales were better than in 1952, but not up to the 1950 record. On the whole, however, consumers spent more for durable goods in 1953 than in any previous year, and they were assisted in this by an expansion of more than 3 billion dollars in consumer instalment credit.

The dollar volume of expenditures for nondurable goods showed only a small gain during 1953. Since retail prices for nondurables declined moderately during the year, the physical volume of purchases appeared to have increased in line with the rise in population. Expenditures for services continued their steady long-term growth, partly attributable to higher rentals and increased costs of medical and personal services.

Continued Stability of Prices

The past year was one of notable price stability. The economy was able to shift from expansion to readjustment during the course of the year with little change in the over-all price level. Similarly, the final abandonment of controls on prices, wages, and practically all materials, and the signing of a truce in Korea were taken in stride with only moderate price changes. Wholesale prices at the end of 1953 were only ½ of 1 per cent higher than a year earlier, while the year's average was about 1½ per cent below the 1952 level. Consumer prices advanced less than 1 per cent both from December 1952 to December 1953 and on a yearly average basis. The over-all pattern of price stability, however, concealed some
marked changes in individual commodities or groups of commodities. The over-all stability which characterized prices was also true of wages. Average hourly earnings of factory workers advanced about 3 per cent from the end of 1952 to the end of 1953, but the average number of hours worked per week fell off by an equal percentage, leaving average weekly earnings approximately the same as a year earlier. The reduction in the work week reflected elimination of overtime operations and adoption of part-time work by many factories endeavoring to bring production and inventories into line with current demand. In addition, many workers were laid off, and at the end of the year seasonally adjusted factory employment was nearly one million lower than at the June peak and about half a million lower than in December 1952. Declines in other types of nonagricultural employment were much less marked and, in terms of annual averages, both nonagricultural employment and total income from wages and salaries set new records.

On the whole, the national economy weathered the many changes that occurred in 1953 with reassuring stability. The over-all decline following the second-quarter peak was moderate, and the aggregate measures of gross national product and national income in the fourth quarter were still above any point reached prior to the fourth quarter of 1952. Of course, as in all adjustments, some lines of activity were hit much harder than others, and aggregates or averages do conceal individual and personal hardships which accompany even modest economic readjustment. Nevertheless, although working hours were cut and unemployment was rising toward the year end, consumers continued to maintain their spending, thus cushioning the readjustment which was under way and preventing the downturn from becoming cumulative during 1953.

The Economy of the Second District

The Second Federal Reserve District shared in the nation's sustained high volume of business during 1953. It also shared in the downturn over the last half of the year but, in general, business probably held up in this area somewhat better than in many others. For 1953 as a whole, income payments in the Second District have been estimated by this Bank to be nearly 43 billion dollars, compared with slightly more than 40 billion dollars in 1952. This year-to-year increase of approximately 6 per cent slightly exceeded the rate of increase in the income of the rest
of the United States. The increase in District income was rather widely distributed; farmers were the only major group to experience a decline in income.

**Employment in Manufacturing Industries**

For the year as a whole, average District employment in durable goods manufacturing was greater than in 1952, while employment in nondurable goods industries declined slightly. These yearly averages, however, conceal significant changes that occurred during the course of the year. During the first half of 1953, aggregate factory employment (on a seasonally adjusted basis) continued the more or less steady rise of the previous three years, reaching its highest point since World War II in June. From then on it declined and by the end of the year had fallen to 5 per cent below the June level — approximately the same rate of decline as in the country as a whole.

By December 1953, Second District employment in durable goods industries was slightly below the level of a year earlier, but, as shown in the accompanying chart, this decline was concentrated in New York City, and a moderate rise was recorded for the rest of the District. In nondurable goods industries, on the other hand, employment in December 1953 had fallen below the December 1952 levels both in New York City and in the rest of the District, and the percentage fall for the District as a whole (4.8) was substantially greater than the decline for the country (2.4). This was primarily attributable to the fact that the women's apparel industry had a relatively slow autumn selling season; mainly because of unusually mild weather, the season started late and ended early. Employment in the textile, fur, shoe, and leather goods industries was similarly affected.

Largely because of layoffs at manufacturing plants, the number of unemployment claimants rose during the latter half of 1953. In December, insured unemployment in New York State totaled 244,000, an increase of over one fourth from December 1952 but otherwise the lowest number for any December since the end of World War II.

**Nonmanufacturing Industries Advance, But Agriculture Lags**

Nonfarm employment other than manufacturing advanced moderately during the past year in the Second District; in December, it set a new all-time record. The increase was a fairly general one, with construction
and government employment showing the largest year-to-year gains; the major groups reducing employment included railroads, wholesale trade, and real estate.

Construction contracts awarded in the Second Federal Reserve District were well above the 1952 level. Residential building lagged, and most of the gains came from nonresidential projects. Total residential building contracts awarded in this District were 7 per cent lower than in 1952, but actually all of this drop was attributable to the sharp cutback in public housing. Although industrial construction contracts declined 7 per cent, the net rise in nonresidential building activity reflected increases of one eighth in school building and nearly one third in awards for commercial buildings (including numerous suburban shopping centers and several large office buildings in New York City). The largest gains over 1952 were in public works and utilities, including some contracts for the New York State Thruway and other highway projects.

Second District consumers spent more money in retail stores in 1953 than they did in 1952. Automobile dealers and household appli-
ance and radio stores were the chief beneficiaries of this increased spending. Department stores, on the other hand, barely kept pace with 1952; a decline in New York City was offset by gains in most other trading areas in the District. Beside continuing their over-all spending at a relatively high rate, consumers also increased their savings in such institutions as savings banks, savings and loan associations, and insurance companies. At the same time, however, consumer instalment credit continued to rise.

Mainly because of declining prices, farmers in the Second District received approximately 6 per cent less for their output in 1953 than they did in 1952, even though they marketed a greater quantity of farm products. Farm prices in New York State averaged 14 per cent lower than in 1952, while in the country as a whole prices received by farmers dropped about 10½ per cent. Income from marketing of crops in New York State dropped much more than that from dairy, poultry, and other livestock products. In part, this reflected the effects of drought on truck crops and fruit and the sharp fall in potato prices from the previous year's unusually high levels.

Federal Reserve Credit Policy

Tightness and Relaxation

The economic developments during 1953 described in earlier sections of this Report called for a high degree of adaptability in Federal Reserve policy. Monetary and credit policy moved from restraint in the opening months, when the boom levels at which the economy was operating created potentially inflationary demands for credit, to positive ease as economic activity slackened in the closing months of the year. The availability and cost of credit in New York City, the nerve center of the credit structure in the United States, was a focal point during the year for the changing impact of Federal Reserve policies aimed at creating money and credit conditions conducive to economic stability.

Even though the risks of a general, surging inflation did not appear to be great in the early part of 1953, the nature and strength of demands for credit indicated developments in the economy which gave cause for concern. Business demands for credit were unusually large for that period of the year; during the first four months, seasonal repayments of business loans in the principal cities were almost completely offset by contraseasonal business loan extensions to other borrowers. The failure of
business credit to decline seasonally at this time reflected, in part, the funds needed to carry inventories which had been increased sharply toward the end of 1952 and which continued to grow through the first half of 1953. Consumer credit to finance purchases of durable consumer goods, after having grown rapidly in the last eight months of 1952, was another area of persistent demand for new bank credit during the first few months of the year. Occurring after a lengthy period of economic expansion, there was danger that the temporary support these developments provided to the economy would, when it ran out, set the stage for a more serious economic adjustment than would otherwise have been necessary.

In view of this situation, the Federal Reserve System in the opening months of 1953 continued the policy of restraint upon the availability of credit that had been followed during 1952. Discount rates at the Reserve Banks were increased in January from 1¼ to 2 per cent to bring them in line with market rates of interest, which had risen in response to earlier measures of credit restraint, and to signalize and symbolize a continued policy of moderate restraint. Open market operations, including a decline in repurchase agreements, were employed to absorb reserve funds as they became available to the banks. During the first two months, the return of currency from circulation, the decline in required reserves, and the net influence of all the usual seasonal factors gave member banks access to almost 1 billion dollars of available funds exclusive of discounts or advances from the Reserve Banks. But sales and redemptions from System holdings of Government securities, including a sizable reduction in the volume of securities held by the Federal Reserve Bank of New York under repurchase agreements at the end of 1952, absorbed most of these funds. By the end of April, the net availability of reserve balances to member banks, exclusive of borrowing, was about the same as it had been at the close of 1952.

Open market policy during the first four months of 1953 had the effect of maintaining steady pressure on member banks’ reserve positions and thus on their ability and willingness to assume new credit commitments. Of course, during the period of credit restraint member banks had the privilege of borrowing at their Reserve Banks to make necessary individual reserve adjustments. But the reserves acquired by borrowing are not viewed as wholly owned resources of the borrowing bank. When reserves upon which new credit creation may be based are obtainable only through borrowing, the knowledge that these funds are only tem-
porarily available, and must be repaid, creates an atmosphere of money tightness. This is what happened early in 1953, causing the individual banks to adopt more cautious lending and investing policies. The following chart illustrates the complementary roles played by open market operations and discount policy in maintaining first restrictions and then easier money conditions during the year.

![Chart: Member Bank Borrowing and Excess Reserves]

The central reserve New York City member banks were called upon during January to absorb the major part of the pressure upon member banks throughout the country which resulted from the withdrawal of Federal Reserve credit in that month. This pressure upon the New York money market culminated almost a year of steady drains on New York City. As they had in previous months, the New York City banks relied
largely upon sales from their holdings of Government securities to make
adjustment for the demands upon them during January. The strain
upon New York City banks apparently reached a peak in January and,
although the New York banks remained under pressure as steady re-
straint was maintained upon the banking system during the following
three months, the necessary further adjustments in total reserves were
made almost exclusively outside New York City.

By May, it had become apparent that inflationary pressures had
receded while the economy continued to operate at high levels. Accord-
ingly, the emphasis of credit policy was shifted from efforts to limit bank
reserves and the growth of bank credit toward a controlled release of
Federal Reserve credit in a volume sufficient to provide for the market's
anticipated seasonal credit requirements. The shift in credit policy repre-
sented an effort to alleviate the more acute phase of money market strin-
gency which developed at that time for a variety of reasons. Among them
were the unexpectedly large continuing demands for bank credit from
private borrowers and heavy corporate and municipal demands on the
capital markets. Most important, Treasury tax collections on 1952 in-
comes proved to be smaller than anticipated and, as the months passed,
estimates of the volume of necessary Treasury borrowing over the re-
mainder of the year increased.

