

*Annual Report File*



# **FEDERAL RESERVE BANK OF NEW YORK**



## **ANNUAL REPORT 1961**



**FEDERAL RESERVE BANK OF NEW YORK**

February 20, 1962

To the Member Banks in the  
Second Federal Reserve District:

I am pleased to present our forty-seventh Annual Report. As you know, the year 1961 witnessed the end of the mildest of the postwar recessions and the emergence of a strong upswing. Nevertheless, high levels of unemployment persisted through the year, and the deficit in our balance of payments continued sizable, though somewhat reduced from the year before. The Report reviews these developments, and discusses the role played by monetary policy in meeting the challenges they presented.

*Alfred Hayes*

ALFRED HAYES  
President

*Federal Reserve Bank  
of New York*

**FORTY-SEVENTH  
ANNUAL REPORT**

*For the Year  
Ended  
December 31, 1961*



*Second Federal Reserve District*



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*Forty-seventh Annual Report*  
*Federal Reserve Bank of New York*

**The Challenge of Growth and of  
Balance-of-Payments Equilibrium**

Two economic problems loomed large when the first year of the much heralded "Golden Sixties" had drawn to an end and the calendar was turned to 1961. The economy was still pursuing its undramatic downward course, as it had been for the better part of a year. The decline had been gentle, but the economy had been running well below its potential for almost three years, and there were still no signs of an upturn. At the same time, after a year of disquieting developments, the serious imbalance of our international accounts called for prompt and decisive corrective action.

When the year was still young, the new Administration faced a major policy choice between a massive anti-recession program and a moderate stimulation of the recuperative powers of the economy. In retrospect, the decision in favor of the mild option appears fully justified. The recession was overcome with surprising ease, leaving in the economic chronicles the record of one of the mildest cyclical downturns.

The experience of 1961 emphasized again the impressive cyclical resilience of our postwar economy. The stability of consumer spending, due in considerable part to the strong countercyclical effects of fiscal and other government policies, has helped to reduce the economic and social wastes of wide swings in business activity. Indeed, the experience of 1961 gives added force to the view that longer term problems of a structural character, rather than cyclical instability, present the greater challenge to the United States economy. The stubborn refusal of the unemployment ratio to fall below 6 per cent of the

labor force, despite a vigorous business expansion, gave renewed emphasis to the problem of adequate economic growth. The challenge was underlined by the prospect of a rapid increase in the labor force, traceable to high birth rates beginning in World War II.

In dealing with this fourth postwar recession and the subsequent recovery, monetary policy was to a large extent on familiar ground. In diagnosing the course of the cycle, the monetary authorities could match current evidence against quite similar patterns of earlier postwar cyclical experience. In applying therapy, they could employ familiar tools in the light of past experience. Yet the very mildness of fluctuations in business raised more sharply the question of the adequacy of the long-term rise in the level of economic activity.

Dealing with the balance-of-payments deficit required an especially close coordination of a wide range of governmental and private policies, as well as further reorientation of monetary policy. In the early years of the Federal Reserve System, formulation of monetary policy was in many ways and for a variety of reasons oriented predominantly toward domestic problems. While the main focus gradually shifted from the improvement of domestic payments mechanisms and credit flows to the development of countercyclical policies, international monetary relations remained largely peripheral. Neither involvement in the monetary reconstruction of the twenties, nor the impact of the monetary disasters that swept the world in the thirties, really placed the problems of international monetary equilibrium on the same plane as domestic economic stability. The economic atmosphere and the financial experience of the first post-World War II years, which gave rise to seemingly endless debates about the dollar gap, gave little hint of the type of problem that would confront the Federal Reserve System in the sixties.

It is only now, more than fifteen years after the war, that the full scope of the required changes in the foreign economic and financial relations of the United States begins to emerge. The idealistic concept of One World has become the hard reality of world-wide competition and capital movements. The final breakup of colonial relationships has coincided with the emergence of the Soviet bloc as a market competitor and as a potential source of investment funds for the new countries around the world. In the triangle consisting of the Western World, the less developed (and largely uncommitted) countries, and the Soviet bloc, the United States will now have to redefine its role within the limitations of available resources. Whatever the outcome of the British move to join the Common Market, and whatever the concrete steps that will



result from the foreign trade program sought by the Administration, it has become obvious that the interdependence of the Western World requires further adjustments in United States trade and financial policies.

