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FEDERAL RESERVE BANK OF NEW YORK

ANNUAL REPORT 1960

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FEDERAL RESERVE BANK OF NEW YORK

March 3, 1961

To the Member Banks in the
Second Federal Reserve District:

I am pleased to send you our forty-sixth Annual Report, reviewing economic and financial developments of 1960 in this country and abroad. As you know, these developments posed particularly difficult problems for monetary policy in 1960. The year witnessed the end of a business expansion, followed by a sag in production and a rise in unemployment. While the decline in economic activity was relatively mild, it was especially disturbing in that it set in before the economy had completely recovered from the recession of 1957-58. Moreover, the decline developed against the background of a persistent deficit in the country's basic balance-of-payments position, aggravated in 1960 by a large outflow of short-term capital. Lest this outflow be speeded, the changes in monetary policy clearly indicated by domestic developments—first toward lessened restraint and then toward outright ease—had to be taken with a view to avoiding excessive downward pressure on short-term rates. It was encouraging to observe the growing public recognition of the complexity of the tasks involved in dealing simultaneously with a domestic recession and an adverse balance of international payments, and of the need for solutions compatible with achieving an adequate long-term rate of economic growth without inflation.

Alfred Hayes

ALFRED HAYES
President

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FORTY-SIXTH ANNUAL REPORT

For the Year

Ended

December 31, 1960

Second Federal Reserve District

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Business Recession in a "Key Currency" Economy

As the American economy moved through 1960, it became increasingly evident that the country faced a new combination of problems. The domestic business picture paled as "high-level stagnation", followed by an outright though mild recession, replaced the booming expectations with which the year had opened. At the same time, the easing of economic activity in the United States took place against the backdrop of the most persistent large-scale balance-of-payments deficit that this country has ever experienced. Other nations have, of course, faced a similar mixture of problems in recent years, but the matter assumed an additional dimension when it involved the United States and the dollar, a key international currency. It was, therefore, essential to work toward solutions that sacrificed neither the goals of high production and employment at home, nor the international standing of the dollar. This simultaneous emergence of both internal and external difficulties suggested the necessity of a new look at the respective roles played by fiscal policy, debt management policy, and monetary policy. A re-evaluation appeared vital if the United States economy was to perform well at home, while at the same time meeting—in cooperation with other advanced industrial countries—the need for more rapid economic growth in less developed countries.

Although the economy advanced at a good pace in early 1960 and total output of goods and services for the year as a whole set a new record, most of the year was dominated by the adjustments that business and consumers were making to the abatement of expansionary forces and to the disappearance, at least temporarily, of inflationary psychology. By spring, it began to be realized that

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capacity was generally ample and that all kinds of finished goods and materials were readily available. A readjustment in inventory goals was both the major consequence of these developments and the major factor in the sag that developed after midyear. There was a possible paradox in the fact that the ebb of inflationary expectations—with its favorable longer run implications for economic growth without inflationary distortions and boom-and-bust patterns—contributed in the short run to a slackening in economic activity. This slackening clearly required vigorous action by the monetary authorities, as the economy entered a period in which its ability to achieve satisfactory rates of growth without the artificial stimulus of an inflationary psychology would be tested.

A heartening development in the international position of the United States was the sharp increase in our trade surplus in 1960, largely as a consequence of stepped-up commercial exports. Despite this improvement, however, our over-all balance-of-payments deficit was unchanged from 1959, as a heavy outflow of short-term capital offset much of the gain on trade account. In part, the better trade picture reflected domestic developments, including the constructive response of American business to the increased foreign competition of recent years, the ebb of inflationary psychology at home, and the business slack which lessened import demand and expanded export capacity. But it also reflected the continued boom in industrial countries abroad which, despite some loss of vigor later in the year, continued to provide strong foreign markets for American products.

The fact that the business cycle here was at least temporarily out of phase with that abroad also influenced interest rates and capital movements. Thus, the slackening of business and the emergence of monetary ease meant that interest rates in the United States declined. On the other hand, because of the boom abroad, interest rates there were at relatively high levels despite some decline in the last quarter of the year. The attraction exerted by foreign money markets was consequently great and this, as well as apprehension in some quarters over the dollar's international position, led to an increased outflow of short-term capital from the United States. This outflow partly took the form of a repatriation of foreign-owned dollar balances which did not increase the United States balance-of-payments deficit but did add to official dollar holdings abroad, thus tending to swell the demand for United States gold.

Although balance-of-payments difficulties have frequently been encountered by one and then another of the industrial countries of the Free World in the

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postwar years, the situation in which the United States found itself had special dimensions. First, the sheer size of the American economy makes its prosperity essential to the rest of the world to an extent that is not true of smaller national economies. Second, United States military commitments and responsibilities for aiding underdeveloped countries are large and vital, but can be met only if our balance of payments is kept in order. Finally, the dollar is a key currency in the international payments mechanism. Although United States gold holdings are more than adequate, United States short-term liabilities to foreigners are also large, not only because of the wide use of the dollar in international trade, but also because foreign monetary authorities hold a substantial part of their international currency reserves in the form of dollars. That the dollar plays this role as an international currency is a reflection of its prestige and of the world's confidence in the fundamental soundness of the United States economy. However, this special position as the world's chief banker creates heavy responsibilities. Any failure to keep the dollar "above suspicion" could have repercussions, not only upon the international payments mechanism, but also upon the total economic, political, and military position of the Free World.

In simultaneously facing a domestic business recession and a continued balance-of-payments deficit, the United States monetary authorities were confronted with a basic dilemma. The easing of credit conditions in response to the sag in domestic business tended to reduce short-term interest rates. There was a risk that lower interest rates would accelerate short-term capital outflows to such an extent as to weaken seriously our immediate international payments position. Indeed, there was an even more fundamental risk that any neglect of the balance-of-payments problem might so adversely affect confidence in the dollar as to result in massive capital outflows of a speculative character. Thus, it was essential that the monetary and the fiscal authorities re-emphasize their awareness of the need for a fundamental adjustment in the payments position and that steps be taken to bring about this adjustment.

The risks in pursuing a national policy of monetary ease would seem to suggest a lesson that might be applicable to all of the industrial countries of the now closely integrated Free World economy: That traditional monetary policy as an anti-recession weapon might be more closely circumscribed in the years ahead, and might have to be supplemented by a more flexible and imaginative use of fiscal policy and possibly by more subtle and more varied use of debt management or monetary control devices. Indeed, experience in some industrial countries abroad, notably Germany, suggests that this same lesson might be appli-

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cable to the reverse situation in which a boom with inflationary undertones exists side by side with a large balance-of-payments surplus.

Even aside from international implications, the "mix" between fiscal and monetary influences in the United States has been less than ideal in recent years. For example, in 1959, a boom year in which demands upon the real resources of the economy were mounting rapidly, an important contributing factor was the huge Federal deficit, "left over" from the previous recession. This deficit made it difficult for the monetary authorities to check the growth of bank credit, the money supply, and general liquidity; at the same time, Treasury borrowing to finance the deficit helped to drive interest rates to sharply higher levels. On the other hand, in 1960 the sharp swing from Federal deficit to Federal surplus reduced the demands for bank credit and slowed the growth of the money supply and liquidity at a time when the monetary authorities were attempting to encourage credit expansion so as to slow, and perhaps reverse, the downward drift in the economy. Moreover, the seasonal and erratic swings in fiscal and debt operations within each of these years, though smaller than in some earlier years, continued to be a disturbing factor, since they were frequently at odds with the underlying needs of the business situation. The inflexibility of fiscal policy has thus tended to place a heavy burden on the monetary authorities and has been a major factor both in the high levels reached by interest rates in inflationary periods and in the very low rates that have sometimes characterized recessions.

All of this suggests that there may be better ways of meshing our over-all fiscal and monetary controls so as to utilize more effectively the underlying strength of the economy. For example, a more flexible and rapid adaptation of fiscal policy to the ups and downs of the business cycle, perhaps through more frequent review and readjustment of tax rates and spending policies, would be worth further exploration. If such procedures could be effectively employed, they would not only have a direct countercyclical impact on the spending stream, but they would also reduce the extent to which associated debt operations interfere with credit policy. In addition, they would provide increased freedom for the pursuit of monetary policies that took closer account of international considerations, especially the international interest rate structure, without any sacrifice of domestic stability. Thus, in recession periods a quicker, though not necessarily large, easing of fiscal policy might obviate the need for a sharp easing in monetary policy and interest rates, which could adversely affect the balance of payments. And, in booms, a quicker tightening of fiscal policy

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could help to limit extreme advances in interest rates and dampen disruptive inflows of interest-sensitive funds from abroad. For broadly similar reasons, the desirability of consumer credit controls on a stand-by basis may also deserve renewed consideration.

As to our basic balance-of-payments deficit—that reflecting all of our international transactions other than short-term capital movements—1960 saw a considerable improvement, stemming, as already noted, from the increased trade surplus. Nonetheless, the basic deficit still remains substantial. Fortunately, the massive efforts made in the earlier years after World War II, including Marshall Plan aid, have brought the other industrialized countries of the Free World to a position of strength in which they can bear an increased part of the necessary military and foreign aid expenditures abroad which loom so large in our deficit. Indeed, as 1960 drew to a close, it was increasingly evident that these countries were recognizing the need for a greater contribution on their part and were beginning to take constructive action. However, the hard fact is that the pressing needs of the less developed nations of the world, as well as growing economic competition of the Soviet bloc in these countries, may require increased efforts by the Free World as a whole. As a consequence, total outpayments for such purposes by the United States may rise, rather than fall, over coming years. The recent improvement in the United States trade balance cannot be taken as an indication that we are well on the way to financing any such additional burden through expanded exports. In part, the sharp rise in exports in 1960 reflected the boom in industrial countries abroad; and the slow contraction of imports, the developing slack in the American economy. Thus, an easing of the strong expansionary forces in Western Europe and Japan, or a renewal of strong expansionary forces in the United States, could bring about a reduction in our trade surplus.

No simple mechanism exists by which the competitiveness of American goods in world markets can be quickly adjusted to yield the increased surpluses that may be required in coming years. A necessary condition for success is the maintenance of conditions within the domestic economy which will ensure both that goods are available for export and that they are designed and priced to meet foreign competition. Over-all price stability—with the prices of particular commodities free to move down as well as up—is thus an essential element for a strong international trade position as well as for the avoidance of boom-bust patterns at home. To meet both our international obligations and the continued need for growth at home, it is also essential to maintain a high and

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sustained level of investment, including under this rubric not only additions to productive capital in the narrow sense, but also such vital social overhead as schools and hospitals. Indeed, high and sustained investment is so essential that more reliance may have to be placed upon flexible countercyclical policies that work through effects on consumer spending, rather than upon policies which work primarily through variations in investment. At the same time, the desire for ever-higher living standards must not be permitted to degenerate into a self-defeating process in which money claims on the economy's real resources are pushed up at a pace that exceeds advances in economic productivity.

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THE AMERICAN ECONOMY IN 1960

Business Conditions: From Expansion to Recession

The year 1960 was ushered in with great expectations, but they began to fade before the year was very old. The rapid advance of the year before, interrupted at full sail by the long steel strike, was expected to pick up where it had left off. But, as matters turned out, the splurge of activity after the reopening of the mills late in 1959 carried with it the seeds of early exhaustion.

CHANGES IN GROSS NATIONAL PRODUCT, INVENTORY ACCUMULATION, AND FINAL DEMAND. **A speed-up in inventory accumulation accounted for almost half of the advance in GNP during the first quarter, but thereafter inventories were a drag on total output. Final demand advanced throughout the year, but the increases were smaller in the second half.**

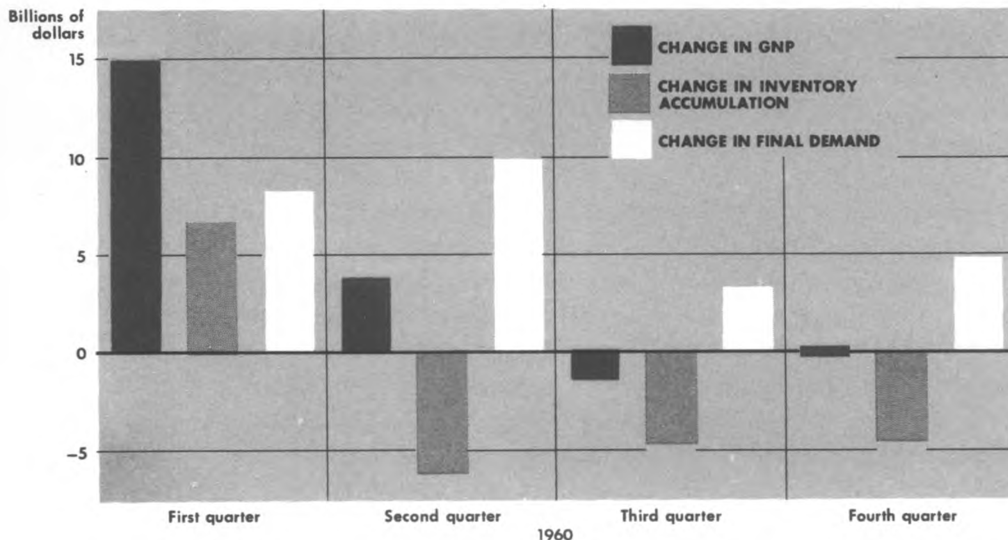

CHART 1

Note: Seasonally adjusted annual rates.

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Inventory accumulation accounted for a relatively large part of the rise in over-all economic activity in late 1959 and early 1960. As the pace of accumulation slackened, total output was robbed of much of its thrust (Chart 1). Final demand (gross national product less the change in inventories) advanced appreciably through the first half. The advances were smaller in the second half, however, as consumer spending and business spending on plant and equipment leveled out.

Although the immediate concern over rising unemployment and growing industrial slack during 1960 necessarily cast the longest shadows, there were some bright stretches that had to be included in any final reckoning of the year's performance. Foreign trade grew increasingly favorable as the year progressed, providing strong ballast in the choppy seas of short-term capital movements and helping to sustain the demand for goods and services produced in this country. Furthermore, the ebbing of the inflationary psychology that was so pervasive in some earlier years had favorable implications for the performance of the economy over the long run.