Beginning with the second statement week in May, purchases of
Treasury bills for the System Open Market Account were made in moder-
ately large volume over the balance of the month. Despite the provision
of reserves through these purchases by the System, however, the market
was slow to realize that a shift in credit policy had taken place. Influenced
by expectations of a large volume of private demands for credit during
the remainder of the year and what appeared to be a sudden expansion
of Government demand, the credit markets continued to tighten through
the month of May.

To meet this situation the Federal Reserve System stepped up its
purchases of short-term Government securities, and a large volume of
reserves was supplied in this way during June and the first week of July
to implement the redirection of credit policy that had taken place earlier.
As a result, in early June the upward movement of interest rates came to
an end and a pattern of declining rates developed which continued subse-
quently over most of the balance of 1953. And on June 24, the Board of
Governors of the Federal Reserve System announced that reserve require-
ments on all classes of member banks were to be lowered in early July. This action released more than 1 billion dollars of reserves to the member banks. The reduction in reserve requirements was particularly useful in a situation where a relatively large volume of reserves, widely distributed, was needed at one time. In combination, the reserves released through open market operations and the reduction of reserve requirements were ample to assure the banks and all other investors that the expected volume of private and Government borrowing could be absorbed without unwarranted pressure on the supply of credit.

As the summer passed, the apparent balance in the economy between inflationary and deflationary forces that had developed in the late spring became instead a balance between tendencies toward stability and toward corrective adjustments at lower levels. Against this backdrop, Federal Reserve credit policy shifted gradually to a policy of ease. Through September commercial banks, on balance, reduced their Government security portfolios, reflecting in part the secondary distribution of some of the new securities which were issued in large amount to the banks in the Treasury's July financing. Nonbank purchases of the securities sold by banks in the summer months released member bank reserves to meet other demands upon the banks for credit, and further large System security purchases were not made until September. Indicative of the easier supply of reserves, average daily borrowing of member banks from their Federal Reserve Banks fell by 700 million dollars between April and September, while at the same time excess reserves were increasing moderately. As shown in the chart on page 24, excess reserves of member banks first rose above borrowings in June, and over the remainder of 1953 excess reserves fell below borrowings on only a few occasions.

Execution of Federal Reserve policy during the summer and fall months at times resulted in sizable accumulations of free reserve balances in the banking system. For example, when the demand for commercial bank credit failed to develop during September and October in the expected seasonal volume, the reserves that had been released to the member banks in advance of the actual need for the funds — so as to avoid any degree of credit tightness when the anticipated demand did arise — were added to member bank excess reserves, used to repay indebtedness at the Reserve Banks, or to purchase short-term Government securities. As a result, the most sensitive market rates dropped sharply in the early fall and firmed only moderately during the period of greatest
seasonal pressures, and other open market rates declined almost steadily through the latter part of 1953. Federal Reserve security purchases were suspended for a few weeks in October but were resumed when seasonal demands on the banking system increased toward the year end. The decline in System security holdings in November, shown in the chart, reflected the sale to the Treasury of 500 million dollars of securities in exchange for gold certificates issued against part of the Treasury’s “free gold”. The operation made it possible for the Treasury to avoid breaching the public debt limit and did not affect member bank reserves.

Despite the maintenance of an adequate supply of reserves in the banking system as a whole, seasonal money flows tended to exert tightening influences in the New York City money market during November and December. But the atmosphere in the money market during the 1953 period of year-end adjustments was not at any time allowed to develop into outright money tightness. To aid in preventing the localized pressures during November and December from creating temporary conditions inconsistent with underlying credit policy, the Federal Reserve Bank of New York made repurchase agreements freely available to dealers in Government securities, and in December such agreements were made at a rate of interest lower than the discount rate. As described in a later section of this Report, repurchase agreements are peculiarly appropriate for dealing with temporary forces that would otherwise produce stringencies in the central money market.

At the year end, the Federal Reserve Banks stood ready to supply the banking system with whatever funds might be needed to assure that the processes of economic readjustment then under way should not be complicated by shortages of credit or by high financing costs.

Bank Credit and the Money Supply

The combined effects of credit policy and of changing economic conditions are apparent in the course of bank credit developments in 1953. Total loans and investments of all banks (including savings banks) in the United States declined by 2.5 billion dollars during the first six months, whereas in the similar period in 1952 they had increased by 2.7 billion dollars. But the intensity of private demands for credit in 1953 is measured by the fact that, even though further restraints were exerted by credit policy, the loans of all banks increased by 1.6 billion dollars in the January-to-June period. It was an indication of the pressures on
bank reserve positions during most of the first half of 1953 that the banks much more than offset the additional loans they acquired by the sale of 4.1 billion dollars of securities. In 1952, the larger loan expansion had been accompanied by an increase of 500 million dollars in security holdings.

For the last half of 1953, on the other hand, bank loan and investment data reflected the slackening in over-all business activity and the coincident easing of the pressures on bank reserves. Loans increased by 4.1 billion dollars, whereas in that period of 1952 they grew by 5.8 billion dollars. The growth during the period of seasonal expansion this year was relatively moderate for several reasons. Among these were the so-called "Mills plan" for corporate tax collection which has increasingly concentrated corporate tax payments in the first two quarters of each year, anticipatory borrowing by businesses in the spring in expectation of even tighter money conditions in the fall, and other influences. But the less-than-seasonal demand for credit probably reflected primarily the end of the rapid accumulation of business inventories and the gradual softening in the economy. The effects of the easier access to Federal Reserve credit at this time were visible in the security investments of banks. Banks added 5.1 billion dollars of securities to their portfolios, more than twice the amount added in the last half of 1952.

For the full year, the 6.6 billion increase in banks' total loans and investments was much less than the 10.8 billion dollar growth in 1952 (which was by far the largest increase on record except for the war years) and was smaller than any year since 1948, when banks' earning assets actually declined. Loans grew by 5.7 billion, less than three-fourths as much as in 1952, while total security investments increased by 0.9 billion dollars, compared with an increase of 2.9 billion in 1952. Despite the larger volume of Treasury borrowing in 1953, banks' holdings of Government securities at the year end were only 40 million dollars larger than a year earlier, in contrast to the 1.4 billion growth in the previous year.

Among the other noteworthy bank credit developments in 1953 was the apparent leveling-off in consumer borrowing at commercial banks. The rapid growth of consumer loans after the removal of selective control over this form of credit in May 1952 was a principal factor in the total growth of bank loans. During the first six months of 1953, the increase in consumer loans continued to be an important element in the credit picture. "Other loans" at the weekly reporting member banks, a category containing principally consumer credit, grew by about 700 million
dollars in the first half of the year, more than two fifths of the total loan expansion at all banks. In the last half of 1953, however, the total of these loans remained practically unchanged as, after more than a year of steady expansion, the increasingly heavy volume of repayments on outstanding loans caught up with the volume of new loans being made.

The net expansion of bank credit in 1953 to meet Government and private credit needs involved only a relatively small increase in the money supply (defined as demand deposits adjusted plus currency outside banks). The $4.5 billion dollars that individuals added to their savings deposits during the year provided funds to cover much the largest part of the total expansion in bank credit. And purchases of Government securities by nonbank investors, on balance, provided the Treasury with most of the funds it required, thus avoiding the expansion of the money supply that would have resulted if these securities had been absorbed by the banks.

From December to December, privately owned demand deposits, the most important component of the money supply, increased by about 1.8 billion dollars and currency outside banks increased by approximately 300 million dollars. The money supply thus grew by only 2.1 billion dollars, or 1.6 per cent. The rate of demand deposit turnover increased by 7 per cent in 1953 at New York City banks, by 5 per cent at six other leading financial centers, and by 3 per cent in the rest of the country. Apparently a more efficient use of the existing money supply partly took the place of an increase in that supply to provide for an enlarged volume of dollar transactions in the year just completed.


The shifting course of credit policy and of the demands for credit during 1953 were mirrored in the money market and the Government securities market by the pattern of interest rate developments. As the pressure of demand for credit against the limited supply of banking funds steadily increased the strain on the banking system during the first five months, interest rates rose to the highest levels of the past two decades. However, the relaxation of credit policy which began early in May and the relatively less active demand for credit during the last seven months of the year brought about a rapid decline in interest rates.

In the first two months of 1953, the reserves made available to member banks through the usual seasonal factors influencing the supply
of reserves were almost all absorbed by sales and redemptions of Treasury bills from the System Open Market Account and the resale to dealers of short-term securities held under repurchase agreements at the Federal Reserve Bank of New York. Also, the increase in the Federal Reserve Banks’ discount rates in January was widely interpreted as a signal that the credit authorities did not intend that the money market should become easier. Confronted with a steady demand for loan accommodation from their customers and a supply of available funds that was consistently less than this demand, banks found it necessary to liquidate secondary reserve assets to secure the funds they needed. Borrowing from the Reserve Banks was, of course, a widely used alternate source of funds. But, in the absence of any prospect that the money market would turn easier in the near future, banks could view borrowing only as a stopgap until the more fundamental portfolio adjustments could be made.

As mentioned earlier, the impact of System policy in January was absorbed initially by the New York City money market banks. Their loans and investments were reduced by 900 million dollars in that month. Earning assets remained practically unchanged at the reserve city banks and actually increased at the country banks. During the following three months, however, although New York City continued as the market through which cash and securities flowed to effect interbank and inter-regional corrections, the increasingly illiquid position of the City banks restricted their ability to cushion the impact of the flows through changes in their own portfolios.

The pressure of commercial bank selling of Government securities at this time, despite net nonbank investment demand during most of the period, resulted in almost steady upward pressure on yields of short-term Government issues and on other market rates of interest. Simultaneously, the very large volume of new municipal and corporate offerings and the sale by the Treasury on May 1 of its first long-term bond issue since 1945 exerted steady upward pressure on long-term interest rates. Another factor in the market was the expectation, partly based on interpretations of statements which the market considered official, that credit and debt management policies would bring about still higher interest rates. This expectation encouraged investors to hold cash or very short-term securities and encouraged borrowers to come into the market in advance of their need for the funds, adding measurably to the pressure on interest rates. The movement toward higher rates accelerated in the last half of April and
the opening days of May, as increases in the relatively sticky customer loan rates to prime borrowers at the leading commercial banks and in official mortgage rates gave renewed impetus to the upward trend.