Over all, the United States dependence on foreign trade is relatively small. Nonetheless, it is highly exposed to international economic and financial influences. This is, in part, due to the marked impact that foreign competition can have on particular industries or regions. In part, it is the result of our huge commitments for defense and development aid. Most importantly, it arises from the key position which the dollar plays in the international payments mechanism. With the greatly increased mobility of capital, following the return of free convertibility in most of the Western World, a major element of instability has been added to the United States international accounts.

The hard facts of recent balance-of-payments developments, in the context of the international role of the dollar, have revised the basic framework for monetary policy in the United States. As an objective of monetary policy, the defense of the international value of the dollar has come to occupy a position alongside the goal of stable domestic growth. Integrating these objectives in determining the course of monetary policy and in adapting its tools to the new situation was the principal challenge which the Federal Reserve System had to face in 1961.

The fundamental measures required to reduce to a tolerable level the deficit in our international accounts range over a wide area, and encompass steps that must be taken here and abroad, including a better sharing among allied nations of burdens for common defense and of economic assistance to the underdeveloped regions of the world. At home, discipline is required on production costs and the Federal budget. Domestic policies must be more decisively focused on increasing productivity, reducing costs, and adapting production patterns to export needs. Ways must be found to maintain price stability in the face of the strong forces that since the end of World War II have, with varying intensity, driven the price level up and the purchasing power of the dollar down. Many of the policies required to strengthen our international economic position will be readily recognized as prerequisites for accelerating growth.

The unusual stability in prices during the recovery in 1961 should not deflect attention from the importance of the current task of keeping prices from rising, not only to rectify the balance-of-payments position, but also to achieve adequate and sustainable growth of the domestic economy. Public concern with inflation has somewhat receded in the past two years, but it is important

to recognize that some of the factors tending to dull the strength of inflationary forces during this period and to keep general price indexes fairly level were of a transitory nature. Clearly, the relative importance of excessive demand for goods and services and of excessive income claims from the various sectors of the economy changes over time. Postwar experience suggests, however, that cost-push forces persist strongly even in periods of high unemployment and low plant utilization; this remains true even though there has been some lessening of these forces in the past few years, in good part as a result of increased foreign competition. A particularly serious threat to over-all price stability is posed by excessive wage increases in key industries—paralleled by increases in the prices of these industries' products to final consumers—which then tend to be diffused through the wage and price structure of the economy as a whole.

Broadly speaking, demands for increases in wages (or in other forms of compensation for personal services) that exceed the gain in the economy's average productivity, as well as efforts of some business firms to take advantage of monopolistic market positions, reflect the endeavor of the various economic groups to obtain a bigger slice of the social product. But recent balance-of-payments developments have added a new dimension to the problem. If pressures from the various claimants lead to relentless pressures on the domestic price structure, our ability to keep enlarging the total to be shared will be undermined. In view of the crucial role of competitive pricing of our products for re-establishing the long-term balance of our international accounts, labor and management now have a greater responsibility than ever to make certain that their wage and price policies are consistent with the requirements of over-all stability in the price level.

Throughout 1961, public discussion of the balance-of-payments problem was as lively as the debates on growth on which attention had been focused for several years. The Administration, the Federal Reserve System, and large segments of the public recognized the seriousness of the balance-of-payments problem, the urgency of its solution, and the kind of policies required to attain a viable balance. Moreover, there was growing realization that growth and the re-establishment of balance-of-payments equilibrium must be sought simultaneously and that, far from being contradictory, they are over the longer run mutually reinforcing. Progress toward achieving a viable balance of payments was, however, slow in 1961. This was due, among other things, to the complexity of moves necessary to achieve an export surplus that will, over the

cycle, be large enough to cover our defense, aid, and private investment outlays abroad.

Indeed, there lie ahead many policy choices that will be neither self-evident nor easy. Achievement of the longer run goals of adequate growth and equilibrium in international accounts requires structural changes that in the shorter run will leave some groups better off and others worse off. And it is clear that in any event monetary policy must retain all of its traditional flexibility, so that it will be prepared to do its part in helping to restore balance in our international accounts, as well as foster economic stability and growth at home.