THE UNBALANCED ADVANCE. The imbalance in the economy's advance during the first half of 1960 centered in the very wide swings in inventories. This behavior, in turn, arose out of the sixteen-week steel strike in 1959 and out of the unusually exuberant expectations about the pace of economic advance once the strike was settled.

Industrial production dropped sharply during the strike period and inventories of many durable goods were depleted. When the mills started up again in November, steel began to flow in heavy volume to automobile and other steel-using industries within a surprisingly short period. The rebound was so rapid, in fact, that by January 1960 industrial production had already passed the June 1959 peak and manufacturers' stocks had spurted to near-record levels. The accumulation of inventories by manufacturers, and to a somewhat lesser extent by wholesalers and retailers, nonetheless continued at a good pace through most of the winter in preparation for the expected surge in demand. The total output of goods and services rose by $15 billion in the first quarter (seasonally adjusted annual rate), and almost $7 billion of this reflected a rise in the flow of goods going into inventories.

Some slowdown from the rate at which stocks were being replenished was inevitable, but the change-about was all the greater as the earlier optimism faded.

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Sales simply had not come up to the mark. Furthermore, another incentive to accumulate stocks was removed by the leveling-off in price expectations, stemming partly from a growing awareness that the steel strike settlement would put less upward pressure on the price level than had been thought earlier. The rate of inventory accumulation thus declined, first among manufacturers and then distributors, dampening the rise in total output in the second quarter by almost as much as the rapid accumulation had spurred it in the first quarter.

Final demand for goods and services, by contrast, increased appreciably throughout the first half of the year. The consumer was the principal source of strength during these months, as outlays for personal consumption were stepped up sharply and residential construction leveled out after declining in late 1959. Net exports and expenditures by business for plant and equipment also rose encouragingly. Various surveys taken in the spring, moreover, suggested that businessmen were planning to raise their capital outlays further during the remainder of the year. Government spending also helped to expand economic activity, as a rise in expenditures by State and local governments more than offset a dip in Federal defense outlays. These increases in final demand brought total GNP to an all-time peak of $505 billion (seasonally adjusted annual rate) in the second quarter, despite the sharp reduction in the rate of inventory accumulation in that quarter. After adjustment for price changes, GNP was 7½ per cent higher than at the peak of the 1955-57 expansion, although on a per capita basis it was only 2.9 per cent higher.

THE SLOW DECLINE. Even before the summer began, the strength of final demand began to ebb. As cutbacks in production stemming from inventory adjustments moderated the rise in personal income, total outlays on personal consumption leveled off, dipping slightly in the third quarter and rising moderately in the final quarter. In addition, a larger proportion of income went into liquid-type savings, apparently in part at the expense of outlays on durable goods. Outlays on residential construction also declined, in contrast to other recent periods of general business weakness, when such spending was stimulated by easier credit conditions to serve as something of a "cushion". It has been widely argued that the basic demand for housing may no longer be pressing, after fifteen years of high-volume construction. As noted below, however, the slow penetration of credit ease to the mortgage market suggested, as of the end of 1960, that the underlying demand for housing had yet to be fully tested.

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The slackening in final demand after midyear, feeding back upon inventory spending, led to widespread attempts to cut stocks. With retail sales weakening, however, it was not possible in many instances to reduce inventories for several months. Total stocks changed very little in the third quarter as an increase in holdings of finished goods, partly unintended, offset a reduction in holdings of materials and goods in process. Not until the last quarter did aggregate stocks fall appreciably; this decline, however, had a smaller impact on GNP than the switch from a very rapid to a less rapid accumulation earlier in the year.

Plant and equipment spending, as measured in the GNP accounts, rose only slightly in the third quarter, barely exceeding the highest levels reached during the previous cyclical expansion, and then sagged a bit in the final quarter. Although such spending did not provide the stimulus promised in the surveys taken in the spring, the cutbacks from levels anticipated earlier, reflecting disappointment in sales and possibly the emerging squeeze on profits, were quite small. With growing excess capacity in many lines, it was obvious that in 1960, as in other recent years, a large proportion of plant and equipment outlays was directed toward improving and modernizing equipment, thereby aiding producers in their efforts to hold down unit costs and meet domestic and foreign competition more effectively.

There were, however, supporting influences at work which, if not strong enough to prevent the emerging recession, nonetheless cushioned its force and prevented a cumulative downward spiral. United States exports rose during most of the year, as the boom abroad continued. At the same time, imports—which had been swollen in 1959 by an unusual demand for foreign automobiles and steel—fell off slightly. The result was a net export surplus (which in the GNP accounts comprises exports of goods and services minus imports of goods and services) that grew quarter by quarter throughout the year; in 1959, by contrast, we ran an export deficit. Government spending, moreover, increased further in the second half of the year, reflecting a rise in defense outlays, an increase in Federal salaries which became effective at midyear, and a step-up in State outlays for highway construction. Furthermore, Government transfer payments also rose during the second half, tempering to some extent the impact of rising unemployment on personal income.

In response to the gradual easing of demand and the growth of excess capacity, wholesale prices of industrial commodities softened over the year as a whole (Chart 2). Wholesale price indexes, which are based on list prices, do not reflect the full extent of this softening, since discounting and other methods of shading

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PRICE CHANGES DURING 1960. **The index for wholesale prices changed little over the year, while the consumer price index rose slightly.**

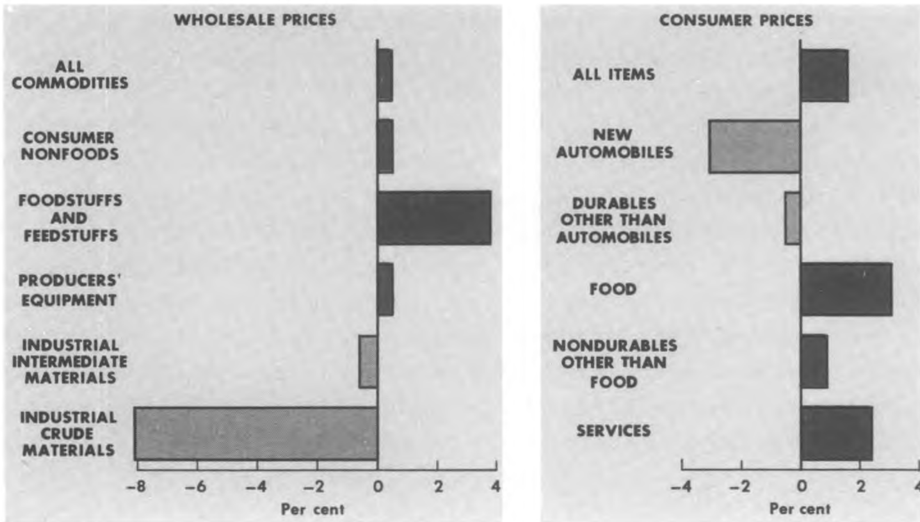

CHART 2

list prices became increasingly common during the year. Sharp declines were registered in prices of industrial crude materials, which in turn were reflected in reduced prices for many intermediate materials such as construction materials. The drop in the wholesale price index of all industrial commodities was moderated, however, by higher prices of many finished goods. At the same time, farm products and processed foods, which are subject to their own specialized market influences, rose in price during the year following the rather pronounced declines beginning around mid-1958. Reflecting these divergent price movements in industrial commodities, on the one hand, and food and farm products on the other, the wholesale index of all commodity prices was relatively unchanged for the third straight year.

At the retail level, the average price of all items entering the consumer price index rose by 1.6 per cent, or about the same as in 1959. Retail food prices followed closely the pattern of wholesale food prices, while the price of services continued its seemingly inexorable upward trend. The prices of commodities

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other than food dropped, however, for the first time since 1954—an encouraging development in view of the importance of price flexibility for the efficient functioning of the economy. These price declines centered in durable goods, particularly automobiles and appliances, and in many instances they reflected deliberate attempts to spur lagging sales.

The sag in demand during 1960 produced not only a decline in nonfood prices but also a sharp rise in unemployment, which reached 4.9 million persons or 6.8 per cent of the labor force by the year end (both figures seasonally adjusted, see Chart 3). Indeed, unemployment throughout the expansion beginning in mid-1958 never did fall to levels that might be judged minimal for an efficiently functioning labor market. Furthermore, the average duration of unemployment rose disturbingly during the second half of 1960, as did the proportion of jobless represented by married men with families. There were indications late in the year that an important aspect of the unemployment problem—the heavy concentration of the unemployed in certain chronically

EMPLOYMENT AND UNEMPLOYMENT. Nonfarm employment leveled off during the first half of 1960 and then declined steadily. The proportion of the work force unemployed, which was around 5 per cent early in the year, reached almost 7 per cent in December.

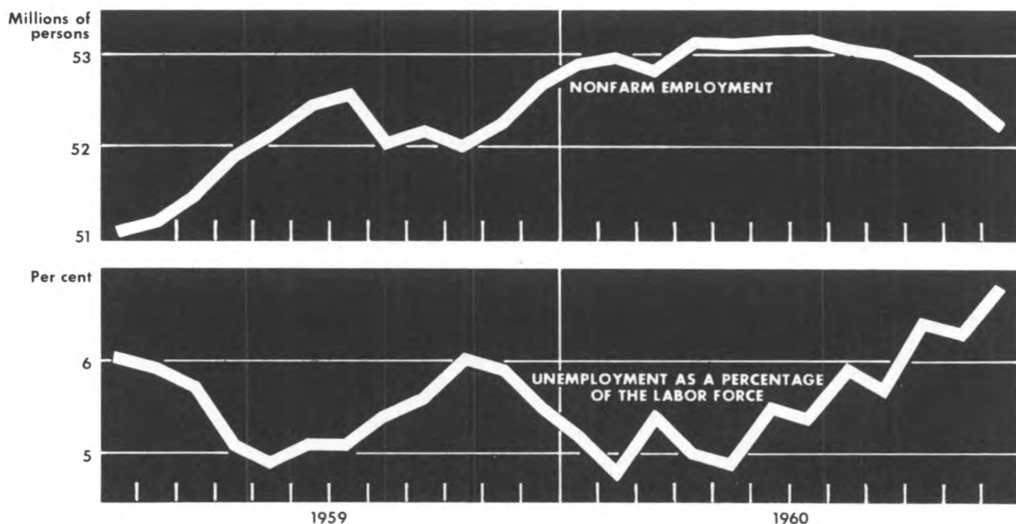

CHART 3

Note: Seasonally adjusted.

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MANUFACTURING EMPLOYMENT IN THE SECOND DISTRICT AND THE UNITED STATES. **The fall in factory employment was fully as rapid in the Second District as in the country as a whole in 1960, and a "substantial labor surplus" —over 6 per cent of the work force unemployed— emerged in half of the major labor markets in the District.**

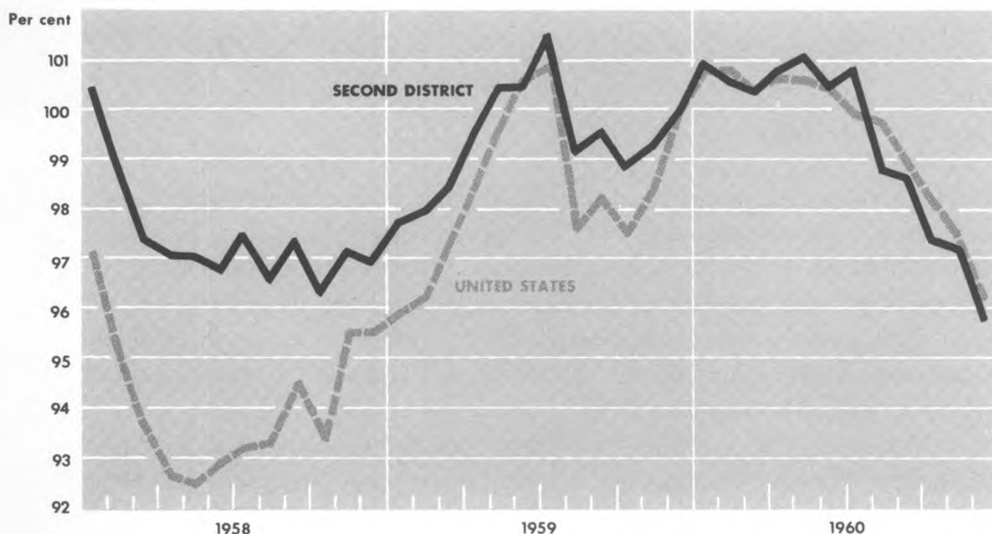

CHART 4

Note: December 1959=100; seasonally adjusted.

depressed areas—would soon be the focus of new legislative proposals by the Federal Government.

Economic activity in the Second District had also bounded up after the steel strike, although not so sharply as in the United States as a whole. The District had not, however, been as hard hit by the strike (this is illustrated for manufacturing employment in Chart 4). As the year progressed, weakness emerged here as elsewhere, with factory employment falling just as rapidly in the District as in the nation, and unemployment becoming an increasingly serious problem. At the outset of the year only two of the twelve major labor market areas in the District had a "substantial labor surplus" (more than 6 per cent of the work force unemployed), but by the year end the number so classified had risen to six. Although this was a larger proportion than in the United States as a whole, none of the major District areas were classified as having "a substantial

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and persistent labor surplus", whereas the number of such chronic problem areas had risen to 22 elsewhere in the nation.

Credit Flows

The total volume of funds raised through the sale of credit and equity-market instruments (net of repayments) fell sharply in 1960—to less than $40 billion from $62 billion in 1959. Among borrowers, the Federal Government's role underwent the most dramatic turnabout, from exceptionally large borrowings in 1959 to net repayment of debt in 1960 (Chart 5). This swing had its major impact on financial markets during the first half of the year and was one of the important influences pulling interest rates down in this period (Chart 6).