As already noted, the shift of credit policy early in May was not reflected immediately in the credit and capital markets. Despite the weekly purchases of securities by the System, the accumulating strains in the credit structure resulted in a shaky Government security market. To meet this development and to indicate in unequivocal terms that the unavoidable needs of the Treasury for large-scale borrowing and the expected seasonal credit needs of business would be met, increased purchases of Treasury bills were made aggressively for the System Open Market Account beginning on June 2. Also, moderate purchases of Treasury bonds were made for Treasury accounts and these purchases, at first, were rumored to be for the System Open Market Account. The purchases halted the upward spiraling of interest rates. Further heavy purchases throughout the month for the System Account and the reduction in reserve requirements announced on June 24 eased credit conditions substantially, and yields on Government securities declined rapidly from the high levels they had reached in early trading on June 2. Nevertheless, market sentiment still was not sufficiently confident to enable the Treasury, in its July financing, to offer without considerable risk securities with a maturity of more than one year.

The money market remained relatively easy during the balance of the summer, and market rates of interest tended to hover around the end-of-June levels. In the bullish market atmosphere during the last four months of 1953, steady net buying of short-term Government issues by nonbank corporations, and a growing tendency for investors to swap shorter for longer maturities in anticipation of still lower market rates, were important influences in enabling the Treasury to finance at declining rates and in longer maturities. By the end of December 1953, prices of Government issues had more than recovered their losses in the first five months of the year, and yields on all issues throughout the maturity structure were below year-earlier levels.

*Changing Blends of Policy: Open Market Operations, Repurchase Agreements, and Discounting*

The emphasis given any one of the instruments of credit policy during the past year, and the manner in which the several instruments were
employed in combination to achieve the objectives of credit policy, were
determined by the nature of the economic and credit situation which
policy was intended to influence. For example, on February 20, during
the period of restrictive credit policy, margin requirements on loans
collateralized by corporate securities were reduced from 75 to 50 per cent.
This apparently inconsistent action was based upon the conclusion that
the situation in the stock markets contained no threat of inflationary
loan expansion, and that restrictive measures should be relaxed promptly
once the need for them had passed. Probably the greatest strength of
money and credit regulation as a medium of public policy — when the
central bank is free to pursue a flexible policy — lies in its ready adapta­
bility to changing circumstances. The year just ended provided a number
of illustrations of that adaptability.

During the first four months of 1953, under a policy of limitation
on the supply of credit, Federal Reserve policy relied to a considerable
extent on the discount mechanism. Open market operations were employed
to soak up reserves accruing from other sources so as to maintain generally
the same relative availability of reserves as in late 1952. But the applica­
tion of increased pressure on banks, in order to translate the limitation
on banking reserves into a general limitation on the supply of credit
available to borrowers, was brought about largely through the discount
apparatus. First, discount rates were increased in January. Then, as
the demands for credit pressed on the limited availability of reserves,
more and more banks which had not previously found it necessary to
borrow found it increasingly difficult to maintain their reserve positions.
At the sustained high level of borrowing from the Reserve Banks, the
eventual, unavoidable portfolio adjustments of the borrowing banks, when
reserves failed to appear from other sources to repay borrowing, reduced
the liquidity of other banks, forcing them to borrow. Taken in the
context of banks' traditional reluctance to be in debt to the Federal
Reserve Banks, particularly when that reluctance is stimulated by official
pressures against excessive or continuous borrowing as it was in early
1953, the continued heavy volume of discounting forced banks throughout
the country to reappraise their portfolios and policies.

After Federal Reserve credit policy shifted from restraint, first to
the relaxation of restraint, and then toward ease, open market operations
became more important, the discount mechanism less important. Funds
supplied through the reduction in reserve requirements and through open market purchases during the last seven months of 1953 anticipated the need for reserves and generally enabled member banks to meet the demands on them without incurring indebtedness to the Reserve Banks. Even when total reserves were quite ample, however, some volume of borrowing remained, as the discount privilege operated as a "safety valve" to facilitate the adjustment of reserve positions of individual banks. But security purchases in anticipation of the need for funds became the active instrument of Federal Reserve policy, and the discount mechanism became a passive instrument, useful for particular individual situations, but not a source of reserves upon which the banking system as a whole would have to depend.

While regular open market operations are one of the more flexible instruments of credit policy, they can hardly be sufficiently flexible to meet all the sharp fluctuations that occur from time to time in the supply of funds in the central money market. At times the strains imposed upon the central money market require the Federal Reserve System to take actions directed specifically to that market if it is to avoid a localized stringency that otherwise might have repercussions throughout the credit system.

For this purpose, the Federal Reserve System employs repurchase agreements with nonbank dealers in U. S. Government securities. These agreements enable dealers to sell short-term Government securities to the Federal Reserve Bank under an agreement to repurchase the securities within fifteen days. Usually the rate charged for this accommodation has been equal to the discount rate, but in earlier years the rate was temporarily moved below the discount rate at times when the System wished to encourage use of the facility to relieve seasonal pressures on the money market. In December 1953, a temporary reduction of this type was made in the repurchase agreement rate to facilitate the accommodation of year-end demands for funds. The dealers bought large amounts of short-term Government securities, sold by corporations and others to obtain needed funds, and were able to carry them without incurring a substantial rate penalty by selling them temporarily to the Reserve Bank. In this way, the concentrated impact upon the money market of the seasonal demand for liquidity before the year end was prevented from causing a degree of tightness in the money center inconsistent with the System's current policy of ease.
The Sources, Uses, and Cost of Funds

The demand for capital and the supply of savings came much more nearly into balance in 1953 than in the previous three years. Consequently, the volume of additional bank credit absorbed by the capital markets declined substantially. Over the year as a whole, there was also a marked reduction in the growth of short-term bank credit used by business and consumers. But the balancing forces were not at work uniformly throughout the year. High demand, and expectations of even higher demand ahead, along with a restrictive Federal Reserve credit policy, brought a continuing rise in the cost of capital and bank credit over the first five months of the year. For reasons mentioned earlier in this Report, market conditions and financing costs eased after the beginning of June.

The Over-all Pattern of Borrowing and Lending

For the year as a whole, aggregate satisfied demands for credit (exclusive of credit advanced outside the banking system) and for capital funds amounted to an estimated 28$\frac{1}{4}$ billion dollars, compared with 27$\frac{3}{4}$ billion in 1952 as shown in the accompanying chart. (If consumer loans by nonbanks were included, the total would have been more than 30 billion dollars in 1953, virtually unchanged from the corresponding total in 1952.) A decline in the demand for additional bank credit in 1953 was more than offset by an increase in the use of long-term or capital funds. Outstanding short-term commercial bank loans (other than real estate loans and term loans to business) rose by an estimated 3 billion dollars in 1953, in contrast to the rise of more than 4$\frac{3}{4}$ billion in the preceding year. Short-term business borrowings from the banks actually declined slightly, but this decline was more than offset by increases in agricultural loans and loans to finance security market transactions and consumer purchases. However, net new borrowing by security dealers and investors and by consumers was smaller than in 1952. The gain in agricultural loans, on the other hand, was larger than in the preceding year, reflecting principally bank purchases of Commodity Credit Corporation certificates of interest.

In the aggregate, the use of new long-term funds rose to a new peak of about 25$\frac{1}{4}$ billion dollars, about 2$\frac{1}{4}$ billion more than in 1952. Demands from mortgagors, State and local governments, and the Federal Government rose; corporate needs for additional funds declined. The increase in the combined demands for funds of all levels of government more than
accounted for the over-all growth in net new uses of funds. Private net demands in 1953 were slightly less than in 1952. The need for increased State and local government facilities and services — the major substantial backlog of demand left from the war and prewar years — remained urgent during the year. New security flotations to finance peak public construction expenditures and for other capital purposes consequently exceeded 5.4 billion dollars in 1953, the first 5 billion dollar year in history. Maturities of outstanding issues and sinking fund retirements reduced net borrowing to 3.5 billion dollars, 30 per cent larger than in 1952. Cash borrowing of the Federal Government from the public (net of cash retirements) also was larger in 1953 than in 1952, rising to 5.1 billion dollars from 3.4 billion. The Treasury's cash deficit of over 6.0 billion dollars in the calendar year was too large to be financed through borrowing without piercing the 275 billion dollar ceiling on the public debt, or through use of its cash balances without drawing them down below minimum
working levels. The Treasury, therefore, limited the reduction of its working funds to 1 billion dollars over the year, and in November used half the “free gold” remaining from the dollar devaluation of 1934 to purchase 500 million dollars of Government securities from the Federal Reserve Banks. This enabled the Treasury to borrow an equivalent amount from the public and thus to use this gold without effecting an inflationary increase in commercial bank reserves.

Despite some tightness in the home mortgage market through much of the year, mortgage credit was extended on a larger scale in 1953 than in any other year except 1950. In view of the substantial demand for office space and other commercial structures, easier supplies of building materials set off a marked expansion of commercial construction, which in turn brought on a sizable increase in the mortgage financing of commercial buildings. Farm mortgage debt also increased. Although builders of single-family homes reported difficulties in obtaining loan commitments for new construction in the spring and summer of 1953, a large carry-over of committed funds from the preceding period permitted a substantial volume of construction and financing of one-to-four-family homes. The combined net demand for new mortgage money amounted to an estimated 9½ billion dollars in 1953, about 1 billion more than in 1952.

The corporate use of new long-term funds was less in 1953 than in 1952. The estimated total of net new security flotations (including private placements) and of term loans from banks declined some 1½ billion dollars to 7 billion, even though capital requirements rose as a result of a sizable increase in working capital needs and, to a lesser extent, of enlarged plant and equipment outlays. Increased internal funds, including both retained earnings and depreciation allowances, provided a greater proportion of the necessary corporate funds in 1953 than in 1952. In addition, larger tax accruals were a temporary source of working capital.