The drop in other types of credit flows over the year, however, overstates the easing of demand pressures in the capital markets. A large volume of funds was raised by business, for example, through the sale of Government securities, a process that put pressure on markets without directly influencing the supply of outstanding credit instruments. Taking account of such securities sales, total business demands on the capital market were considerably heavier in 1960 than in 1959, and the absence of any appreciable letup in these demands during the second half of the year probably explains, in good part, the general levelling-off in interest rates during this period.

TURNABOUT IN GOVERNMENT BORROWING. In 1959, all governmental units together had increased their indebtedness by some $16 billion, but in 1960 the over-all increase barely exceeded $2 billion. A modest reduction in borrowing by State and local governments reflected a decline in construction outlays and possibly also a rise in tax receipts. The big turnabout was in Federal Government debt operations, which swung from an $11 billion increase in debt in 1959 to a $2 billion redemption in 1960.

In the main, this big swing reflected a marked rise in Government tax receipts, particularly in the first half of the year when personal income was rising and when business income taxes were reflecting the high profits of 1959.

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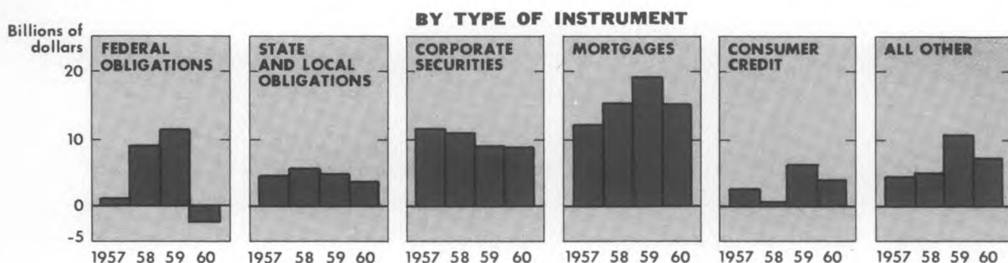
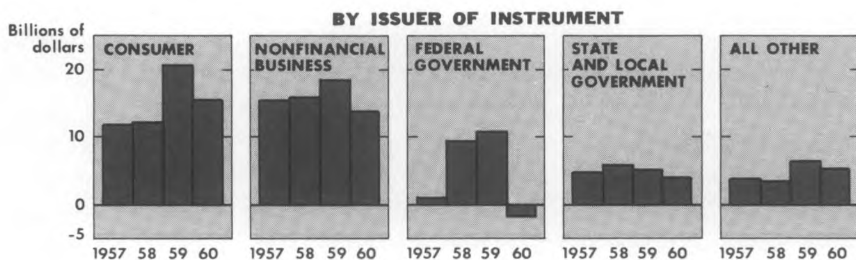
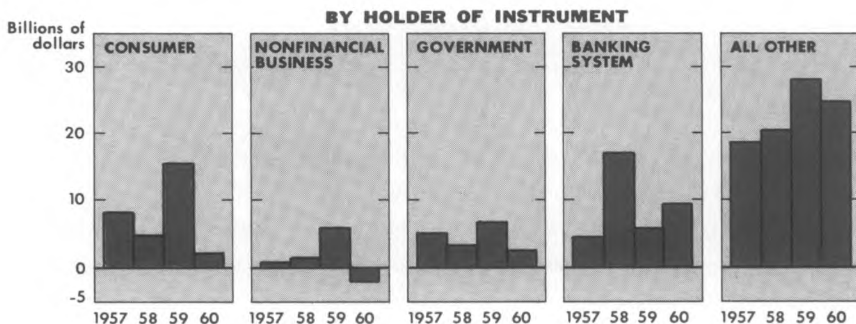
A small decline in Government cash outlays contributed modestly to the surplus. In the last quarter, however, revenues fell somewhat more than seasonally while

NET INCREASES IN CREDIT AND EQUITY MARKET INSTRUMENTS. The volume of funds raised on the capital markets was lower in 1960 than in 1959 for all major borrowing groups, with Federal Government demands undergoing the sharpest reduction. Among lender groups, only the banking system increased the volume of funds provided in 1960.







Note: All other types of instrument include security credit, bank loans not elsewhere classified, and miscellaneous other loans. All other holders include nonbank financial institutions and rest of world; all other issuers include these groups plus commercial banks.

CHART 5

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INTEREST RATES. After rising to peak levels in late 1959, market rates of interest moved down during the first half of 1960 and then leveled off or declined slightly further in the latter part of the year.

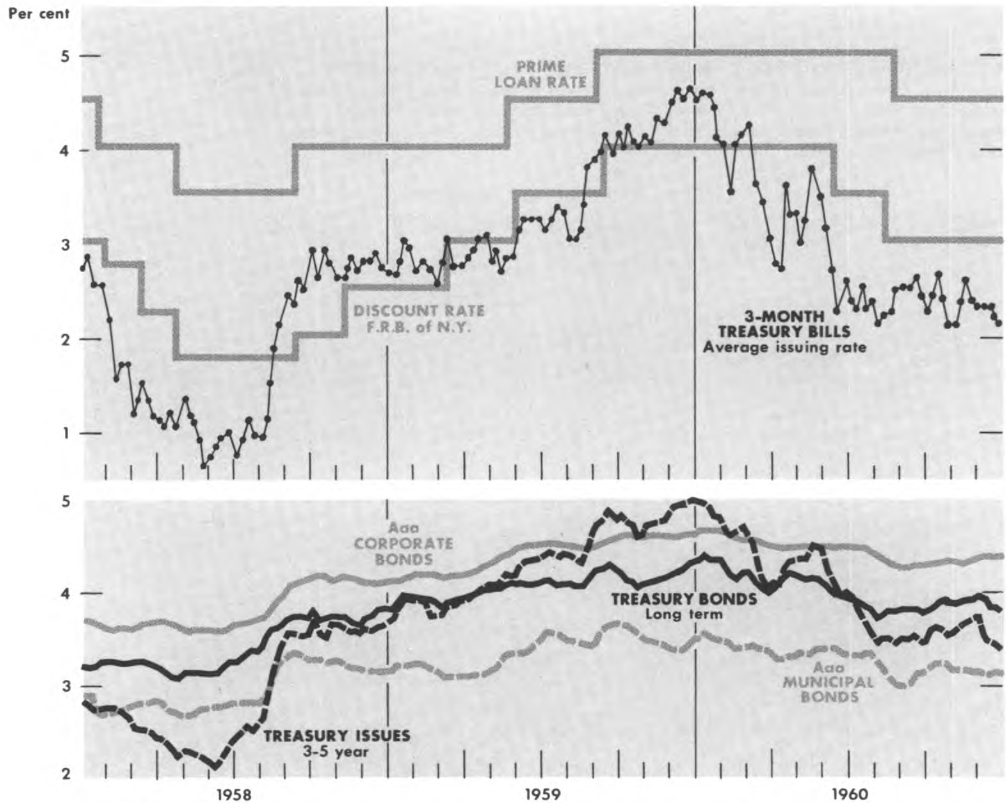

CHART 6

expenditures picked up. The cash deficit of $4 billion in the last quarter was thus only slightly less than in the final quarter of 1959.

Despite its cash surplus over the year as a whole, the Treasury intermittently put pressure on the capital market, engaging in large cash financings or major refundings in nine of the twelve months. Its cash borrowing of $12 billion was less than half that of 1959 when such borrowing was abnormally high, but the volume of exchanges exceeded that of any recent year, totaling almost $51 billion exclusive of regular roll-overs of three-month and six-month Treasury bills.

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In addition to exchanging $43 billion of securities coming due during the year (including securities held by the Federal Reserve and Government investment accounts), the Treasury refunded in advance some $8 billion of securities maturing at various times during 1961-69. This new technique, employed in June and again in September, was designed to ease the Treasury's refunding problem over the next few years. Another change, used in a refunding in August, was to permit anyone to subscribe to new securities offered in the exchange, rather than restricting this right to holders of the maturing issues.

BUSINESS DEMANDS REMAIN STRONG. In contrast to the government sector, corporations came to the capital markets for a substantially larger quantity of funds in 1960 than in 1959—as measured by securities offerings, bank and mortgage loans, and net liquidation of Government securities. "Real" investment by corporations was about unchanged, as the rise in plant and equipment spending offset a lower rate of inventory accumulation, while their internal cash flow was substantially smaller than in the preceding year. Depreciation reserves, to be sure, continued their upward climb, but this was more than offset by a decline in retained profits and by heavy tax payments (based in part on the record profits earned in 1959), which exceeded the current level of tax accruals.

In meeting these pressures, corporations raised about $8 billion (net) through new stock and bond offerings. This was about the same amount as in 1959 but well below the record $10½ billion raised in this way in 1957. The amounts raised through bank loans and mortgage loans in 1960 were somewhat lower than in 1959, although bank borrowing increased moderately in the first half before weakening later in the year. The rest of the financing gap was filled in the main by liquidating Government securities. Whereas corporations in 1959 had increased their holdings of Governments by about $4 billion, thereby helping the Treasury to finance its large deficit, in 1960 they sold off about $2½ billion. Furthermore, in contrast to the usual seasonal pattern, corporations liquidated Government securities in the second half as well as in the first half, helping to maintain a steady pressure on securities markets.

THE CONSUMER AS BORROWER AND LENDER. As consumers' expenditures for homes, cars, and other durables leveled off in 1960, their aggregate demand for credit declined. The net flow of consumer credit, which had climbed

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to record levels in 1959, gradually subsided in 1960; for the year as a whole, the $4 billion increase was almost $2½ billion below that of the previous year. This decline was in line with the fairly regular cyclical pattern of consumer credit that emerged early in the 1950's. Credit extensions were relatively small during the recessions of 1953-54 and 1957-58, in some months falling below repayments. However, the recessions apparently helped create the conditions favorable to an upsurge of consumer credit, requiring only an upturn in general business (and the usual shift in sentiment associated with an upturn) to set it off. The marked expansions in consumer credit during the recovery phases reached early peaks and then gradually subsided during the balance of the periods of business expansion. The persistence of this pattern—plus the fact that the cyclical bulges in consumer credit have tended to coincide with periods of heavy demands by the Treasury—lead naturally to the question of whether methods might be found for moderating these swings in order to promote greater over-all economic stability.

The somewhat reduced level of residential construction during 1960 carried with it a decline in the volume of mortgage borrowing by consumers. From a record $13 billion in 1959, such borrowing fell to a still-imposing $11 billion in 1960. To a great extent, the decline in both residential construction and in mortgage borrowing by consumers reflected the high interest rates and tight credit conditions that developed in the mortgage market during the latter part of 1959. Because of the time-consuming nature of residential construction, and the fact that long-term financing arrangements typically are made before construction is started, there is an appreciable time lag between a change in mortgage credit conditions and the impact of such change on construction and mortgage flows. In addition, more-than-the-usual frictions retarded the transmission of easier credit to the mortgage market in 1960. Much of the decline in mortgage lending during 1960 occurred at commercial banks, which were busy rebuilding liquidity during a good part of the year. There were also smaller flows from savings and loan associations, whose record mortgage acquisitions in 1959 had been supported partly by heavy borrowing from the Federal Home Loan Banks and from the Federal National Mortgage Association, whose unusually large purchases in 1959 partly reflected operations under a special program authorized by Congress.

Consumers are, of course, lenders as well as borrowers, channeling funds to the credit markets directly through securities purchases and indirectly by acquiring claims against financial institutions. The volume of net securities acquisitions

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by consumers in recent years has been closely geared to interest rate movements. Their holdings have increased much more sharply during years of rising rates, when financial institutions have not had sufficient funds to meet all demands, than during periods of falling or stable rates. Thus, in 1960 consumers increased their total securities holdings by only about $2 billion, with holdings of Governments falling by $2 billion. In contrast, during the previous year, net acquisitions exceeded $15 billion with Governments accounting for more than three fifths of the total.

On the other hand, the volume of funds channeled by consumers to financial institutions increased appreciably in 1960, owing principally to a sharp rise in time deposits at commercial banks in the second half of the year. To some extent the stickiness of time deposit interest rates relative to market rates on securities may have drawn funds from securities markets. In addition, the bulge in time deposits reflects the tendency of some consumers, during a period of declining employment opportunities and increasing economic uncertainty, to add to liquid-asset holdings while postponing spending on durable goods. In any case, the increase in the flow of consumer funds to financial institutions only partly offset the decline in their securities acquisitions. The total volume of funds provided by consumers through both channels thus dropped by about $9 billion, or by roughly twice the decline in total consumer borrowing.

Monetary Policy: From Restraint to Ease

The pressing concern of monetary policy in 1960 was the need to adapt promptly to a continuously changing and generally uncertain economic situation, and to do this within a framework of constraints that threatened to limit its scope and effectiveness. These special constraints arose out of the sharp turnabout in the Treasury's fiscal and debt operations and out of the danger to the international position of the dollar posed by short-term capital outflows.

RESTRAINT IS GRADUALLY RELAXED DURING FIRST HALF. When 1960 began, the commercial banking system was, so to speak, at short tether: loan-

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deposit ratios were higher than they had been since the early 1930's, member bank indebtedness to Federal Reserve Banks exceeded excess reserves by some $300-500 million, and bank credit was in the process of declining much more sharply than is usual early in the year. With economic activity sharply on the rise and expectations generally exuberant, no immediate relaxation of restraint was called for. At the same time, additional tightening measures were not required either, since the underlying strength of the advance was still a large question mark, as the general bustle of activity reflected in some unknown degree an unwinding from the long steel shutdown.

A sharp decline in interest rates early in the year was, in retrospect, the first "straw in the wind", suggesting that neither the demand for credit nor the demand for goods and services was so strong as had been touted. Although this particular straw had often in the past blown in the wrong direction, solid evidence had accumulated by the end of the first quarter to suggest that the pace of advance was slackening. The key question was, for how long? Brief hesitations during a broad cyclical expansion are by no means unusual; in this particular case, indeed, such a lull could have arisen from the relatively severe winter. With many measures of economic activity still on the rise and surveys of business and consumer intentions indicating that optimism continued strong and buying plans ambitious, a fresh breakout of expansionary forces could have occurred at any time.

Nevertheless, monetary policy began, in March, to probe toward lessened restraint. Even if an expansionary breakout had occurred, enough unused capacity remained in the economy to absorb its impact for a time, without inflationary consequences. Moreover, with banks relatively illiquid, there seemed little danger of credit expansion getting out of control, even for a short time.

The relaxation of restraint was evident, first of all, in a decline in member bank borrowings at the Reserve Banks (Chart 7). By May-June such borrowings had been paid down to the point where they were roughly equal to excess reserves. Other measures of bank liquidity, such as the ratio of loans to deposits, began to reflect improvement in April at New York City banks (which had been under the greatest pressures), but not until several months later at banks outside New York (Chart 8). Total member bank reserves, which had declined appreciably early in the year, began to rise in April. In early June the discount rate was reduced from 4 per cent, where it had been since the fall of 1959, to 3½ per cent, bringing the rate more closely into line with market rates and reinforcing the policy of lessened restraint.

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TOTAL RESERVES OF MEMBER BANKS AND BORROWINGS FROM RESERVE BANKS. The transition from credit restraint to ease that began in March was reflected in a progressive decline in member bank borrowings at Reserve Banks and a rise in total reserves.

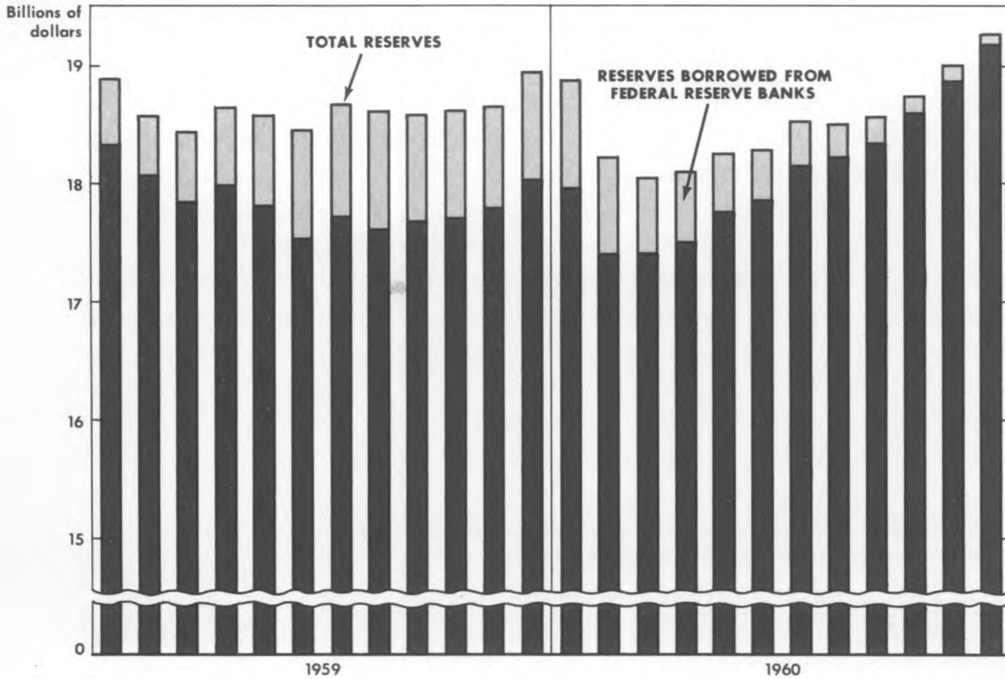

CHART 7

Note: Monthly averages of daily figures.

Commercial bank credit returned to the usual pattern of seasonal expansion in the second quarter, following a record contraction in the first quarter. The liquidity of the public failed to increase during the second quarter, however, largely because the shift of deposits from private to Government ownership, resulting from the large cash surplus enjoyed by the Treasury and from new borrowing, was only partly offset by redemption of debt held by the public. A good part of the rise in Treasury deposits remained in that "sterilized" state; the part used to redeem debt held by the public restored private deposits but partly at the expense of reduced holdings of short-term Government securities. The upshot was that the privately held money supply (demand deposits adjusted

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plus currency outside banks) as well as the public's holdings of Government securities maturing within one year declined in the second quarter on a seasonally adjusted basis. Personal-type savings (time and savings deposits at commercial and mutual savings banks, savings and loan shares, and Savings bonds) rose steadily, after seasonal adjustment, but not by enough to offset the fall in money holdings and short-term Governments. Hence ratios of liquid assets to GNP all declined over the second quarter, whether such assets are defined narrowly to include only money supply, or money supply plus personal-type savings, or both plus short-term Governments (Chart 9).

OUTRIGHT EASE EMERGES DURING SECOND HALF. As spring grew into summer, economic developments increasingly suggested that an early renewal of the economic advance was unlikely. Although the economy as a whole was

COMMERCIAL BANK LOAN-DEPOSIT RATIOS. The lessening of pressures on commercial banks after the first quarter was evident in the decline of loan-deposit ratios—first in New York City and then throughout the country.

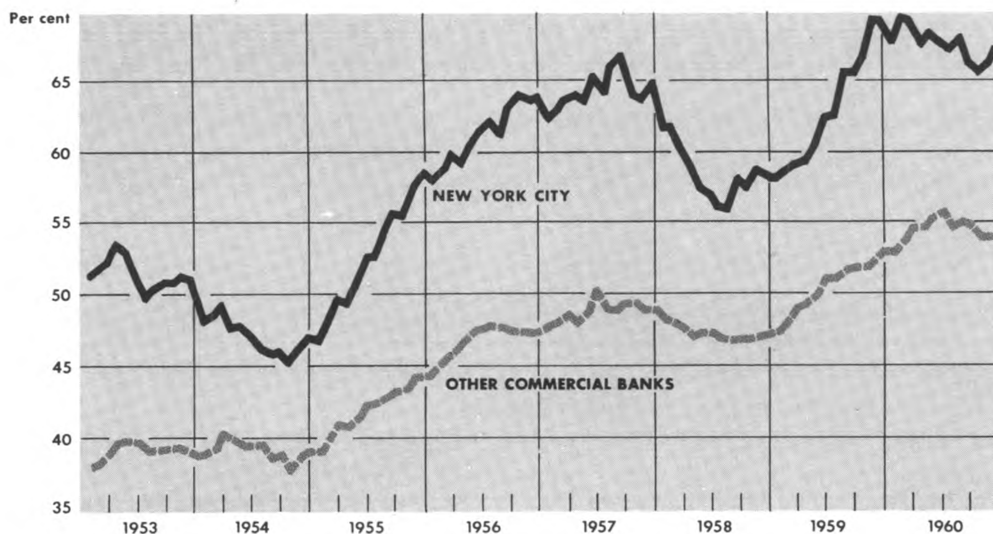

CHART 8

Note: Ratios are loans adjusted to total deposits less cash items in process of collection.

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LIQUID ASSETS OF THE PUBLIC AS A PERCENTAGE OF GROSS NATIONAL PRODUCT. The public's holdings of liquid assets did not increase as much as GNP during the first half of 1960, as increases in personal-type savings were largely offset by declines in other asset categories. The public's liquidity improved in the second half, however, as GNP declined and holdings of most liquid assets rose.

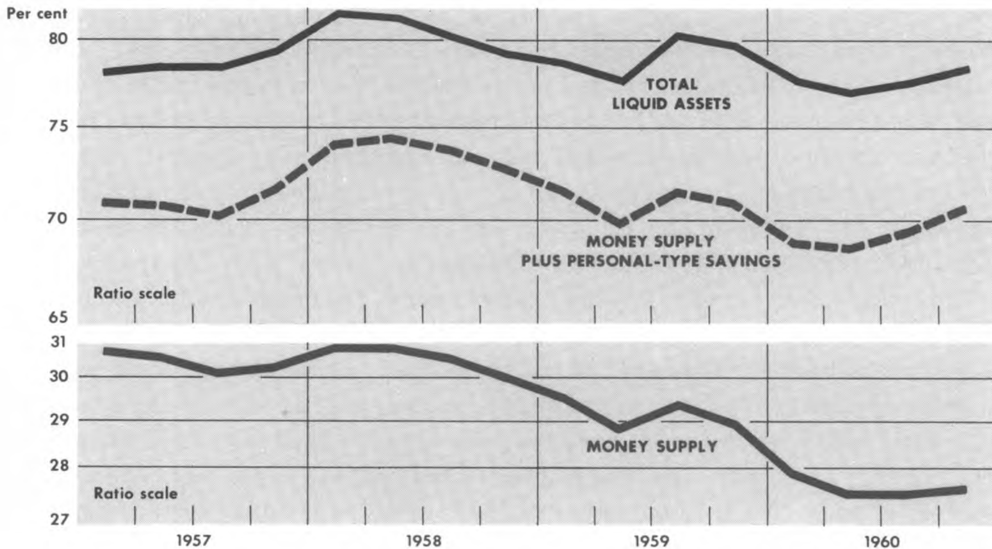

CHART 9

Note: Total liquid assets include money supply, personal-type savings, and Government securities maturing within one year; data are seasonally adjusted.

moving along a record high plateau, with only the barest sag perceptible, output was clearly falling short of full utilization of industrial and human capacities. At the same time, consumer spending was beginning to slip, unemployment to rise, and business sentiment to grow cautious. Although there seemed to be no signs of a tendency for contraction to feed upon itself, measures to ease credit could nevertheless be stepped up with little risk of an inflationary upsurge.

But now a different risk, one which heretofore had been lurking in the background of monetary policy formulation, brusquely forced itself into the foreground. Our balance-of-payments deficit, and the steady attrition of our gold stock associated with the deficit, had been a matter of concern for several years. In 1960 the "basic" deficit—that is, the deficit arising out of merchandise and service transactions, long-term capital movements, and Government grants and other payments abroad—was actually smaller than in 1958 or 1959. However, the decline in short-term interest rates during the first half, at a time when

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rates abroad were high, began to stimulate short-term capital to seek outlets abroad, enlarging the over-all deficit and accelerating the gold outflow. Hence monetary policy moves directed toward cushioning the effects of the emerging recession had to be taken in the light of their probable impact on the balance of payments, and at the risk of further encouraging capital outflows by driving short-term interest rates lower.

Among the actions taken by the Federal Reserve System during the second half that promoted an easier credit environment while containing downward pressures on short-term interest rates was the liberalization of member bank reserve requirements. Beginning August 25, country banks were authorized to include in their reserves vault cash in excess of 2½ per cent of their net demand deposits (previously they could include vault cash in excess of 4 per cent), while effective September 1 reserve city and central reserve city banks could count as reserves vault cash in excess of 1 per cent of net demand deposits (instead of 2 per cent). Effective November 24, all vault cash of member banks could be counted as reserves, while the reserve requirements against net demand deposits of country banks, which had obtained the greatest benefit from the liberalization of vault-cash provisions, were raised from 11 per cent to 12 per cent. Moreover, in response to legislation passed in 1959, which required the termination of the "central reserve city" classification by 1962, the Board of Governors equalized reserve requirements of central reserve city banks and reserve city banks by reducing the reserve requirements of the former against net demand deposits from 18 per cent to 17½ per cent, effective September 1, and to 16½ per cent, effective December 1.

These measures released, on balance, about $2 billion of reserves. Along with open market operations, with which they were closely meshed, they resulted in a progressive rise in member bank reserves and easing of reserve positions. Moreover, with stock market credit running well below the levels of 1959, the Board of Governors in late July reduced stock margin requirements to 70 per cent from the 90 per cent level at which they had stood since October 1958. And in August and early September the Reserve Banks reduced their discount rates by ½ per cent to 3 per cent, in a further adjustment to lower market rates.

As reserves became more readily available during the second half, commercial banks stepped up their search for loan and investment outlets; net bank credit expansion thus continued to rise relative to earlier years. At the same time the composition of bank credit changed sharply, reflecting altered demand conditions

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as well as the more ready availability of reserves. The market supply of Government securities, which had been sharply reduced during the first half, was augmented by some seasonal borrowing by the Treasury in the second half. (If Treasury borrowing were adjusted for seasonal influences, the second half would show debt redemption, but on a smaller scale than in the first half.) Bank securities holdings notched upward on the occasion of each of several large cash financings (Chart 10) and, unlike the occasions (for example, 1959) when banks are under reserve pressure and loan demands are strong, no sizable liquidations developed following the financings.

Loan demands by business, which had remained moderately strong through the first half, weakened during the second half. In part, this reflected the weakening in business spending, but in addition some credit demands were shifted from banks to the open market. Interest rates on business loans, which are often somewhat "sticky", changed hardly at all during the first half when market rates were dropping. This opened a wide differential between the

COMMERCIAL BANK LOANS AND INVESTMENTS. **Commercial bank loans rose only moderately during 1960. Securities holdings fell sharply early in the year but recovered later on, as reserve positions grew progressively easier.**

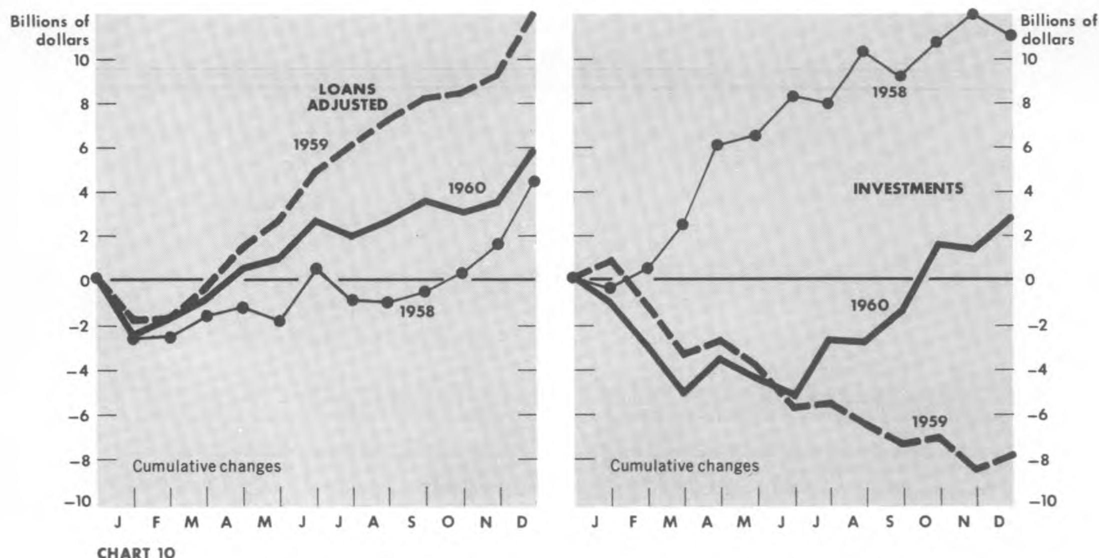

CHART 10

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cost of funds obtainable, on the one hand, by borrowing from banks and, on the other, by selling open market paper or liquidating Government securities holdings. Bank loan rates finally dropped in the third quarter, the prime lending rate falling to 4½ per cent in August from the 5 per cent level that had prevailed since September 1959. Cost differentials remained large enough, however, to stimulate unusually heavy sales by business of finance company paper and Government securities. The increase in outstanding bankers' acceptances was also unusually large during this period, reflecting both cost advantages and the rise in exports.