Nonbank investors provided a larger proportion of the requirements for long-term funds than in any postwar year since 1950, as liquid savings grew in response to higher interest rates and larger disposable income. Nevertheless, funds from nonbank sources fell short of effective demand, and the banking system accounted for the difference. Net new bank credit made available to the capital markets, however, was considerably less than in 1952, principally reflecting reduced net purchases of
Government securities. Total short-term bank loans outstanding also rose less than in 1952.

**Conditions in the Capital and Credit Markets**

During the first five months of the year, the influences described in the preceding section of this Report brought about marked declines in security and mortgage prices; and financing costs in general rose. The marketing of new corporate and municipal security issues became difficult, as successive new issues fell below initial offering prices, with resultant underwriting losses. The spread between yields on new and outstanding securities was consequently widened. Investment bankers, because of these marketing difficulties, in some instances refrained from bidding for new issues. In other cases, corporate and governmental issuers, dissatisfied with the rates of interest required, voluntarily withdrew or canceled bond offerings that had been prepared for actual marketing. The volume of new capital flotations nevertheless was impressive, although refundings were at a minimum.

Conditions in the new issue market turned around in the second half of the year, and bond prices rose and yields fell. Many new corporate and “municipal” issues went to premiums on initial offering, and underwriters were able to dispose of a large volume of new securities with little market friction. Some of the new issues postponed in the first half of the year came to fruition in the second. Despite generally declining common stock prices during much of 1953, new equity financing was well sustained, reflecting substantial demands for the better grades of stocks. The Treasury’s financing experience followed a time pattern similar to that of corporate and State and local government issuers.

Mortgage market conditions also tightened during the first half of 1953. The tightening was confined primarily to loans on small homes guaranteed by the Veterans’ Administration (VA) or insured by the Federal Housing Administration (FHA). Both commitments for future VA and FHA loans and permanent VA and FHA mortgage money on completed homes that had been financed with temporary loans became more difficult to obtain. A major factor was the relative unattractiveness of the rigid official rates on such loans compared with the increased yields on corporate and other security issues, even after the May 2 increase in the rates on VA and FHA loans to 4½ per cent from 4 and 4¾ per cent,
respectively. However, funds for higher-yielding conventional small-home mortgages (and for mortgages on multifamily and commercial buildings as well), rates on which are more flexible, remained in good supply during the first half of 1953 (and in fact throughout the year).

Although some easing of the market for VA and FHA home mortgages developed during the second half of the year, the relaxation was not so pronounced as in the security and money markets. Yields on Government-underwritten and other mortgages, therefore, became more attractive relative to bond yields, and the demand for them increased. The lending practices of some major institutions remained somewhat cautious, however. But by the year end, there was a renewal of interest in existing insured or guaranteed mortgages, and prices rose moderately.

Conditions in the short-term credit market were likewise tight in the first half, reflecting the strain on commercial bank reserves. Business borrowers encountered resistance from the banks in obtaining increased lines of credit or additional working funds, and consumers borrowing on instalment loans generally found the banks (and other lenders) requiring larger down payments and shorter periods to repay. Easing of credit conditions in the second half of the year was accompanied by freer availability of bank loans for business and some relaxation of credit terms on consumer loans.

**Financing Costs**

Despite the sharp changes in credit and capital market conditions during the year and the accompanying adjustment in financing costs, interest rates and security yields determined in the open market were, at the year end, either little changed from or below the quotations prevailing at the end of 1952. As shown in the accompanying chart of security yields, the rise in yields in the first half was in large part canceled by the fall in the second half. Shorter-term yields ended the year well below the levels at which the year began, the shorter the maturity the larger the decrease from the year-ago level. The spread between the yields on long-term corporate and Government bonds increased about 3/2 of 1 per cent over the year, as the market for Government securities reacted more sensitively to the changing credit conditions. Preferred stock yields followed the pattern of corporate
bond yields, but a marked increase in the rate of return on common stocks reflected not only the decline in stock prices in the first nine months of the year, but also the increase in dividends during the year.

Interest rates other than those set in the open market, including business, consumer, and mortgage loan rates, remained close to the higher levels established during the first half of the year. Bank loan rates to business and consumers were raised during the early part of the year and were not generally reduced later in 1953. In April, the rate on prime commercial loans rose ¼ of 1 per cent to 3¼ per cent, the highest since March 1934. In addition to the May rise in the rate on VA and FHA loans to a uniform 4½ per cent, rates on conventional mortgages generally moved up ½ of 1 per cent to a prevailing rate of 5 per cent in the Northeastern and Midwestern States, and to higher rates in other sections of the country. In trading in outstanding small-home mortgages in the secondary market, VA and FHA loans sold at sizable discounts from
par during the first half, with a moderate narrowing of the discounts
during the second half of the year.

The Balance of Payments of the United States

Foreign Dollar Gains

Substantial gains of gold and dollars by foreign countries as a whole
(including international institutions), which had begun in the spring of
1952, continued throughout 1953. The net increase in these holdings
arising from transactions with the United States totaled approximately
2.3 billion dollars, compared with gains of 1.6 billion during the last
three quarters of 1952 and an over-all gain in that year of 1.2 billion.
The principal influences responsible for these gains were a continued
high rate of merchandise imports into the United States and a substantial
decline in our commercial exports, along with sharply increased purchases
of foreign goods and services by our armed forces abroad. A continuing,
although declining, flow of economic aid also contributed indirectly to
the dollar reserves of some countries. Improvement in the foreign supply
of coal and some agricultural products, growing recourse to nondollar
sources for other types of commodities, and such restrictions against
the import of dollar goods as were maintained, all contributed to reduced
merchandise exports from this country during the year.

The over-all United States export surplus of goods and services
declined from close to 5.0 billion dollars in 1952 to approximately 4.9
billion in 1953. In the latter year, however, a considerably larger share
of our exports — as much as one fifth — consisted of military equipment
and services made available under the Mutual Security Program; exclud­
ing this aid, the 2.4 billion dollar surplus registered in 1952 declined sharply
to a surplus of only 500 million. (All 1953 data in this section of this
Report are preliminary.)

United States exports of goods and services (excluding military aid),
amounting to 17.0 billion dollars, were noticeably below the 18.2 billion
of the previous year. Since services sold to foreigners declined only
slightly, this drop reflected almost entirely a reduction in merchandise
exports, with a substantial share of the decline being borne by farm
products, particularly cotton and wheat. Exports of fuel and of industrial
raw materials and semimanufactures also declined. On the other hand,
with domestic merchandise imports rising by only 0.2 billion, the over-all
increase in total United States payments for imports of goods and services from 15.8 billion dollars in 1952 to 16.5 billion in 1953 resulted mainly from larger tourist and military expenditures abroad. U. S. Government purchases of foreign goods and services, both for use by our overseas forces and for transfer to aid-receiving countries, as well as troop expenditures overseas appear to have totaled around 2.5 billion dollars, as against 1.9 billion in the preceding year.

The outflow of private direct investment capital, which continued at a moderate pace, was largely offset by a return flow of portfolio and other long-term capital as foreign countries, among them Canada and Australia, reduced some of their outstanding long-term indebtedness to the United States; in addition, there was a considerable reduction in foreign commercial indebtedness. As a result, the net outflow of private capital dropped to less than 500 million dollars from 1,100 million in 1952. Similarly, the net outflow under U. S. Government credits was brought down to 220 million dollars from 410 million in 1952 by substantial repayments of principal by foreign countries. For the Export-Import Bank alone, however, net disbursements rose to 342 million dollars, from 207 million in 1952, mainly because of a 100 million dollar disbursement to France to presfinance arms deliveries under offshore procurement contracts and a 300 million dollar disbursement to Brazil to expedite liquidation of that country's commercial indebtedness to United States exporters.

The increases in foreign gold and dollar assets, resulting from these various factors, did not benefit all major trading areas alike. The industrial countries of Western Europe, together with Japan, were the chief gainers.

*Foreign Aid*

United States foreign aid during 1953 was directed primarily toward strengthening the military position of the free world, in particular of the Western European members of the North Atlantic Treaty Organization (NATO). With economic recovery well advanced in all except a few countries, emphasis was placed mainly on the direct furnishing of military equipment and supplies by the United States. Total Government aid to foreign countries, in the form of grants and loans, rose to 6.3 billion dollars from 4.9 billion in 1952, the highest level for any postwar year; military aid accounted for almost 75 per cent of all grants, as against slightly below three fifths the previous year.
In July, Congress voted $4.5$ billion dollars (of which $3.2$ billion were for military assistance alone) in new aid funds for fiscal year 1954; the original Administration request had been for $5.8$ billion. At the same time, the aid legislation established June 30, 1956 as the terminal date for the disbursement of economic aid funds, with an additional twelve months being granted for the expenditure of military aid appropriations. A substantial volume of aid over the remaining span of time until the cutoff dates is virtually assured as a result of the large backlog of funds, voted under earlier appropriations, as yet unexpended.

An increasing share of this type of assistance will be in the form of offshore procurement, i.e., the purchase with dollars of foreign-produced military equipment for NATO use. During the fiscal year 1953, offshore procurement orders aggregating $1.6$ billion dollars were placed in fifteen Western European countries, compared with $629$ million dollars in the preceding twelve months; perhaps as much as an additional $1$ billion may be contracted for in the current fiscal year. However, because of the often lengthy production processes involved, this particular aspect of our military aid is only now becoming a factor of major importance, and the main impact of these freely spendable dollar earnings is not expected to be felt by the producing countries until fiscal year 1955. In addition to dollar receipts from offshore arms orders, there are, as already mentioned, several other types of transactions—all arising out of our military commitments in Europe and elsewhere—which are instrumental in providing foreign countries with substantial amounts of dollar exchange in the immediate period ahead.

**Financial and Economic Developments Abroad**

**The Pattern of Prosperity**

In most foreign countries the year 1953 was marked by high and rising industrial and primary production, expanding national income and spending, generally higher levels of employment, relatively stable prices, and increased trade. Rising output was particularly notable among the industrial countries. In some, especially West Germany, Japan, and Canada, the rise followed preceding increases; in others, including most Western European countries, it followed the stable or slightly declining industrial production of 1952. In a number of instances, it was sufficiently large to carry the rate of production to a new peak before the
end of the year. In most countries, significant shifts in the composition of output were associated with the over-all rise: capital goods production generally either declined or increased only moderately, while consumer goods production tended to rise markedly.