The substantial increase in bank securities holdings, along with a slackened growth in loans, added further to bank liquidity during the second half. The very moderate decline in loan-deposit ratios tends to understate the rise in liquidity, since the composition of securities holdings shifted in favor of issues maturing within one year. Another liquidity measure—the ratio of selected liquid assets to deposits[1]—rose at New York City weekly reporting banks from a low of 10 per cent in March to 18 per cent in December, while at reporting banks outside New York the increase was from a low of 8 per cent in May to 14 per cent in December.

The public's liquidity also improved modestly in the second half. The ratio of money supply to GNP increased slightly during the third quarter when GNP fell, and again in the fourth quarter when the money supply rose. When personal-type savings are included in the liquidity measure, the improvement was more pronounced, due in good part to an exceptionally sharp rise in commercial bank time deposits during the second half. Nonbank holdings of United States Government securities maturing in less than one year were lower in the second half, however, moderating the rise in the broadest liquidity measure shown on Chart 9.

SUMMING UP. How did monetary policy fare, given the constraints within which it had to operate? The shift from a large Treasury deficit in 1959, when private spending was expanding rapidly, to a surplus in 1960, when private spending tapered off, placed a heavy burden on monetary policy. To contain the expansion of the public's liquidity during 1959, when the Treasury was adding to the public's holdings of liquid assets, it was necessary for the banking system

[1] *Vault cash, balances with domestic banks, loans to banks, loans to brokers and dealers, and Treasury issues maturing within one year less borrowings as a percentage of total deposits less cash items and reserves.*

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to disgorge Government securities and thus check the growth of the public's deposit holdings. Similarly, to facilitate the growth of the public's liquidity during 1960, when the Treasury was reducing the public's holding of liquid assets, the banking system had to create new funds through the acquisition of securities. Taking a broad view, the desired effects on liquidity were largely achieved, although with some delay. However, as a result of leaning against such heavy winds, interest rates fluctuated much more sharply than would have been required if the swing in Treasury fiscal operations had been smaller or if it had been better phased with the business cycle.

As suggested above, the techniques employed to ease credit were chosen with an eye to cushioning the downward pressures on short-term interest rates so as not to stimulate the outward flow of short-term capital. This was one consideration (although not the only one) underlying the release of reserves during the second half through a liberalization of reserve requirements, rather than through open market purchases alone. On several occasions, moreover, open market operations were conducted in short-term securities other than Treasury bills. Rates on three-month Treasury bills, which have a pivotal role in international capital flows, for the most part fluctuated irregularly within a range of 2⅛ to 2⅝ per cent during the second half, whereas in 1958 they fell well below 1 per cent.

Yet long-term rates also were well above the levels reached during previous periods of monetary ease. The higher level of both short-term and long-term rates probably was due, in good part, to the lower level of liquidity of the banking system (and perhaps the whole financial system as well) than during earlier periods of monetary ease. And at the year end there was a source of concern in the weakness of sectors of the economy that in the past had proved sensitive to long-term rates.

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STRAINS IN THE WORLD ECONOMY

In many respects, the international financial position of the United States remained strong in 1960. At the year end the nation's international monetary reserves, including its gold stock and its International Monetary Fund quota, totaled almost $22 billion, and it was a net creditor on long-term capital account to the extent of some $28 billion. Nevertheless, strains on the United States payments position and on the international payments mechanism, which had been evident in earlier years, continued in 1960, as major countries adjusted their policies only slowly to rapidly changing conditions in the world economy. For the third consecutive year, gold flowed in substantial quantities from the United States to Western Europe. As 1960 progressed it became increasingly clear that such large gold outflows could not be tolerated for prolonged periods, and toward the end of the year the United States Government announced several new steps designed to reduce our balance-of-payments deficit.

Some of the payments strains were traceable to the slow adaptation of the economic policies of Western Europe and Japan to their return to competitive equality with the United States. The United States continued to bear the heaviest burden both of mutual defense and of aid to the primary-producing countries. The recovery of industrial countries abroad had not been accompanied by a commensurate rise in their grants and long-term loans. And the very modest rise in long-term capital outflows that apparently did occur was outstripped by the rise in their balance-of-payments surpluses on current and short-term capital accounts. Accordingly these countries, and particularly West Germany, continued piling up international reserves at the expense of the rest of the world.

These persistent difficulties were complicated in 1960 by lags in the adjustment of the "mix" of countercyclical financial policies. Although it was widely recognized that the rising strength of the industrial countries abroad had put the major foreign currencies on a more nearly equal footing with the dollar, the events of the year emphasized the urgency of a re-examination of the role of monetary and fiscal instruments in countercyclical financial policy. Such a reappraisal became particularly pressing because business cycles here and abroad were out of phase during 1960. The United States economy slipped into a recession and its short-term interest rates dropped rapidly. At the same time,

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several of the major industrial countries abroad were acting to restrain inflationary pressures in their booming economies. But in doing so they generally tightened monetary, rather than fiscal, policy. Prior to the move to nonresident convertibility by most Western European countries at the end of 1958, a significant increase in interest rate differentials between New York and major financial centers abroad would have had only slight international effects. But the increase that occurred during 1960 was an important influence in the enlargement of short-term capital outflows from the United States that offset much of the improvement in the United States merchandise trade position. Our over-all balance-of-payments deficit remained as large as it had been the year before.

The Uneven Advance of the World Economy

Some of 1960's problems were rooted in trends that stretched back over many years. Part of the trouble was traceable to the lag in the economic growth of most primary producers behind the industrial countries. Because of this lag, economic aid continued on a large scale. Despite the rapidly rising economic strength of other major industrial countries, the bulk of this aid was still being supplied by the United States and thereby contributed to this country's payments problem. The efforts of the primary producers to catch up to the industrial world also resulted in chronic reserve losses by these countries to Western Europe, thus putting a further strain on the world's payments mechanism.

Among the primary-producing countries there was increased awareness that, far from catching up with the industrial countries, they were as a group still falling behind. To be sure, the economic growth of these countries had probably never been faster than during the decade ended in 1960. Their aggregate gross national product in these years seems to have been increasing at an average annual rate of around 3 per cent. But their population was rising so rapidly that income per capita improved only slightly and in some cases not at all.

In pulling even further ahead of the primary producers, some of the industrial countries were moving at a more rapid pace than others. Industrial countries that had been prostrated by World War II advanced especially rapidly. Income per capita in the United States remained substantially higher in absolute terms, but

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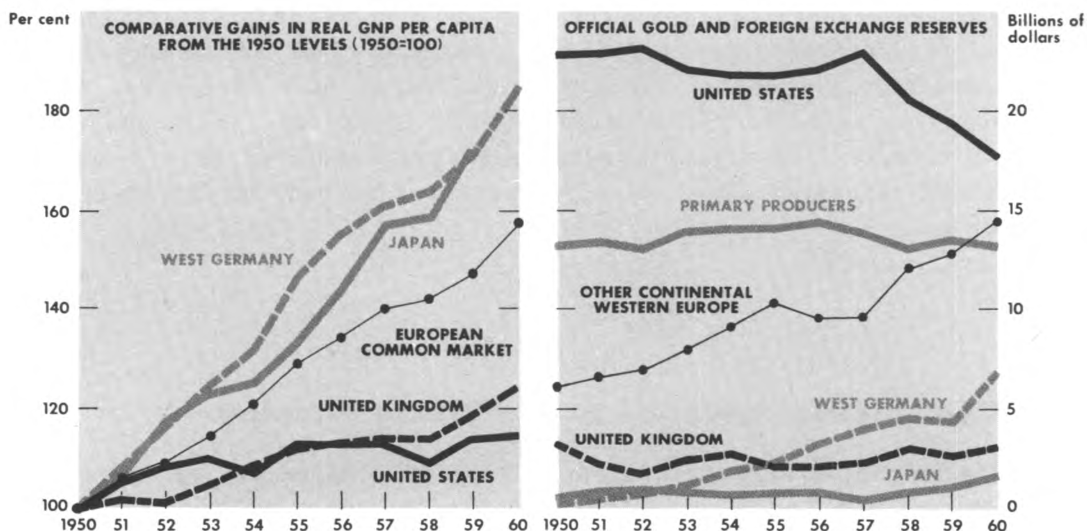
GROWING ECONOMIC STRENGTH OF INDUSTRIAL COUNTRIES ABROAD. Income per capita in 1960 was still rising faster in other industrial countries than in the United States, although its absolute level remained highest here. Similarly, these countries were gaining gold and foreign exchange, while the United States and the primary producers were losing reserves.



Note: Latest data partially estimated (1960 per capita income data for Japan not available). Official gold and foreign exchange: for West Germany (except 1950–51) and the United Kingdom, the data represent only gold and convertible currency holdings; for other continental Western European countries, the data exclude wherever possible the countries' net European Payments Union debtor or creditor positions.

CHART 11

the disparity between it and other major industrial countries was significantly smaller in 1960 than it had been ten years earlier (see Chart 11).

These diverse trends in growth were paralleled in the changing patterns of trade during the decade. The value of total world trade rose rapidly, but the expansion was largely in the flows between industrial countries. Indeed, exports of primary producers increased by only about one third over the decade, while the Free World total almost doubled. The largest portion of the Free World's expanding trade accrued to the industrial countries that had grown most rapidly, the share of West Germany and Japan in total manufactured exports of the Free World having increased particularly sharply. On the other hand, Britain's portion of manufactured exports steadily declined; the share of the United States also

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tended to move downward, although the decline was not so steep as Britain's, and in 1960 it turned upward.

Changes in official holdings of gold and foreign exchange followed a roughly corresponding course. Those of continental Western Europe and Japan, at $23 billion equivalent at the end of 1960, were almost three and a half times higher than they had been a decade earlier, with West Germany alone accounting for 40 per cent of the total increase. Over the same period, Britain's international reserves remained roughly unchanged as did those of the primary producers. United States gold reserves had declined by $5 billion to $17.8 billion, the entire drop having occurred in 1958-60.

Problems of the Primary-Producing Countries

While the primary producers generally were lagging in economic growth, there were wide differences among them. There were some whose income per capita last year was relatively high but whose growth had been slowed by the maladjustments associated with inflation. Others had, by a judicious allocation of their resources, achieved a growth rate comparable to that of the older industrial countries. Still others, despite substantial foreign aid, had not expanded even so fast as their populations.

Whatever the differences, the primary producers have shared common aspirations and many common problems. The idea that poverty, ignorance, disease, and early death are not inevitable, and an appreciation—sometimes quite exaggerated—of the economic advances that can be achieved through modern industrial and agricultural techniques, came to many of them only in the last ten or twenty years. These ideas stimulated attempts to do in a few short decades what many of the industrial countries took a century or more to accomplish.

What has been called "the revolution of rising expectations" in the primary-producing countries ran against numerous obstacles. Food producers discovered, as have American farmers, that, as minimum needs begin to be satisfied, food consumption per capita rises less rapidly than income per capita. As an individual's income rises, he spends a larger proportion on other goods and services. Likewise, producers of industrial raw materials found that demand for

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their products tended to increase less rapidly than industrial production, because manufacturers became more efficient in the use of fuel and in the recovery of scrap metals, because synthetics were developed to take the place of rubber and some other materials, and because major manufacturing countries experienced a shift from industries in which the utilization of imported raw materials was relatively high to those in which it was relatively low. Weakness in the demand for primary products also reflected adjustment difficulties in the industrial countries which, all too frequently, resorted to tariffs, quotas, and other restrictive devices in an attempt to prevent the "disruption" of existing domestic markets. To be sure, the effects of these various obstacles were partly offset by the general and sometimes rapid expansion of the industrial countries which buoyed up the prices of several primary products during the decade. Nevertheless, the average prices that the primary producers received for their exports tended to decline while the prices they paid for their imports rose until mid-1957 and thereafter declined more slowly than their export prices.

The primary producers' difficulties stemmed, not only from their relations with the industrial countries, but also from domestic problems. Many of them still had not done so much as they might like to create a political and social environment that would encourage workers to acquire industrial skills, take new jobs, and move to new homes; that would stimulate domestic savings and attract foreign capital; and that would reward the innovator and entrepreneur. At the same time, education and health services were often sorely neglected, and not enough was being done to give broad groups of the population a stake in economic progress. Moreover, political pressures at times forced the modification of development programs in ways that actually slowed economic growth. Impressive but uneconomic plants were erected as symbols of national power. New plants were located so as to give each region of a country its "fair share" of industry. The result at times was that, though there may have been more equality or greater regional fairness, there was also less economic growth. It is difficult under the best of conditions to find exactly the appropriate mixture of equity and efficiency, and nations just breaking free of age-old inertia are likely to find it doubly difficult.

The difficulties experienced by many of the primary producers in their attempts to accelerate growth eased the way for Communist influence. Some of the primary producers' leaders seemed impressed by the rapid transformation of Russia from a backward, mainly agricultural, country into a major industrial and political power and by current efforts along similar lines in other Communist

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countries. For their part, the Soviet authorities seem to have concluded some years ago that they could extend their influence in vital primary-producing areas and have increasingly employed bilateral trade and payments agreements, grants in aid, long-term credits, technical assistance, and trade fairs for this purpose. While trade with the Soviet bloc remained a very small part of the Free World total, the bloc's share of the exports of several important primary producers increased sharply between 1953 and 1960. The bloc's economic aid to primary producers has also been increasing steadily. Although actual economic aid outlays were still relatively small, its commitments are estimated to have totaled more than $900 million equivalent in 1959 and the trend appeared to be rising sharply during 1960.

The Lag in the Adjustment of Economic Policies Abroad

The economic policies of the industrial countries abroad responded only slowly to the strengthening of their economies and to the lag in the growth of the primary producers.

In economic aid and mutual defense, the United States was still carrying a share of the burden that may well have been appropriate for the aftermath of World War II but that had become increasingly anachronistic as the earlier difficulties of the industrial countries abroad faded into the past. Although the need for increased economic aid to the primary producers was widely recognized, about three fifths of the total was still coming from the United States during the late fifties, and the proportion from several of the major industrial countries hardly seemed commensurate with their rising economic strength. Likewise, other major industrial countries were allocating to defense only one-third to three-quarters as much relative to their total output as was the United States. Beyond this, the foreign exchange gains of some of them were substantially increased by the outlays of United States troops within their borders.

In other respects also the economic policies of the industrial countries abroad were more appropriate to the conditions of earlier years than to the radically changed world economy of 1960. In some, special incentives adopted a decade

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or more ago, when there was a desperate need to expand exports, were still operative. For example, West Germany and other European countries, too, were still giving exporters tax rebates that enabled them to price exports below the price listed in the domestic market. While most of Western Europe's discriminatory controls over dollar imports had been lifted, many of its quantitative restrictions on various important United States agricultural products remained in force. Even where quantitative controls had been removed, Western European industries were often protected by tariffs that were substantially higher than the corresponding ones imposed by the United States. Moreover, most Western European countries still maintained ceilings on foreign exchange allowances for tourists which often placed severe limitations on travel in the United States. Foreign capital issues—which are not subject to special controls in the United States—still required official approval in many European countries.

Lags in the response of the industrial countries abroad were not confined to their long-term economic policies but extended to countercyclical policies as well. True, there was widespread recognition that the rising strength of the

BUSINESS ACTIVITY AND INTEREST RATES. With the United States slipping into a recession and Western Europe and Japan still expanding, wide interest rate differentials appeared among the major international financial centers.

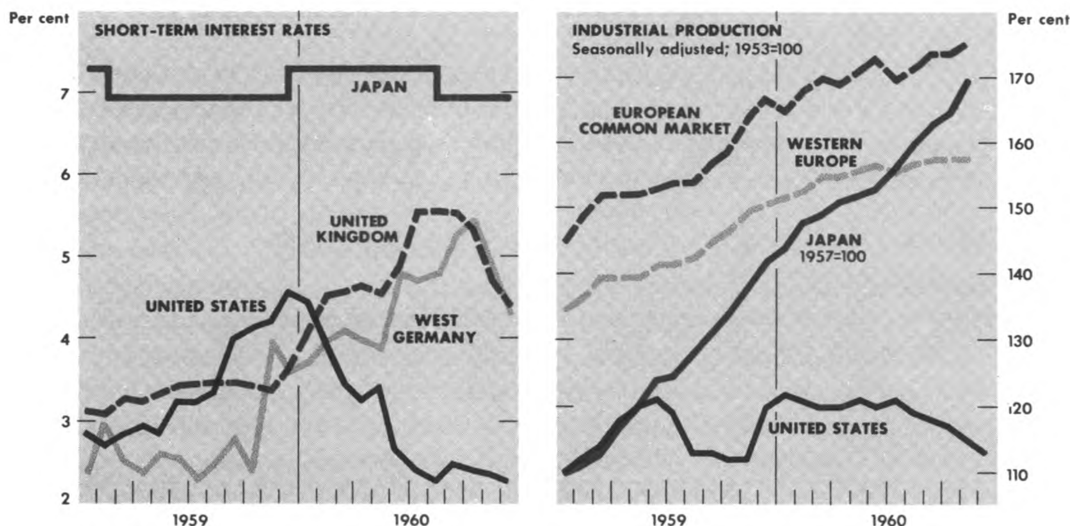

CHART 12

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industrial countries had been reflected in increased confidence in their currencies, and had facilitated the concerted Western European move to nonresident convertibility at the end of 1958, and that the virtual elimination of differences among the major currencies on account of relative short-term risks had put several of these currencies on a more nearly equal footing with the dollar. It was recognized that these changes had led to a closer interdependence among major financial markets and that movements of short-term capital were responding far more readily and in larger volume to interest rate differentials between these markets. What was not widely realized, at least until the latter part of 1960, was that the increased sensitivity of short-term funds to such differentials called for a reassessment of monetary and fiscal instruments as countercyclical weapons.

Questions about the ways in which fiscal and monetary policy should be coordinated became particularly pressing during 1960, when the United States economy was slipping into recession and United States short-term interest rates reached substantially lower levels than in 1959, while at the same time several of the major industrial countries abroad were acting to restrain their booming economies (see Chart 12). In so acting, however, a tightening of fiscal policy was the exception rather than the rule. In Britain, a reimposition of instalment credit controls in April lifted some of the burden from traditional monetary tools, but in that country, in West Germany, and in much of the rest of Western Europe, heavy reliance in restraining the boom was placed on sharply increased interest rates, at least until the latter part of the year.

Industrial Countries Abroad Continue to Accumulate Gold and Dollars

These economic policies were reflected during 1960 in the continued rapid accumulation of gold and foreign exchange by industrial countries abroad. In Western Europe these reserve gains continued despite that area's economic upswing, the apparent increase of its aid to the primary producers, and the elimination during 1959 and early 1960 of most of its quantitative controls over nonagricultural imports. Western Europe's imports reached a postwar high in 1960, about one-fifth above a year earlier. Its purchases from primary pro-

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ducers moved up, but payments on this account were far more than offset by the counterflow of investment income, receipts for merchandise exports and services, and in some cases flight capital from primary producers. Even with the apparent enlargement of its aid outlays, Western Europe's current-account surplus was only partly financed by its loans and grants, and the primary producers had to meet the resulting deficit by transferring to Western Europe dollars gained in transactions with the United States and borrowed from international organizations and by drawing down their slender reserves of gold and foreign exchange.

While much of Western Europe's reserve gains thus came from the primary producers, another substantial part derived from direct transactions with the United States. To be sure, United States exports to Western Europe were half again as large in 1960 as they had been the year before while its imports were about the same, with the consequence that the United States merchandise trade surplus with Western Europe exceeded $2 billion, compared with only $0.1 billion in 1959. Moreover, increases in United States net payments to Western Europe on account of tourist travel were approximately offset by increased United States net receipts from investment income and decreased military payments. Although United States direct investments in the growing markets of Western Europe increased significantly, our balance-of-payments deficit on current and long-term capital account with that area was reduced to about half that of a year before.

But the rise of short-term interest rates in Western Europe, together with their decline in the United States, played a major part in inducing a movement of short-term capital that appears to have left the United States over-all balance-of-payments deficit with Western Europe almost as large in 1960 as it had been the year before. As United States monetary conditions eased, United States funds available for short-term investment increased and some of these were placed in relatively high-yielding European assets. For similar reasons, Europeans repatriated some funds that had been invested in the United States in earlier years, and some international trade financing was shifted to the United States market. The short-term capital outflow was aggravated, moreover, by some concern about the future of the dollar that was also manifested in a short-lived speculative flurry on the London gold market in late October and early November.

This change in the United States short-term capital account with Western Europe obscured the major improvement that occurred elsewhere in the United States balance of payments during 1960. Not only were its exports to Western

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Europe substantially higher but those to Japan were up 44 per cent and to the primary producers 9 per cent. Total United States merchandise exports were thus pushed to a level $3.2 billion higher in 1960 than a year earlier. Since imports declined somewhat, our 1960 merchandise trade surplus was no less than $3.7 billion larger than in 1959. (It may be noted that almost $300 million of this improvement in our trade balance was attributable to increased shipments of surplus agricultural commodities under United States aid programs. Such shipments, which accounted for an estimated $1.2 billion of the $19.6 billion export total in 1960, are predominantly on a grant basis or paid for in the local currencies of the recipient countries.) However, the moderate rise in our deficit on "invisible", government, and long-term capital account, together with the substantially enlarged outflow of short-term capital, left the 1960 balance-of-payments deficit at $3.8 billion, matching the record deficit of 1959.

The counterpart of the over-all deficits run by the United States and by the primary producers was the large balance-of-payments surplus of Western Europe and Japan. Western Europe's surplus with other countries may have totaled more than $3.5 billion, about one half of the total being accounted for by West Germany alone. Although West Germany's imports moved up sharply during the year, the resulting increase in its payments was more than offset by a rise in exports, a decline in long-term capital outflows, and a heavy inflow of short-term capital. This inflow, in turn, mainly reflected a shift favorable to Germany of the leads and lags in commercial payments as well as increased German borrowing abroad, apparently for domestic financing purposes. Large-scale short-term capital flows, both from the United States and from continental Western Europe, were also particularly significant for Britain, more than offsetting a widening deficit on current and long-term capital account. For Japan, too, continued heavy short-term capital receipts more than offset the decline in its current-account surplus.

Western Europe and Japan utilized a relatively small part of their balance-of-payments surpluses with other countries to repay outstanding obligations, and to extend new loans, to international organizations. Over $500 million was transferred to the International Monetary Fund to meet quota increases and to repay drawings that had been made in previous years, the bulk of these repayments having been made by Britain and France. Some $140 million of the payments to the IMF involved transfers of gold especially purchased for the purpose from the United States, but these purchases were more than offset by a $300 million gold sale by the IMF to the United States in December 1960. As pay-

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ments to international organizations by the industrial countries abroad and by the United States were only partly offset by transfers to the primary producers, the international organizations' total gold and liquid dollar holdings rose $1 billion in 1960, about one third of the rise in 1959 when member countries made large payments in connection with the increases in their IMF quotas.

By far the largest part of the industrial countries' balance-of-payments surplus with other countries was settled through increases in their holdings of both liquid dollars and gold. Liquid dollar holdings of the industrial countries rose $1.4 billion in 1960, with Japan, Britain, and West Germany accounting for more than the total increase. Some other countries reduced their holdings, especially in the latter half of 1960, partly because of questions about the future of the dollar. The industrial countries' surplus was also partly settled in sterling, continental Western European balances of which increased $686 million equivalent during the nine months ended September 1960. The rest was settled in gold. For this purpose, an estimated $1.3 billion became available during the year from new production abroad and from Soviet sales, the United States sold $2.0 billion to foreign central banks and governments, and official holdings of the primary producers declined $0.2 billion. Of the $3.5 billion in gold that thus became available during 1960, $0.3 billion was transferred by foreign countries to international organizations, $2.2 billion was added to the official holdings of the industrial countries, and the remainder seems to have "disappeared" into industrial uses and private hoards. As only a small part of the United States gold sales to foreign countries was offset by United States purchases from other quarters (mainly from the IMF), the United States gold stock declined $1.7 billion during the year as against a $1.1 billion decline in 1959 (including the $344 million gold payment to the IMF in connection with the United States quota increase).

Measures to Restore Balance to the International Economy

The acceleration of both the short-term capital outflow and United States gold losses during the summer and autumn of 1960 prompted the United States

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Government to take new measures to reduce the country's balance-of-payments deficit. President Eisenhower on November 16 directed the Secretary of Defense to cut the number of dependents abroad of United States military and civilian personnel, to reduce Department of Defense purchases overseas by "a very substantial amount", and to prohibit the sale of foreign goods in post exchanges. He directed the International Cooperation Administration to "place primary emphasis" in its activities on the purchase of United States goods and services and to place a ceiling on its purchases abroad. The Development Loan Fund, which had already switched in October 1959 from a policy of world-wide procurement to a policy of placing "primary emphasis" on purchases in the United States, was directed to "vigorously pursue" its new policy. The President also directed the Department of Agriculture to "make an increased effort to insure" that disposals of agricultural products under United States aid programs did not cut into commercial exports. In addition, he directed all Government agencies to cut their foreign purchases, the number of personnel stationed abroad, and foreign travel by such personnel as far as possible. (After the new administration took office in January 1961, President Kennedy announced a number of additional steps that strongly reinforced the earlier measures. While the order to reduce the number of military dependents abroad was rescinded, the Secretary of Defense was directed to achieve equivalent dollar savings through other means.)

Similarly, a number of steps were taken abroad during 1960 to relieve the payments strains. In some cases, as in France and Japan, central bank discount rates were reduced primarily to facilitate domestic economic expansion. But in Britain and West Germany, interest rates were cut with a view to reducing the pull of their financial markets on foreign short-term funds. Moreover, the cuts were made despite the continuing deficit in Britain's balance of payments on current and long-term capital account and despite persisting domestic inflationary pressures in Germany. West Germany also took special measures in an attempt to curb both the influx of foreign-owned funds and German borrowing abroad. At the year end, moreover, the German authorities had taken the first steps toward the establishment of a development loan fund under which as much as $800 million equivalent of German capital might be made available for foreign-aid programs.

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Continued Long-Term Problems

Although these various measures were in the right direction, it was clear that much remained to be done to improve the economic balance among the industrial countries. Because its international financial position was so strong, the United States had been able to act promptly to cushion the impact of its recession. It had deliberately acted to let the strains in its balance of payments be largely absorbed by its ample gold stock, which even after the $5 billion losses of 1958-60 was still equivalent to more than two fifths of the Free World's official gold holdings. But, if it was plain that the United States financial strength had thus benefited the whole world, it was equally plain that such gold losses could not be allowed to continue and that the elimination of the difficulties underlying these losses was a task in which the leading industrial countries abroad would—in their own interests—need to lend a hand.