Rising industrial production was, of course, accompanied by expansion in the credit and money supply, increases in income (especially labor income), and advances in aggregate consumer, government, and investment expenditure. Increased consumer spending was evident in Canada, Great Britain, West Germany, and a number of other Western European countries. Among the North Atlantic Treaty Organization countries, government expenditures for defense rose above 1952 levels, although such spending apparently stopped rising in most of these countries early in 1953. Investment outlays also rose substantially in several countries, reaching an all-time peak in West Germany. Import prices, particularly the prices of raw materials, tended to decline relative to export prices for most industrial countries, and this shift in the terms of trade contributed to the ease with which higher demands for consumption and investment were met. Declines in some raw material prices, particularly in the earlier part of the year, made the pattern of prosperity less consistent in primary-producing countries, although aggregate production of primary commodities increased in 1953.

One of the prominent features of 1953 was the maintenance of a fair degree of price stability in most countries, although there were a few exceptions, notably Bolivia, Chile, Iran, Israel, and Paraguay. Despite the general expansionary forces at work in the industrial nations, not only did the retail price stability that had emerged in these countries in 1952 persist during 1953 (even in the face of reductions in government subsidies in some countries), but wholesale prices, which had fallen markedly in 1952, tended to decline further during the first half of 1953 and remained stable in the second half. Among the primary-producing countries, on the other hand, there were both upward and downward movements, in some cases rather sharp, in wholesale and retail prices, but even in these countries the changes seem to have been somewhat smaller than in the preceding year.

The stability of prices and the improvements in output, employment, and productivity last year enabled many countries to make further substantial progress in dismantling the economic controls that had remained as a legacy of World War II and the post-Korea inflation. Such in-
creased reliance upon the price mechanism has in turn had an invigorating effect upon business activity and helps to account for the decided rise in production and trade that occurred quite generally over the last half of the year.

Flexible Monetary Policies

Monetary management was adjusted to meet changing economic conditions in many foreign countries in 1953. In contrast to the two preceding years, during which emphasis had widely been placed on monetary restraint, there was a shift during the past year toward relaxation of restraint in most industrial countries in Western Europe—a shift that appeared to reflect decisions to use monetary policy, once inflation had been brought under control, to facilitate an expansion in production and trade. On the other hand, previously existing degrees of monetary restraint were maintained during most of the year in a number of countries, including Canada, while additional monetary restrictions were applied in a few primary-producing countries, such as Ceylon and certain Latin American countries, in which there were strong forces tending to increase the money supply and prices.

One of the principal features of monetary management abroad in 1953 was the general reliance upon alterations in central bank rediscount rates for effecting modifications in monetary policy. In Western Europe, rediscount rates were lowered in eight countries—Austria, Belgium, Denmark, France, Great Britain, the Netherlands, Sweden, and West Germany; in the last country the rate was reduced twice. On the other hand, although reserve requirements were also eased in some of the European countries in which this instrument of monetary control is used, and although a few European central banks appear to have been more ready than in the previous year to relieve money market stringencies through open market operations, neither appears to have represented a very pronounced change. Indeed, central bank holdings of government securities declined in all but a few of these countries. There were few changes during the year in the selective credit controls and the direct controls over loans, investments, and interest rates that were in force in certain Western European countries; but, where changes occurred, they were generally in the direction of lessening reliance upon this type of central banking control.

In most Western European countries, interest rates declined moderately in 1953 but at the year end were still above the 1950 and 1951
levels. In a few other countries — Australia and Japan, for example — interest rates also declined, but in Canada slight increases were recorded during the first three quarters of the year, and in most primary-producing countries rates tended either to remain stable or to advance.

A significant expansion of bank credit and the money supply occurred in most foreign countries in 1953, broadly paralleling the further expansion of economic activity. In most independent sterling area countries the actual declines in the money supply that had taken place in 1952 were replaced by increases in 1953. On the other hand, although very pronounced increases in the money supply were again recorded in most nonsterling, primary-producing countries — especially in a few Latin American countries — they seem to have been generally smaller than in 1952.

The relaxation of monetary controls undoubtedly played a role in the monetary and credit expansion of a number of countries, permitting heavy demands for credit to be more nearly satisfied. But it was these heavy demands for credit, against a background of relatively low (though in some cases considerably improved) volume of current saving, that represented the basic cause of the expansion in money supply. Moreover, as compared with 1952, there seems to have been in many countries, and especially among industrial countries, a growth in private credit demands relative to those of governmental authorities. Perhaps even more important in some countries were the monetary effects of balance-of-payments improvements in 1953. These improvements, generally involving a welcome increase in foreign exchange reserves, not only led to an almost automatic increase in the money supply, but also provided the banking system with reserves upon which a further expansion of credit could be built. On the other hand, in certain primary-producing countries, export difficulties led to increased credit requirements stemming from the piling-up of inventories of certain types of food and industrial raw materials.

On the whole, the flexible use of monetary measures during the past year appears to have made a major contribution in many countries to easier monetary conditions, and the latter in turn appear to have made at least a marginal contribution to rising levels of production, income, employment, and trade. From a broader viewpoint, the greater role that monetary management has assumed in most foreign countries over the past few years has in many ways been symptomatic of the general movement away from detailed planning and controls toward the re-establishment
of market economies. The impact of this movement upon prices and foreign trade has tended to create an environment favorable to economic growth.

The Growth of Monetary Reserves

The growth in gold and dollar holdings of foreign countries, which had started in April 1952, continued throughout 1953 as a result both of transactions with the United States, already noted, and accretions from new production and other sources. At the year end, such holdings (excluding gold holdings of the USSR and the gold and dollar holdings of international institutions) stood at 22.4 billion dollars, or about 2.4 billion higher than in December 1952; they thus were 52 per cent larger than at the time of the currency devaluations in September 1949 and 21 per cent above the March 1952 level, the post-Korea low. As shown in the accompanying chart, a large part of the 1953 increase accrued

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**GOLD AND DOLLAR HOLDINGS OF SELECTED COUNTRIES AND AREAS**

<table>
<thead>
<tr>
<th>Country/Area</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
<th>1952</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>OEEC countries other than the United Kingdom</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Sterling area†</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Latin America†</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Asia†</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Canada</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

*Including Switzerland, which accounts for about 2 billion dollars of the amount shown on the chart.
†Including the United Kingdom, but excluding Eire and Iceland.
‡Excluding sterling, French-franc, and Dutch-guilder areas.
to Continental Western European countries participating in the Organization for European Economic Cooperation, in particular West Germany and the Netherlands. There was also a notable improvement in the gold and dollar holdings of sterling countries; the sterling area's central gold and dollar reserves stood in December 1953 at 2,518 million dollars, against 1,846 million a year previous. On the other hand, most Latin American countries, as well as the nonsterling area countries of Asia as a whole, experienced little change, while Canada's gold and United States dollar holdings were somewhat lower at the year end than in 1952, even though still much larger than during most of the postwar years.

The continued growth in foreign gold and dollar holdings during 1953 was the outcome of several basic developments that had already made themselves felt in 1952. The achievement of record levels of output in much of the world, together with the maintenance of financial stability in many countries, led to a better balance between aggregate demand and available resources than in any other postwar year. In particular, the greater production of commodities previously imported from the dollar area, the improved dollar-earning ability of certain countries, especially in Western Europe, and the greater competitiveness of many nondollar goods greatly contributed to the widespread improvement in payments positions.

Last year's rise in foreign gold and dollar holdings thus appeared to rest on a firmer foundation than the reserve gains of 1950 and early 1951, which were largely the result of the quick run-up of raw material prices following the Korean outbreak in June 1950. Nevertheless, caution was still called for in interpreting last year's gains in foreign gold and dollar holdings as a sign that the nondollar world might nearly have reached a self-sustaining dollar position. The reserves of many countries still appeared to provide only a narrow margin of safety to meet future contingencies. In many countries discriminatory restrictions on the import of dollar goods continued to be maintained, even though some of these regulations were apparently being applied more liberally. Furthermore, as noted in an earlier section of this Report, the reserve gains of certain Western European countries and Japan were dependent to a considerable extent upon United States offshore purchases of military equipment and other goods and services, and expenditures by American troops abroad as well as upon continuing, although much reduced, United States economic aid.
Significant progress toward the dismantling of trade and payments controls was achieved, however, among the countries of Western Europe and their associated monetary areas. Thus, private foreign exchange dealings were made easier throughout Western Europe; free markets for wheat and other grains, zinc, copper, and silver were opened in the United Kingdom; and the United Kingdom, and to a lesser extent France, resumed the easing of direct restrictions on imports from their partners in the European Payments Union. Furthermore, during 1953, West Germany and Japan resumed the service on substantial parts of their external obligations.

On balance, therefore, the year 1953 brought notable progress toward a self-sustaining payments position in the nondollar world. Indeed, there seemed to be a fair prospect for a further advance toward the achievement of convertibility of the principal currencies, and for an abatement of discriminatory foreign trade practices. Further progress will depend, of course, upon the continued pursuit of noninflationary domestic policies designed to promote a sustained growth in output, productivity, and over-all economic efficiency, which will strengthen the ability of foreign countries to supply domestic and foreign markets on competitive terms. It will also depend importantly upon the maintenance of reasonably stable and growing economic activity, and upon the concerted efforts of all major trading nations and international institutions in building a freer world economy.

Developments in the New York Foreign Exchange Market

The general pattern of economic stability and growing financial strength abroad was reflected in the movement during the past year of the currencies actively traded in the New York foreign exchange market. As in other postwar years, most of the trading in this market was concentrated in the pound sterling, the Canadian dollar, and the Swiss franc, although a fairly sizable turnover developed in the blocked Deutsche mark (sperrmark) as well.

The pound sterling maintained a firm undertone during the year on the basis of commercial demand, although activity was on a reduced scale as compared with 1952. During most of the year, the spot quotation held at $2.81 or higher, the highest quotations being recorded in early February when the rate reached $2.82, the Bank of England's official
selling rate for sterling. During September a low of $2.79\%$ was reached, but thereafter the rate improved, and at the year end was quoted at $2.81\%$. Movements of the pound in the New York market are believed to have been limited by operations of the British Equalization Account, presumably directed at arresting sharp fluctuations. Quotations for sterling for forward delivery ranged between lows of $3\%$ cent discount and $1\%$ cents discount for three and six months' deliveries, respectively, and a high of $\%$ cent premium for deliveries up to six months' forward, the latter quotation developing temporarily at the year end. In general, activity in the forward-sterling market was on a small scale.

Trading in Canadian dollars in the New York market increased somewhat during the year, a good deal of the activity resulting from capital movements. At the beginning of the year the Canadian dollar was quoted at $3\%$ per cent premium, but reached a low of $3\%$ per cent premium in May, reportedly as the result of the liquidation of Canadian securities by American holders. Thereafter, the rate generally improved again, and in the middle of December reached $3\%$ per cent premium, principally as the result of a heavier flow of United States capital funds to Canada.

The rate for the Swiss franc ranged between $0.2330$ and $0.2334$ during most of the year. In November it reached its lowest level of $0.2321$, but recovered by the end of the year to $0.2332$. There was noticeable activity in the blocked Deutsche mark in the New York market, with demand coming mainly from American investors having industrial interests in Germany. The rate appreciated from $0.1500$ to $0.1820$ during the course of the year. Other foreign exchanges actively traded in New York showed no significant developments during the year.

**Volume and Trend of the Bank’s Operations**

**Domestic Operations**

The work performed by the Bank in serving the monetary requirements of the economy kept pace with the general level of economic activity during 1953 and, for the year as a whole, reached a record high in terms of both physical and dollar volume.

Member bank use of the borrowing privilege was exceptionally heavy in the early months of 1953, when reserve positions were under pressure. Use of the “discount window” fell off considerably thereafter, however,
as the Reserve System made additional reserves available to the banking system through open market purchases of Treasury bills, and as reserve requirements were reduced. But 383 different Second District member banks borrowed at some time during the year, compared with 350 in 1952. And, as measured by the number of applications for discounts and advances received and processed in 1953 (4,262), the work of the lending function expanded 8 1/2 per cent over 1952 and was the heaviest since 1934.

As shown in the accompanying table, the physical and dollar volume of currency and coin received and counted rose moderately further in 1953, with currency received and counted reaching new peaks both in dollars and in physical volume. These increases were related to the growth in payrolls and in the expenditures of individuals that accompanied the past year's record volume of production and trade. The Bank also participated during the year in a Reserve System program of accumulating a two-year reserve stock of unissued currency, for use in the event of emergency.

Beginning July 1, 1953, the Bank assumed the task of destroying for the Treasury all United States currency received in denominations of 1, 2, 5, and 10 dollars that was unfit for further circulation. In the last six months of the year, the newly organized Currency Destruction Department destroyed 118 million pieces of unfit United States currency (silver certificates and United States notes), aggregating 178 million dollars. Unfit Federal Reserve notes, and other unfit notes, continued to be shipped to the Treasury in Washington for destruction.

Checks cleared and collected by the Bank reached new highs of 509 million in number and 341 billion dollars in value in 1953. Throughout the year, an average of slightly more than 2 million checks per business day was processed with less delay and fewer employees than in 1952. This improved efficiency in the Bank's check-handling operations was made possible, in large part, by a lower rate of turnover of the personnel involved, with a consequent increase in the proportion of trained and experienced proof-machine operators.

Early in the year, the Bank cooperated with the Nassau County Clearing House Association in planning for and organizing the new Nassau County Clearing Bureau, which began operations on July 1, 1953. A large proportion of the checks handled by banks in Nassau County and neighboring communities are drawn on other banks in the same area. Most of these checks previously had been sent to banks in New York
### Some Measures of the Volume of Operations of the Federal Reserve Bank of New York

( Including Buffalo Branch )

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounts and advances</td>
<td>4,262</td>
<td>3,925</td>
</tr>
<tr>
<td>Currency received and counted</td>
<td>1,143,142,000</td>
<td>1,065,539,000</td>
</tr>
<tr>
<td>Coin received and counted</td>
<td>1,499,464,000</td>
<td>1,415,250,000</td>
</tr>
<tr>
<td>Gold bars and bags of gold coin handled</td>
<td>121,000</td>
<td>158,000</td>
</tr>
</tbody>
</table>

Checks handled:
- U. S. Government checks      | 56,572,000    | 53,308,000    |
- All other                   | 452,447,000   | 437,439,000   |

Postal money orders handled:  | 56,918,000    | 58,405,000    |

Collection items handled:
- U. S. Government coupons paid | 4,611,000     | 4,584,000     |
- Credits for direct sendings of collection items | 321,000 | 335,000 |
- All other                     | 6,998,000     | 7,114,000     |

Issues, redemptions, and exchanges by fiscal agency departments:
- United States Savings bonds          | 26,051,000    | 24,082,000    |
- All other United States obligations | 3,400,000     | 2,954,000     |
- Obligations of the International Bank for Reconstruction and Development | 233,000 | 117,000 |

Safekeeping of securities:
- Pieces received and delivered | 5,450,000     | 5,494,000     |
- Coupons detached              | 2,723,000     | 2,286,000     |

Transfers of funds‡             | 335,000       | 308,000       |

### Amounts handled

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounts and advances</td>
<td>$ 21,723,381,000</td>
<td>$ 23,472,385,000</td>
</tr>
<tr>
<td>Currency received and counted</td>
<td>7,564,736,000</td>
<td>6,903,818,000</td>
</tr>
<tr>
<td>Coin received and counted</td>
<td>148,619,000</td>
<td>131,711,000</td>
</tr>
<tr>
<td>Gold bars and bags of gold coin handled</td>
<td>1,676,730,000</td>
<td>2,188,945,000</td>
</tr>
</tbody>
</table>

Checks handled:
- U. S. Government checks      | 23,016,234,000 | 22,711,540,000 |
- All other                   | 318,481,355,000 | 286,386,244,000 |

Postal money orders handled:  | 886,630,000    | 874,402,000   |

Collection items handled:
- U. S. Government coupons paid | 1,356,738,000 | 1,093,483,000 |
- Credits for direct sendings of collection items | 755,112,000 | 723,888,000 |
- All other                     | 894,006,000   | 982,007,000   |

Issues, redemptions, and exchanges by fiscal agency departments:
- United States Savings bonds          | 2,198,335,000 | 1,832,959,000  |
- All other United States obligations | 303,273,130,000 | 275,711,978,000 |
- Obligations of the International Bank for Reconstruction and Development | 415,228,000 | 239,558,000 |

Safekeeping of securities:
- Pieces received and delivered (par value) | 360,464,951,000 | 377,410,875,000 |

Transfers of funds‡             | 295,501,530,000 | 253,479,280,000 |

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* Two or more checks, coupons, etc., handled as a single item are counted as one "piece".

‡ Includes wire and mail transfers; excludes Treasury transfers and Reserve Bank interdistrict settlements.

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r Revised.
City and back to Long Island in the process of collection. This method delayed presentation and payment. Now, a check received by a Nassau County bank on one day is processed through the Clearing Bureau on the same evening, and is presented to the drawee bank for payment on the following morning. Thus, the new clearing arrangement improves the service rendered to customers of the participating banks. During the first half year of operation, the new Clearing Bureau, with offices in Freeport, was used by 43 banks with 73 banking offices in Nassau, Suffolk, and Queens Counties. Checks cleared daily averaged 46,000, most of which would otherwise have passed through this Bank's Check Department, a roundabout method which unnecessarily multiplied the number of handlings and delayed collection.

Other methods and programs designed to speed the clearing and collection of checks were also employed in 1953. Shipments of checks by air to other Federal Reserve Banks averaged 780,000 checks daily, an increase of 7 per cent over 1952. And the check routing symbol program, which facilitates the handling of checks, was pushed further toward 100 per cent cooperation in the Second District.

Wire transfers of funds between Federal Reserve Districts reached a record volume in 1953. The leased wire system, which links the Reserve Banks and their branches, the Board of Governors, and the Treasury, was improved in 1953 by adoption of new facilities which provide for greater transmission speed and more automatic operation.

The average number of employees on the staff during 1953 was 1 per cent fewer than in 1952 despite all-time highs in the volume of work. At the end of 1953, however, total employment (exclusive of officers) at the head office and at the Buffalo Branch was 3,974, or slightly more than the total of 3,950 on December 31, 1952.

Foreign and International Operations

Continuing the rise which started early in 1952, the Bank's total holdings for foreign account of gold, dollar deposits, U. S. Government securities, and miscellaneous assets passed, early in 1953, the previous record volume established in 1951 and, with subsequent monthly gains, achieved a new all-time peak of 8.6 billion dollars by the end of the year. This rise resulted largely from acquisitions of gold by foreign monetary authorities—1.2 billion dollars net. Dollar assets also rose by a net amount of 324 million dollars, reflected in increased investments in U. S.
Government securities; at the year end, out of a total of 3.1 billion dollars of dollar assets, 2.6 billion were so invested.

Holdings of the International Bank and International Monetary Fund, not included in the foregoing figures, remained close to the level of recent years.

Two new accounts were opened with this Bank as principal—that of Bank Indonesia, the recently established central bank of Indonesia, which took over the functions of De Javasche Bank, and that of The Bank of Japan, the latter representing a resumption of relations discontinued prior to World War II.

There was again only limited activity in the field of foreign loans against gold collateral. Various advances were made to three foreign banks, but the maximum amounts used did not exceed 57 million dollars; only one of these banks was indebted at the year end, in the amount of 15 million dollars. As has been mentioned in previous annual reports, such loans are made from time to time to foreign monetary authorities on gold held under earmark in our vaults, for the purpose of assisting them in meeting their dollar requirements for temporary periods. Such loans are made at the discount rate of this Bank, which remained at 2 per cent through the remainder of 1953 after being increased from 1¾ per cent on January 16, 1953.

The Bank continued to operate the United States Stabilization Fund pursuant to authorizations and instructions of the Treasury Department.

As fiscal agent of the United States, the Bank also continued the administration for the Treasury Department of the blocking regulations affecting assets in the United States of Communist China and North Korea and their nationals, and transactions with those countries. During the year the Foreign Assets Control Department received over 6,100 applications for licenses, bringing the total since such blocking began on December 17, 1950 to over 20,700.