Much of this task could, of course, be dealt with only by the United States. United States foreign economic policies, adopted when this country was aiding in Western Europe's postwar recovery, clearly needed reappraisal in the light of the very different economic conditions of the 1960's. There was some question, for example, whether the various Federal tax incentives that stimulate United States long-term investment abroad were still appropriate, to the extent that they related to investments in industrialized areas. Moreover, while the urgent needs of the primary producers might require more economic aid, not only from the United States but also from Europe, there was also a need to make sure that every aid dollar bought as much genuine economic development as possible. Equally important was the implementation of the United States Government's export drive through better information about market opportunities abroad, through more precise tailoring of exports to foreign requirements, and through more comprehensive facilities abroad for servicing complex United States machinery. Furthermore, the United States needed to re-examine its domestic economy, to uncover areas in which inadequate credit facilities, technological lags, restrictive practices, or mere inertia were holding back the expansion of its exports. Greater incentives could be offered for accelerating the rise of industrial productivity at home, thus further strengthening the United States international position.

Beyond this, the United States and other major industrial countries, too, needed to ask new questions about their countercyclical policies. Earlier such

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questions had centered on the difficulties that had been caused for monetary control and debt management by policies that placed the main burden of resisting inflation on monetary, rather than on fiscal, instruments. In 1960, these questions were made more pressing by the large flows of short-term funds between the major international financial centers. Whereas fiscal measures to reduce inflationary pressures could be expected to have widespread effects both on the inflating country's domestic economy and on all of its foreign trading partners, the 1960 experience made it amply clear that, if a major country with a well-developed money market and a currency regarded as sound raised interest rates sharply, much of the immediate adjustment would be shifted abroad, largely to other international financial centers where volatile short-term funds were held. While it was recognized that such short-term capital movements often played a useful role in the international payments mechanism, it was equally clear that in other circumstances they added to existing strains.

There was also need for the industrial countries to find new ways to gear their economic policies to accelerate growth without inflation. There were urgent domestic needs that still remained unsatisfied. Moreover, the Soviet economic system, while providing its people with a per capita income far below that of the other major industrial countries, was widely believed to be narrowing the gap and was thus gaining prestige among the primary producers. And, perhaps most importantly, an increase in the industrial countries' growth rate was probably the most effective way in which the West could encourage economic development among the primary producers.

At the same time, it was clear that, unless growth in the industrial countries and in the primary producers was along mutually complementary lines, both would suffer major economic losses. In devoting their scarce resources to the symbols of political and economic power rather than to the humdrum industries that provide its substance, some primary producers were missing an opportunity to build a solid foundation for social and economic progress and were slowing the rise in their real per capita wealth. In keeping restraints on imports from the primary producers, the industrial countries were perhaps avoiding difficult internal adjustments, but they were also depriving themselves of the opportunity to put the resources that would be released by these imports to more productive uses. In effect, the industrial countries were depriving themselves of the economic benefits of their investment in, and aid to, the primary producers. Insofar as aid had to be substituted for trade, they were thus prolonging the period during which they would have to carry the burden of foreign assistance.

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THIS BANK'S OPERATIONS

Volume and Trend of the Bank's Operations

DOMESTIC OPERATIONS. The volume of the Bank's activities in transferring funds on behalf of the public and as agent of the Treasury continued on the whole to grow in 1960, but at a slower rate than in the year before.

During 1960 this Bank processed 591 million checks, amounting to $334 billion (excluding United States Government checks). This represented an increase over 1959 of 3.4 per cent in the number of items handled but a decrease of 15 per cent in the dollar volume. The decline in dollar volume resulted chiefly from a change, instituted in November 1959, in the procedures for effecting transfers of funds among New York City banks. Under the new arrangements some payments, principally involving securities transactions, that formerly were made by drawing checks on this Bank, are now effected through the Bank's wire transfer facilities. In consequence, the dollar volume of checks drawn on this Bank declined by 39 per cent in 1960, compared with 1959. In contrast, the dollar volume of checks processed, other than those drawn on this Bank, increased during 1960 by $5 billion to $233 billion. This increase, however, was only half as large as the comparable increase between 1958 and 1959. The number of checks handled was not affected to any significant extent by the above changes in procedures.

The drop in the dollar volume of checks drawn on this Bank was more than offset by an impressive rise in the use of the wire transfer facilities. The dollar volume of wire transfers, other than Treasury transfers and Reserve Bank interdistrict settlements, totaled $966 billion, an increase of 41 per cent over 1959. The number of transfers was 20 per cent higher in 1960 than in 1959.

During 1960 steps were taken in preparation for further improvement in the efficiency and speed of the check collection functions of this Bank. Such measures seemed imperative in the face of the steadily growing volume of checks processed by the Bank—over the last ten years the number of checks handled at this Bank has grown at an annual rate of about 4.5 per cent. In late 1960 the Federal Reserve System initiated a pilot program, with five Federal Reserve Banks participating, to test various makes of high-speed electronic check collection equip-

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SOME MEASURES OF THE VOLUME OF OPERATIONS OF THE FEDERAL RESERVE BANK OF NEW YORK (Including Buffalo Branch)

Number of pieces handled ★	**1960**	**1959**
Discounts and advances	1,688	3,221
Currency received and counted	1,288,094,000	1,270,092,000
Coin received	2,159,025,000	2,227,233,000
Gold bars and bags of gold coin handled	310,000	374,000
Checks handled:		
United States Government checks	57,954,000	56,391,000
All other	590,628,000	570,981,000
Postal money orders handled	37,931,000	39,664,000
Collection items handled:		
United States Government coupons paid	4,742,000	4,045,000
Credits for direct sendings of collection items	391,000	369,000
All other	13,545,000	12,508,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	27,583,000	28,716,000
All other United States obligations	6,732,000	6,440,000
Obligations of the International Bank for Reconstruction and Development	122,000	249,000
Safekeeping of securities:		
Pieces received and delivered	7,865,000	8,480,000
Coupons detached	4,336,000	3,746,000
Wire transfers of funds†	676,000	564,000
Amounts handled		
Discounts and advances	$ 7,719,159,000	$ 24,013,712,000
Currency received and counted	8,616,079,000	8,428,367,000
Coin received	245,012,000	236,324,000
Gold bars and bags of gold coin handled	4,151,034,000	4,989,551,000
Checks handled:		
United States Government checks	20,444,567,000	20,261,470,000
All other	333,861,097,000	394,316,782,000
Postal money orders handled	674,977,000	688,790,000
Collection items handled:		
United States Government coupons paid	2,667,200,000	2,058,555,000
Credits for direct sendings of collection items	632,883,000	704,297,000
All other	2,128,543,000	1,914,776,000
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds	1,831,371,000	2,198,387,000
All other United States obligations	441,854,563,000	452,875,309,000
Obligations of the International Bank for Reconstruction and Development	396,083,000	703,840,000
Safekeeping of securities:		
Par value pieces received and delivered	619,822,036,000	619,894,323,000
Wire transfers of funds†	966,307,954,000	685,024,466,000

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

† Includes a small amount of mail transfers; excludes Treasury transfers and Reserve Bank interdistrict settlements.

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ment. This Bank is testing a Stored Reference Computer supplied by Ferranti-Packard Electric Limited, Toronto, Canada, and a Sorter Unit supplied by the National Cash Register Company and Pitney-Bowes, Inc. Tests with live work were begun on November 21, 1960 and will be continued for approximately six months to determine the performance capability and operational feasibility of the equipment. The advisory services of the Stanford Research Institute of Menlo Park, California, are being utilized to assist the Bank in making this determination.

The number of pieces of all Government obligations, other than United States Savings bonds, processed by this Bank in 1960 was about 6,700,000, a rise of nearly 5 per cent over 1959. This rise was due mainly to a substantial increase in the number of retirements of Treasury bonds and bills, reflecting the advance refundings of bonds in June and September and substantial maturities of special and tax anticipation issues of Treasury bills, floated for cash during 1959. Moreover, a significant portion of the retired securities were of small denominations. The dollar volume of securities processed, in contrast to the number of pieces, declined $11 billion to $442 billion (or by about 2 per cent), reflecting a decline in the Treasury's financing activities during 1960 as compared with 1959. Similarly, the dollar volume of issues, redemptions, and exchanges of United States Savings bonds processed by this Bank in 1960 declined by 17 per cent to $1.8 billion, a low for the period since World War II. The number of Savings bonds handled dropped 4 per cent from 1959 and was 10 per cent below the postwar high established in 1957.

Lending activities of this Bank contracted sharply during 1960, as the Federal Reserve System's actions to ease the availability of credit reduced the member banks' need to borrow at the "discount window". For the year as a whole, the dollar volume of advances to member banks dropped to $7.7 billion from $24 billion in 1959, a reduction of 68 per cent. While the number of advances declined by one half, the number of banks accommodated decreased by only 9 per cent, as 272 member banks borrowed at least once during the year.

FOREIGN AND INTERNATIONAL OPERATIONS. Gold and dollar assets held for foreign and international account increased $4.4 billion during the year to establish an all-time peak of $23.7 billion at the close.

As in 1959, the United States balance-of-payments deficit was reflected in a significant and substantial rise in assets held for foreign account by this Bank

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on behalf of all Federal Reserve Banks. The aggregate rose by $3.3 billion to a new high of $16.7 billion, the increase comparing with a rise of $1.3 billion in the previous year. With the exception of dollar deposits, which declined by $128 million to $217 million, each type of asset registered a substantial increase; gold earmarked for foreign account rose by nearly $2 billion to a total of $10 billion, United States Government securities were up $1.2 billion to $5.7 billion, and miscellaneous securities increased by $185 million to $755 million.

The accounts of the international organizations, in which the other Federal Reserve Banks do not participate, also showed large gains; holdings therein increased by $1.1 billion to a new high of $7.1 billion at the year end. This expansion was largely the result of repayments in gold and dollars to the International Monetary Fund and, to a lesser extent, of gold payments in fulfilment of the increased quotas of its member countries. Subscription payments to the newly established Inter-American Development Bank and the International Development Association were also contributing factors.

The Bank continued its established policy of making credits available against gold collateral to foreign monetary authorities to assist them in meeting seasonal and other temporary dollar demands. The volume of loans on gold during 1960 was moderate. New arrangements were made with foreign monetary authorities aggregating $152 million but not all of them were drawn against. With a few exceptions, the loans made during 1960 were repaid within the year; as a result, only $8 million of such loans was outstanding at the year end.

In addition to the new accounts for the international organizations, already mentioned, accounts were opened during the year for the central banks of The Sudan, Nigeria, Ruanda-Urundi, and Morocco.

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Financial Statements

STATEMENT OF CONDITION

(In thousands of dollars)

Assets	**DEC. 31, 1960**	**DEC. 31, 1959**
Gold certificate account	3,819,405	4,685,959
Redemption fund for Federal Reserve notes	254,584	213,326
Federal Reserve notes of other Banks	118,167	90,056
Other cash	58,805	54,975
Total cash	4,250,961	5,044,316
Discounts and advances	2,480	202,780
Acceptances	73,597	75,341
United States Government securities	7,130,744	6,737,161
Total loans and securities	7,206,821	7,015,282
Other assets:		
Due from foreign banks★	4	4
Cash items in process of collection	1,456,311	1,280,699
Bank premises	9,386	9,858
All other	51,860	65,067
Total other assets	1,517,561	1,355,628
Total Assets	**12,975,343**	**13,415,226**

★ After deducting participations of other Federal Reserve Banks amounting to about $11,000 in both 1959 and 1960.

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STATEMENT OF CONDITION

(In thousands of dollars)

Liabilities	DEC. 31, 1960	DEC. 31, 1959
Federal Reserve notes	6,662,953	6,646,973
Deposits:		
Member bank reserve accounts	4,581,510	5,092,824
United States Treasurer — general account	72,160	65,278
Foreign★	64,206	94,228
Other	396,898	367,074
Total deposits	5,114,774	5,619,404
Other liabilities:		
Deferred availability cash items	844,369	808,203
All other	9,593	7,452
Total other liabilities	853,962	815,655
Total Liabilities	**12,631,689**	**13,082,032**
Capital Accounts		
Capital paid in	114,551	110,452
Surplus	229,103	220,905
Other capital accounts	0	1,837
Total Capital Accounts	**343,654**	**333,194**
Total Liabilities and Capital Accounts	**12,975,343**	**13,415,226**
Contingent liability on acceptances purchased for foreign correspondents†	64,376	22,750
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	34.6%	39.9%

★ After deducting participations of other Federal Reserve Banks amounting to	153,010	250,560
† After deducting participations of other Federal Reserve Banks amounting to	166,023	59,256

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STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1960 AND 1959 (In thousands of dollars)

	1960	1959
Total current earnings	277,093	224,372
Net expenses	30,752	29,008
Current net earnings	246,341	195,364
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	607	48
Transferred from reserve for contingencies (net)	1,838	20,969
All other	26	1
Total additions	2,471	21,018
Deductions from current net earnings	6	288
Net additions	2,465	20,730
Net earnings available for distribution	**248,806**	**216,094**
Dividends paid	6,802	6,547
Paid United States Treasury (interest on Federal Reserve notes)	233,806	227,544
Transferred to surplus	8,198	— 17,997
Surplus Account		
Surplus—beginning of year	220,905	238,902
Transferred from net earnings for year	8,198	0
	229,103	238,902
Paid United States Treasury (interest on Federal Reserve notes)	0	17,997★
Surplus - end of year	**229,103**	**220,905**

★ Payment to United States Treasury representing surplus in excess of 100 per cent of subscribed capital stock as of the close of December 31, 1959.

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Changes in Membership

During 1960 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 507 to 491. The net decrease of 16 banks was the result of mergers of 18 member banks with other banks and the admission of two State banks to membership. The 491 banks constitute 86 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 in this District.

NUMBER OF OPERATING MEMBER AND NONMEMBER BANKS IN SECOND FEDERAL RESERVE DISTRICT AT THE YEAR END
(Exclusive of savings banks, private bankers, and industrial banks)

	DECEMBER 31, 1960			DECEMBER 31, 1959		
Type of Bank	**Members**	**Non-members**	**Per cent members**	**Members**	**Non-members**	**Per cent members**
National banks ★	336	0	100	349	0	100
State banks and trust companies	155	81	65	158	82	66
Total ★	**491**	**81**	**86**	**507**	**82**	**86**

★ Includes one national bank located in the Virgin Islands.