Financial Statements

Statement of Condition

Total assets of this Bank decreased slightly in 1953, from 13,456 to 13,442 million dollars, and there were sizable changes in a number of principal items on the accompanying balance sheet.
Gold certificate holdings (the principal component of “Total cash”) which totaled 5,978 million dollars at the beginning of the year, were reduced by 780 million dollars in 1953. The loss resulted mainly from the new procedure, instituted by the Federal Open Market Committee on September 1, for allocating among the various Reserve Banks the securities held in the System Open Market Account. At the time of the revision in the procedure, the New York Bank acquired 890 million dollars of Government securities against payment in gold certificates.

The 902 million dollar increase in the portfolio of U. S. Government securities in 1953 brought the Bank’s holdings to a year-end peak of 7115 million dollars. The increase represented in part this Bank's share of the System Open Market Account purchases of Government securities (all Treasury bills) made in the last eight months of the year, but more largely the increase mentioned above in the proportion of total System Account holdings allocated to this Bank (which paralleled the reduction in gold certificate holdings). The new allocation is based on the size of

---

### Assets of the Federal Reserve Bank of New York

(In thousands of dollars)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Dec. 31, 1953</th>
<th>Dec. 31, 1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold certificates</td>
<td>5,197,851</td>
<td>5,977,523</td>
</tr>
<tr>
<td>Redemption fund for Federal Reserve notes</td>
<td>183,706</td>
<td>135,378</td>
</tr>
<tr>
<td>Other cash</td>
<td>75,303</td>
<td>64,367</td>
</tr>
<tr>
<td>Total cash</td>
<td>5,456,860</td>
<td>6,177,268</td>
</tr>
<tr>
<td>Discounts and advances</td>
<td>7,050</td>
<td>114,924</td>
</tr>
<tr>
<td>U. S. Government securities</td>
<td>7,115,378</td>
<td>6,213,352</td>
</tr>
<tr>
<td>Total loans and securities</td>
<td>7,122,428</td>
<td>6,328,276</td>
</tr>
</tbody>
</table>

Other assets:

- Due from foreign banks*                     | 6            | 7            |
- Federal Reserve notes of other banks        | 26,488       | 32,307       |
- Uncollected items                           | 790,661      | 874,505      |
- Bank premises                               | 7,390        | 7,292        |
- All other                                   | 38,514       | 36,637       |
| Total other assets                           | 863,059      | 950,748      |
| Total assets                                 | 13,442,347   | 13,456,292   |

* After deducting participation of other Federal Reserve Banks amounting to 16 16
the Reserve Bank, measured by average total assets, whereas the former allocation was based largely on expense and dividend requirements.

On the liability side of the statement, Federal Reserve notes of this Bank outstanding in the hands of the public (including banks) rose 128 million dollars, or 2.2 per cent, to a peak of 5,924 million dollars at the end of 1953. This rise for the Second District compared with a rise of 1.4 per cent for the country as a whole, and was a natural corollary of the record level of production and trade attained during the year. Member bank reserve accounts decreased 135 million dollars during 1953, partly because of net payments made to foreign official accounts at this Bank

### Liabilities of the Federal Reserve Bank of New York

(In thousands of dollars)

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Dec. 31, 1953</th>
<th>Dec. 31, 1952</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve notes</td>
<td>5,924,481</td>
<td>5,796,489</td>
</tr>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member bank — reserve accounts</td>
<td>6,049,923</td>
<td>6,184,727</td>
</tr>
<tr>
<td>U. S. Treasurer — general account</td>
<td>70,675</td>
<td>44,922</td>
</tr>
<tr>
<td>Foreign*</td>
<td>134,793</td>
<td>184,537</td>
</tr>
<tr>
<td>Other</td>
<td>361,474</td>
<td>334,153</td>
</tr>
<tr>
<td>Total deposits</td>
<td>6,616,865</td>
<td>6,748,339</td>
</tr>
<tr>
<td>Other liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred availability cash items</td>
<td>605,851</td>
<td>628,042</td>
</tr>
<tr>
<td>All other</td>
<td>6,787</td>
<td>5,996</td>
</tr>
<tr>
<td>Total other liabilities</td>
<td>612,638</td>
<td>634,038</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>13,153,984</td>
<td>13,178,866</td>
</tr>
<tr>
<td>Capital accounts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital paid in</td>
<td>81,852</td>
<td>80,139</td>
</tr>
<tr>
<td>Surplus (Section 7)</td>
<td>176,633</td>
<td>167,503</td>
</tr>
<tr>
<td>Surplus (Section 13b)</td>
<td>7,319</td>
<td>7,319</td>
</tr>
<tr>
<td>Other capital accounts</td>
<td>22,559</td>
<td>22,465</td>
</tr>
<tr>
<td>Total capital accounts</td>
<td>288,363</td>
<td>277,426</td>
</tr>
<tr>
<td>Total liabilities and capital accounts</td>
<td>13,442,347</td>
<td>13,456,292</td>
</tr>
<tr>
<td>Contingent liability on acceptances purchased for foreign correspondents†</td>
<td>7,068</td>
<td>5,977</td>
</tr>
<tr>
<td>Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined</td>
<td>42.9%</td>
<td>48.7%</td>
</tr>
</tbody>
</table>

* After deducting participation of other Federal Reserve Banks amounting to

† After deducting participation of other Federal Reserve Banks amounting to

288,486

365,403

16,872

13,815
and a net outflow of funds to other districts on commercial and financial transactions.

The reduction in gold certificate reserves (731 million dollars after giving effect to the change in the redemption fund), in conjunction with a virtually unchanged level of deposit and note liabilities combined, resulted in a sharp decline — from 48.7 per cent to 42.9 per cent — in this Bank's reserve ratio. This change was in part a result of the reallocation of participations in the System Open Market Account, one effect of which was to bring about greater uniformity in the reserve ratios of the several Federal Reserve Banks.

**Earnings and Expenses**

Gross income of the Bank increased 15.5 million dollars in 1953, to a new high of 119.7 million, mainly because of a further increase in income from this Bank's share of the Government security earnings of the System Open Market Account. The volume of System holdings rose; the average rate of interest on System holdings also rose; and the Federal Reserve Bank of New York received a larger proportion of the total as a result of the reallocation of System Account holdings mentioned above.

Total operating expenses increased 0.9 million dollars, to a new high of 23.2 million. The main factor accounting for the increase was a rise in the cost of Federal Reserve currency due to the program of accumulating a two-year supply of unissued stock as an emergency measure. A 3 per cent increase in outlays for salaries and wages also contributed to the over-all rise.

Profits on sales of U. S. Government securities were 0.5 million dollars, about the same as in 1952. But deductions from net earnings increased from 0.1 million to 0.8 million dollars, as a result of providing for supplemental retirement allowances to employees who retired before qualifying for social security benefits.

Net earnings after all adjustments increased 14.0 million dollars, to a peak of 96.2 million. The statutory dividend of 6 per cent, or 4.9 million dollars, was paid on the outstanding stock of the Federal Reserve Bank held by the member banks. Of the remaining net earnings, 90 per cent, or 82.2 million dollars, was transferred to the United States Treasury in payment of an interest charge levied by the Board of Governors of
the Federal Reserve System under Section 16 of the Federal Reserve Act on Federal Reserve notes not covered by gold certificates. The balance of the year’s earnings, 9.1 million dollars, or 10 per cent of net earnings after dividends, was added to the regular surplus (Section 7).

**Statement of Earnings and Expenses**

**For the Calendar Years 1953 and 1952**

(In thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>1953</th>
<th>1952</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earnings</strong></td>
<td>119,734</td>
<td>104,207</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>23,235</td>
<td>22,367</td>
</tr>
<tr>
<td><strong>Net earnings before additions and deductions</strong></td>
<td>96,499</td>
<td>81,840</td>
</tr>
<tr>
<td><strong>Additions to net earnings:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit on sales of U. S. Government securities (net)</td>
<td>448</td>
<td>459</td>
</tr>
<tr>
<td>All other</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total additions</strong></td>
<td>453</td>
<td>460</td>
</tr>
<tr>
<td><strong>Total net earnings and additions</strong></td>
<td>96,952</td>
<td>82,300</td>
</tr>
<tr>
<td><strong>Deductions from net earnings:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement System (adjustment for revised benefits)</td>
<td>659</td>
<td>—</td>
</tr>
<tr>
<td>Reserves for contingencies</td>
<td>94</td>
<td>76</td>
</tr>
<tr>
<td>All other</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td>763</td>
<td>81</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>96,189</td>
<td>82,219</td>
</tr>
<tr>
<td><strong>Distribution of net earnings:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>4,879</td>
<td>4,627</td>
</tr>
<tr>
<td>Paid United States Treasury (interest on Federal Reserve notes)</td>
<td>82,180</td>
<td>69,833</td>
</tr>
<tr>
<td>Transferred to surplus (Section 7)</td>
<td>9,130</td>
<td>7,759</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>96,189</td>
<td>82,219</td>
</tr>
</tbody>
</table>

**Changes in Membership**

During 1953 the total number of banks in this District that are members of the Federal Reserve System declined from 720 to 696. The net decrease of 24 banks is the result of mergers of 25 member banks with other banks, and the readmission of one State bank to membership. One State member bank converted to a national bank during the year. The
NUMBER OF OPERATING MEMBER AND NONMEMBER BANKS IN
SECOND FEDERAL RESERVE DISTRICT AT END OF YEAR

(Exclusive of savings banks, private bankers, and industrial banks)

<table>
<thead>
<tr>
<th>Type of bank</th>
<th>December 31, 1953</th>
<th>December 31, 1952</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Members</td>
<td>Non-members</td>
</tr>
<tr>
<td>National banks</td>
<td>484</td>
<td>0</td>
</tr>
<tr>
<td>State banks and trust companies</td>
<td>212</td>
<td>106</td>
</tr>
<tr>
<td>Total</td>
<td>696</td>
<td>106</td>
</tr>
</tbody>
</table>

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN
SECOND DISTRICT DURING 1953

| Total membership beginning of year              | 720     |
| Increase:                                        |         |
| State bank admitted                              | 1       |
| Decreases:                                       |         |
| Member banks combined with other members         | 23      |
| Member banks combined with nonmembers            | 2       |
| Total membership end of year                     | 696     |

696 member banks constitute 87 per cent of all national banks, State banks, and trust companies in this District and hold 96 per cent of the total assets of all such institutions.

Changes in Directors and Officers

Changes in Directors

Effective January 20, 1953, Jay E. Crane, Vice President of the Standard Oil Company (New Jersey), New York, N. Y., was appointed a Class C director by the Board of Governors of the Federal Reserve System for the unexpired portion of the three-year term ended December 31, 1953, to succeed Robert T. Stevens, who had resigned to accept appointment as Secretary of the Army. Mr. Crane also was designated Chairman and Federal Reserve Agent for the remainder of 1953, succeeding Mr. Stevens. As of January 20, Mr. Crane consequently ceased to serve as a Class B director elected by the member banks in Group 3, a position he had occupied since January 1, 1949.
At a special election in March 1953, member banks in Group 1 elected N. Baxter Jackson, Chairman of the Board, Chemical Bank & Trust Company, New York, N. Y., as a Class A director for the unexpired portion of the three-year term ending December 31, 1955; Mr. Jackson, in effect, succeeded W. Randolph Burgess who never assumed this office because of his appointment as Special Deputy to the Secretary of the Treasury.

At the same time, member banks in Group 2 elected Lansing P. Shield, President of The Grand Union Company, East Paterson, N. J., as a Class B director for the unexpired portion of the three-year term ended December 31, 1953, to fill the vacancy which arose when Marion B. Folsom resigned to accept appointment as Under Secretary of the Treasury. Mr. Shield was re-elected in November 1953 as a Class B director by member banks in Group 2 for a term of three years beginning January 1, 1954.

In the March election, member banks in Group 3 elected John E. Bierwirth, President of the National Distillers Products Corporation, New York, N. Y., as a Class B director for the unexpired portion of the three-year term ending December 31, 1954, to fill the vacancy caused by the appointment of Mr. Crane as a Class C director.

In June 1953, the Board of Governors of the Federal Reserve System appointed Franz Schneider, New York, N. Y., as a Class C director for the unexpired portion of the three-year term ending December 31, 1955, to fill the vacancy which occurred in March 1953 when Philip Young resigned to accept appointment as Chairman of the United States Civil Service Commission.

In November 1953, member banks in Group 2 elected John R. Evans, President of The First National Bank of Poughkeepsie, Poughkeepsie, N. Y., as a Class A director for a term of three years beginning January 1, 1954, to succeed Burr P. Cleveland, President of the First National Bank of Cortland, Cortland, N. Y., whose term expired December 31, 1953.

In November 1953, the Board of Governors of the Federal Reserve System reappointed Mr. Crane as a Class C director for a term of three years beginning January 1, 1954, and redesignated him as Chairman of the board of directors and Federal Reserve Agent for the year 1954. Simultaneously, the Board of Governors reappointed William I. Myers, Dean of the New York State College of Agriculture, Cornell University, Ithaca, N. Y., as Deputy Chairman for the year 1954.

At the Buffalo Branch of the Federal Reserve Bank of New York, in November 1953, the Board of Governors of the Federal Reserve System
reappointed Robert C. Tait, President of the Stromberg-Carlson Co., Rochester, N. Y., as a director for a term of three years beginning January 1, 1954. In December, the board of directors of this Bank designated Clayton G. White, dairy farmer of Stow, N. Y., as Chairman of the board of directors of the Buffalo Branch for the year 1954. The board of directors also appointed Robert L. Davis, President of The First National Bank of Olean, Olean, N. Y., as a director of the Buffalo Branch for the three-year term beginning January 1, 1954. Mr. Davis succeeded C. Elmer Olson, President of The First National Bank of Falconer, Falconer, N. Y., whose term expired December 31, 1953.

Changes in Officers

Robert V. Roosa, formerly Manager of the Research Department, was appointed an Assistant Vice President, effective April 1, 1953.

Walter C. Warner, Manager of the Credit Department and of the Discount Department, who had been with the Bank since June 1942, resigned as of April 30, 1953, in order to accept appointment as an officer of the Bankers Trust Company, New York.

William E. Marple, formerly Chief of the Credit Division, Credit Department, was appointed a Manager and assigned to the Credit Department and to the Discount Department, effective May 1, 1953.

Gregory O'Keefe, Jr., formerly an Attorney in the Legal Department, was appointed an Assistant Counsel, effective May 1, 1953. Mr. O'Keefe had been on loan to the Board of Governors of the Federal Reserve System from October 1949 to April 1953, assisting the Board's Solicitor in the Clayton Act proceedings initiated by the Board against Transamerica Corporation. Effective August 1, 1953, Mr. O'Keefe was appointed Assistant Secretary of the Bank, his appointment as Assistant Counsel continuing.

Charles A. Coombs, formerly Chief of the Foreign Research Division, Research Department, was appointed a Manager and assigned to the Research Department, effective June 1, 1953.

Arthur I. Bloomfield and George Garvy of the Research Department were appointed officers of the Bank with the title of Senior Economist, effective June 1, 1953.

O. Ernest Moore, Manager of the Research Department, who had been with the Bank from February 1926 to April 1930 and continuously
since August 1935, resigned as of June 30, 1953, in order to become Economic and Financial Adviser to the Haitian Government and to the National Bank of the Republic of Haiti, under assignment by the Technical Assistance Administration of the United Nations.

Walter S. Logan, Vice President and General Counsel, who had been the senior officer in charge of the Legal Department since he came to the Bank in July 1928, retired effective August 1, 1953, upon reaching retirement age. Mr. Logan resumed the general practice of law as a member of the firm of Reynolds, Richards & McCutcheon of New York City, of which he was a member before coming to the Bank.

Todd G. Tiebout, formerly Assistant General Counsel, was appointed Vice President and General Counsel, effective August 1, 1953.

John J. Clarke, formerly Secretary and Assistant Counsel, was appointed Assistant General Counsel, effective August 1, 1953.

Arthur H. Willis, formerly Assistant Secretary, was appointed Secretary of the Bank, effective August 1, 1953.

William F. Abrahams, Manager of the Security Custody Department, who had been with the Bank since September 1918 and had reached retirement age, retired effective October 1, 1953.

Walter S. Rushmore, formerly Chief of the Auditing Division, Auditing Department, was appointed a Manager and assigned to the Security Custody Department, effective October 1, 1953.

Walter H. Rozell, Jr., Manager of the Foreign Department, who had been with the Bank since July 1932, resigned as of November 20, 1953, in order to accept a two-year appointment as Governor of the State Bank of Ethiopia.

George C. Smith, formerly Chief of the Sorting and Counting Division, Cash Department, was appointed a Manager and assigned to the Collection Department, effective November 1, 1953.

Rufus J. Trimble, Assistant General Counsel, who had been with the Bank since June 1934 and had reached retirement age, retired effective November 1, 1953.

**Member of Federal Advisory Council—1954**

The board of directors of this Bank selected Henry C. Alexander, President of J. P. Morgan & Co. Incorporated, New York, N. Y., to serve for a second successive year as the member of the Federal Advisory Council from the Second Federal Reserve District.
Directors and Officers

<table>
<thead>
<tr>
<th>Class</th>
<th>Group</th>
<th>Directors</th>
<th>Term expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>N. Baxter Jackson</td>
<td>1955</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chairman of the Board, Chemical Bank &amp; Trust Company, New York, N. Y.</td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>2</td>
<td>John R. Evans</td>
<td>1956</td>
</tr>
<tr>
<td></td>
<td></td>
<td>President, The First National Bank of Poughkeepsie, Poughkeepsie, N. Y.</td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>3</td>
<td>F. Palmer Armstrong</td>
<td>1954</td>
</tr>
<tr>
<td></td>
<td></td>
<td>President, The Keyport Banking Company, Keyport, N. J.</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>Clarence Francis</td>
<td>1955</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chairman of the Board, General Foods Corporation, New York, N. Y.</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>Lansing P. Shield</td>
<td>1956</td>
</tr>
<tr>
<td></td>
<td></td>
<td>President, The Grand Union Company, East Paterson, N. J.</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>3</td>
<td>John E. Bierwirth</td>
<td>1954</td>
</tr>
<tr>
<td></td>
<td></td>
<td>President, National Distillers Products Corporation, New York, N. Y.</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td>Jay E. Crane, Chairman, and Federal Reserve Agent</td>
<td>1956</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vice President, Standard Oil Company (New Jersey), New York, N. Y.</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td>William I. Myers, Deputy Chairman</td>
<td>1954</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td>Franz Schneider</td>
<td>1955</td>
</tr>
<tr>
<td></td>
<td></td>
<td>New York, N. Y.</td>
<td></td>
</tr>
</tbody>
</table>

Directors — Buffalo Branch

<table>
<thead>
<tr>
<th>Directors</th>
<th>Term expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clayton G. White, Chairman</td>
<td>1954</td>
</tr>
<tr>
<td>Dairy farmer, Stow, N. Y.</td>
<td></td>
</tr>
<tr>
<td>Lewis G. Harriman</td>
<td>1954</td>
</tr>
<tr>
<td>President, Manufacturers and Traders Trust Company, Buffalo, N. Y.</td>
<td></td>
</tr>
<tr>
<td>Bernard E. Finucane</td>
<td>1955</td>
</tr>
<tr>
<td>President, Security Trust Company of Rochester, Rochester, N. Y.</td>
<td></td>
</tr>
<tr>
<td>Edward P. Vreeland</td>
<td>1955</td>
</tr>
<tr>
<td>President, Salamanca Trust Company, Salamanca, N. Y.</td>
<td></td>
</tr>
<tr>
<td>Edgar F. Wendt</td>
<td>1955</td>
</tr>
<tr>
<td>President, Buffalo Forge Company, Buffalo, N. Y.</td>
<td></td>
</tr>
<tr>
<td>Robert L. Davis</td>
<td>1956</td>
</tr>
<tr>
<td>President, The First National Bank of Olean, Olean, N. Y.</td>
<td></td>
</tr>
<tr>
<td>Robert C. Tait</td>
<td>1956</td>
</tr>
<tr>
<td>President, Stromberg-Carlson Company, Rochester, N. Y.</td>
<td></td>
</tr>
</tbody>
</table>

Member of Federal Advisory Council — 1954

Henry C. Alexander
President, J. P. Morgan & Co. Incorporated
New York, N. Y.
OFFICERS

ALLAN SPROUL, President
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