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1960

Total membership at the beginning of the year	**507**
Increases:	
State banks admitted	2
Decreases:	
Member banks combined with other members	18
Total membership at the year end	**491**

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Changes in Directors and Officers

CHANGES IN DIRECTORS. In May 1960, member banks in Group 1 elected B. Earl Puckett, Chairman of the Board of Allied Stores Corporation, New York, N. Y., a Class B director of the Federal Reserve Bank of New York for the unexpired portion of the term ending December 31, 1961. He succeeded Philip D. Reed, former Chairman of the Board of General Electric Company, New York, N. Y., who had resigned as a Class B director and was appointed a Class C director for the three-year term beginning January 1, 1960, and designated *Chairman* of the Board of Directors and *Federal Reserve Agent* for the year 1960.

In December 1960, member banks in Group 3 elected A. Leonard Mott, President of The First National Bank of Moravia, Moravia, N. Y., a Class A director for a term of three years beginning January 1, 1961. Mr. Mott succeeded Cyrus M. Higley, President and Trust Officer of The Chenango County National Bank and Trust Company of Norwich, Norwich, N. Y., whose term expired December 31, 1960.

At the same time, member banks in Group 3 re-elected Augustus C. Long, Chairman of the Board of Directors of Texaco Inc., New York, N. Y., a Class B director for the three-year term beginning January 1, 1961.

In December 1960, the Board of Governors of the Federal Reserve System redesignated Philip D. Reed as *Chairman* of the Board of Directors and *Federal Reserve Agent* for the year 1961. At the same time, James DeCamp Wise, Chairman of the Board of Bigelow-Sanford Carpet Company, Inc., New York, N. Y., was appointed *Deputy Chairman* of the Board of Directors for the year 1961. The Board of Governors also appointed Everett N. Case, President of Colgate University, Hamilton, N. Y., a Class C director for the three-year term beginning January 1, 1961. Mr. Case succeeded Forrest F. Hill, Vice President of The Ford Foundation, New York, N. Y., whose term expired December 31, 1960. Mr. Hill had served as *Deputy Chairman* of the Board of Directors and as a Class C director since January 1, 1955.

At the Buffalo Branch of the Federal Reserve Bank of New York, in December 1960, Thomas E. LaMont, farmer of Albion, Orleans County, N. Y., was reappointed by the Board of Governors of the Federal Reserve System a director of the Buffalo Branch for the three-year term beginning January 1, 1961. Also in December 1960, the Board of Directors of the Federal Reserve Bank of New York redesignated Whitworth Ferguson, President of Ferguson

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Electric Construction Co., Inc., Buffalo, N. Y., as *Chairman* of the Board of Directors of the Buffalo Branch for the year 1961. At the same time, the Board of Directors of this Bank appointed Francis A. Smith, President of The Marine Trust Company of Western New York, Buffalo, N. Y., a director of the Branch for the three-year term beginning January 1, 1961. Mr. Smith succeeded E. Perry Spink, President of the Liberty Bank of Buffalo, Buffalo, N. Y., whose term expired December 31, 1960. On February 2, 1961, the Board of Directors appointed Anson F. Sherman, President of The Citizens Central Bank, Arcade, N. Y., a director of the Buffalo Branch for the unexpired portion of the term ending December 31, 1961. Mr. Sherman succeeded Denton A. Fuller, who resigned from the Branch Board on January 12, 1961; Mr. Fuller, formerly President of The Citizens National Bank of Wellsville, Wellsville, N. Y., is now President of the Liberty Trust Company, Cumberland, Maryland.

CHANGES IN OFFICERS. Since February 1960, four officers terminated their service with the Bank:

Carl H. Madden, Manager of the Public Information Department, resigned, effective July 1, 1960, to become Dean of the College of Business Administration at Lehigh University.

John J. Larkin, Assistant Vice President, assigned to the Open Market Operations and Treasury Issues function, resigned, effective October 19, 1960, to become Vice President of The First National City Bank of New York.

Tilford C. Gaines, Assistant Vice President, assigned to the Research and Statistics function, resigned, effective January 4, 1961, to become Vice President of the First National Bank of Chicago.

Robert V. Roosa, Vice President, assigned to the Research and Statistics function, was appointed Under Secretary of the Treasury for Monetary Affairs, effective January 31, 1961. His service with the Bank terminated that day.

The following additional changes in official staff have taken place since February 1960.

Merlyn N. Trued, formerly a Chief of the Foreign Research Division, Research Department, was appointed Manager, effective May 23, 1960, and assigned to the Public Information Department. He had been on leave since November 1958, serving as economic and financial adviser to the Industrial Development Center of Vietnam under an International Cooperation Administration contract. Mr. Trued was assigned Manager of the Foreign Department, effective October 14, 1960.

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Clifton R. Gordon resigned as Assistant Counsel on May 31, 1960 to become Director of this Bank's Relocation Office in Ithaca, N. Y.

Robert L. Cooper, formerly Special Assistant in the Securities Department, was appointed Manager, effective October 14, 1960, and assigned to the Securities Department.

Paul Meek, formerly Chief of the Public Information Division, Public Information Department, was appointed Manager, effective October 14, 1960, and assigned to the Public Information Department.

Thomas M. Timlen, Jr., Assistant Counsel, was appointed also Assistant Secretary, effective October 14, 1960, the appointment of Robert W. Stone, Manager of the Securities Department, as Assistant Secretary being terminated on the same date.

John P. Jensen, formerly Manager of the Government Bond and Safekeeping Department, was appointed Assistant Vice President, effective January 5, 1961, and assigned to the Cash and Collections function with responsibility for the Cash, Cash Custody, and Collection Departments.

Robert G. Link, formerly Manager of the Research Department, was appointed Assistant Vice President, effective January 5, 1961, and assigned to the Research and Statistics function.

Robert J. Crowley, formerly an Attorney in the Legal Department, was appointed Assistant Counsel, effective January 5, 1961.

Harold W. Lewis, formerly Chief of the Government Bond Division, Government Bond and Safekeeping Department, was appointed Manager, effective January 5, 1961, and assigned to the Security Custody Department.

Frank W. Schiff, formerly Senior Economist, was appointed Manager, effective January 5, 1961, and assigned to the Research Department.

John T. Keane, formerly Special Representative at the Buffalo Branch, was appointed Assistant Cashier of the Branch, effective January 5, 1961.

Norman P. Davis, Assistant Vice President, formerly assigned to the Foreign function, was assigned to Administrative Services, effective January 6, 1961, with responsibility for the Accounting Department, in which the planning for the installation of electronic data-processing equipment will be carried on.

Thomas O. Waage, Assistant Vice President, formerly assigned to the Cash and Collections function, was assigned to the Foreign function, effective January 6, 1961.

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Martin W. Bergin, Manager, formerly assigned to the Security Custody Department, was assigned to the Savings Bond Department, effective January 6, 1961.

Donald C. Niles, Manager, formerly assigned to the Planning Department, was assigned to the Accounting Department, effective January 6, 1961.

Everett B. Post, Manager, formerly assigned to the Accounting Department, was assigned to the Planning Department, effective January 6, 1961.

Kenneth E. Small, Manager, formerly assigned to the Savings Bond Department, was assigned to the Government Bond and Safekeeping Department, effective January 6, 1961.

Peter Fousek, formerly Chief of the Foreign Research Division, Research Department, was appointed Senior Economist, effective January 21, 1961, and assigned to the Research and Statistics function. Mr. Fousek had been on leave of absence since September 1960 to serve on the staff of the President's Council of Economic Advisers.

MEMBER OF FEDERAL ADVISORY COUNCIL—1961. The Board of Directors of this Bank selected George A. Murphy to serve during 1961 as the member of the Federal Advisory Council representing the Second Federal Reserve District. Mr. Murphy is Chairman of the Board of Irving Trust Company, New York, N. Y. He succeeded John J. McCloy, former Chairman of the Board of The Chase Manhattan Bank, New York, N. Y., who had served as a member of the Council for the past two years.

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Directors of the Federal Reserve Bank of New York

DIRECTORS	Term expires Dec. 31	Class	Group
HENRY C. ALEXANDER Chairman of the Board, Morgan Guaranty Trust Company of New York, New York, N. Y.	1961	A	1
CÉSAR J. BERTHEAU Chairman of the Board, Peoples Trust Company of Bergen County, Hackensack, N. J.	1962	A	2
A. LEONARD MOTT President, The First National Bank of Moravia, Moravia, N. Y.	1963	A	3
B. EARL PUCKETT Chairman of the Board, Allied Stores Corporation, New York, N. Y.	1961	B	1
KENNETH H. HANNAN Executive Vice President, Union Carbide Corporation, New York, N. Y.	1962	B	2
AUGUSTUS C. LONG Chairman, Board of Directors, Texaco Inc., New York, N. Y.	1963	B	3
PHILIP D. REED, *Chairman, and Federal Reserve Agent* Former Chairman of the Board, General Electric Company, New York, N. Y.	1962	C	
JAMES DECAMP WISE, *Deputy Chairman* Chairman of the Board, Bigelow-Sanford Carpet Company, Inc., New York, N. Y.	1961	C	
EVERETT N. CASE President, Colgate University, Hamilton, N. Y.	1963	C	

DIRECTORS — BUFFALO BRANCH

WHITWORTH FERGUSON, *Chairman* President, Ferguson Electric Construction Co., Inc., Buffalo, N. Y.	1961
JOHN W. REMINGTON President, Lincoln Rochester Trust Company, Rochester, N. Y.	1961
ANSON F. SHERMAN President, The Citizens Central Bank, Arcade, N. Y.	1961
HOWARD N. DONOVAN President, Bank of Jamestown, Jamestown, N. Y.	1962
RAYMOND E. OLSON President, Taylor Instrument Companies, Rochester, N. Y.	1962
THOMAS E. LAMONT Farmer, Albion, Orleans County, N. Y.	1963
FRANCIS A. SMITH President, The Marine Trust Company of Western New York, Buffalo, N. Y.	1963

MEMBER OF FEDERAL ADVISORY COUNCIL — 1961

GEORGE A. MURPHY Chairman of the Board, Irving Trust Company, New York, N. Y.	1961

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Officers of the Federal Reserve Bank of New York

ALFRED HAYES, *President*
WILLIAM F. TREIBER, *First Vice President*

HAROLD A. BILBY, *Vice President*
CHARLES A. COOMBS, *Vice President*
HOWARD D. CROSSE, *Vice President*
MARCUS A. HARRIS, *Vice President*
HERBERT H. KIMBALL, *Vice President*
ROBERT G. ROUSE, *Vice President*
WALTER H. ROZELL, JR., *Vice President*
HORACE L. SANFORD, *Vice President*
TODD G. TIEBOUT, *Vice President and General Counsel*

JOHN J. CLARKE, *Assistant General Counsel*
EDWARD G. GUY, *Assistant General Counsel*

FELIX T. DAVIS, *Assistant Vice President*
NORMAN P. DAVIS, *Assistant Vice President*
GEORGE GARVY, *Adviser*
JOHN P. JENSEN, *Assistant Vice President*
PETER P. LANG, *Adviser*
ROBERT G. LINK, *Assistant Vice President*
ANGUS A. MACINNES, JR., *Assistant Vice President*
SPENCER S. MARSH, JR., *Assistant Vice President*
FRED W. PIDERIT, JR., *Assistant Vice President*
LAWRENCE E. QUACKENBUSH, *Assistant Vice President*
FREDERICK L. SMEDLEY, *Assistant Vice President*
THOMAS O. WAAGE, *Assistant Vice President*

MARTIN W. BERGIN,
Manager, Savings Bond Department
WILLIAM H. BRAUN, JR.,
Secretary, and Assistant Counsel
ROBERT L. COOPER,
Manager, Securities Department
ROBERT J. CROWLEY,
Assistant Counsel
PETER FOUSEK,
Senior Economist
ALAN R. HOLMES,
Manager, Securities Department
FRED H. KLOPSTOCK,
Manager, Research Department
HAROLD W. LEWIS,
Manager, Security Custody Department
WILLIAM E. MARPLE,
Manager, Credit and Discount Department
MADELINE H. MCWHINNEY,
Manager, Market Statistics Department
PAUL MEEK,
Manager, Public Information Department
HERBERT A. MUETHER,
Manager, Building Operating Department
DONALD C. NILES,
Manager, Accounting Department
ARTHUR H. NOA,
Manager, Service Department
WILLIAM F. PALMER,
Manager, Cash Custody Department
FRANKLIN E. PETERSON,
Manager, Cash Department
JOHN F. PIERCE,
Chief Examiner
EVERETT B. POST,
Manager, Planning Department
CHARLES R. PRICHER,
Manager, Personnel Department
JOHN P. RINGEN,
Manager, Bank Examinations Department
THOMAS J. ROCHE,
Manager, Foreign Department
WALTER S. RUSHMORE,
Manager, Collection Department
FRANK W. SCHIFF,
Manager, Research Department
THOMAS C. SLOANE,
Assistant Counsel
KENNETH E. SMALL,
Manager, Government Bond and Safekeeping Department
GEORGE C. SMITH,
Manager, Check Department
ALOYSIUS J. STANTON,
Manager, Check Mechanization Department
ROBERT W. STONE,
Manager, Securities Department
ROBERT C. THOMAN,
Manager, Bank Relations Department
THOMAS M. TIMLEN, JR.,
Assistant Counsel, and Assistant Secretary
MERLYN N. TRUED,
Manager, Foreign Department
ROBERT YOUNG, JR.,
Assistant Counsel

DONALD J. CAMERON, *General Auditor*
KARL L. EGE, *Assistant General Auditor*

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OFFICERS — BUFFALO BRANCH

INSLEY B. SMITH, *Vice President*

HAROLD M. WESSEL, *Assistant Vice President*

GEORGE J. DOLL, *Cashier*

GERALD H. GREENE, *Assistant Cashier*

JOHN T. KEANE, *Assistant Cashier*

M. MONROE MYERS, *Assistant Cashier*

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THE SECOND FEDERAL RESERVE DISTRICT

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