Not so many years ago, Western Europe, emerging with renewed vigor from the painful period of reconstruction, was also facing a number of tremendous challenges—political, economic, and social. Casting aside many traditional patterns of thought and action, it rose to the challenge. By imaginatively attacking complex problems, it set the framework for an economic surge that has convinced the doubters and encouraged the timid. This experience has greatly contributed to placing the problem of growth and of structural adjustments of the United States economy in a proper perspective. Clearly, the growth rates capable of achievement do not depend on available resources alone. They also depend on the extent to which policies are adopted that will encourage more rapid growth and, at the same time, foster needed structural adjustments. How well we cope with the challenges that our economy faces will depend, to a large extent, on our drive, flexibility, and imagination.

## **THE AMERICAN ECONOMY IN 1961**

### **Business Conditions: The Recession Reversed**

When 1961 began, business activity had been contracting for nearly eight months. The decline soon leveled off, however, and by early spring the forces of expansion had regained the upper hand.

The recession proved to be the mildest of any this country has experienced since World War II. The only significant decline in the total output of goods and services (gross national product) occurred in the first quarter of 1961. In real terms, GNP was then 2 per cent below the peak reached in the second quarter of 1960, as against a sag of about 4 per cent in the 1957-58 recession. Following the pattern of other recent business downswings, the largest single element in the 1960-61 decline was a shift in inventory investment—from a \$5 billion annual rate of accumulation in the second quarter of 1960 to a \$4 billion liquidation in the first quarter of 1961. In contrast, final demand—i.e., GNP less changes in inventories—continued to inch upward throughout 1960 and barely declined at all in early 1961. Increases in consumer spending on services, a step-up in Government outlays, and a rise in the export surplus largely offset cutbacks in consumer outlays on durable goods and in producers' spending on plant and equipment. As in other recent recessions, the flow of income to individuals was well maintained in the period of economic contraction. It receded only slightly in the first quarter of 1961, as a dip in wages and salaries connected with lower employment was almost offset by increased Government outlays for unemployment and other benefits.

Despite the mildness of the general business decline, unemployment proved a serious problem. While industrial production at its February 1961 trough was only 8 per cent below its January 1960 peak—a smaller decline than in the previous two recessions—unemployment had risen to a near-record level for the postwar period. The rise in unemployment during the 1960-61 downswing, it is true, had been more moderate than in the two preceding recessions. But it was superimposed on the high unemployment level that had persisted even at the peak of the previous business cycle. The labor force, moreover, grew rapidly during the recession. As a result, the proportion of the total civilian labor force

without jobs had by early 1961 risen to about 7 per cent. Over half of the major labor markets were classified as having a "substantial labor surplus", and there was a significant rise in longer term unemployment and in unemployment of heads of families.

**A BROADLY BASED RECOVERY.** By the end of the first quarter, signs began to multiply that the recession had been reversed. With automobile sales rising, total retail sales moved upward late in the quarter, as did residential construction activity. Manufacturers' durable goods orders and sales were on the rise, at first primarily under the impetus of higher defense outlays, but shortly afterward also in reflection of a lessened pace of business inventory reduction as economic prospects improved. At the same time, industrial production started to inch upward and unemployment showed little further rise.

In the second quarter, GNP expanded smartly (see Chart 1). The rate of advance slowed down somewhat in the summer, in good part because of special factors such as strikes in the automobile industry and intemperate weather. During the last quarter of the year, however, the economy once again gathered momentum, and it became clear that a good advance, roughly in line with the performance during the comparable periods in the two previous cyclical upswings, had been achieved. Furthermore, given the mildness of the 1960-61 downswing, the subsequent upswing had by the end of 1961 lifted the economy well above the previous peak in terms of the total output of goods and services.

All major components of domestic demand contributed to the growth of GNP after the first quarter. Some sectors—Government outlays and domestic investment—showed more strength than in previous postwar revivals; others, however—notably consumers' expenditures for goods—were on the whole somewhat weaker through a good part of the year.

A sharp reversal from inventory decumulation to accumulation contributed importantly to the strong showing of the second-quarter advance. In each of the last two quarters of the year, inventory accumulation continued, but only at a moderate rate. The relatively modest rate of inventory investment after the second quarter in 1961 may, in part, have reflected uncertainties regarding the trend of final demand. With prices relatively stable, moreover, there was no evidence of speculative inventory accumulation despite the heightening of international tensions. Finally, the development of improved techniques of

**GROSS NATIONAL PRODUCT AND FINAL DEMAND.** Following a decline in the first quarter of 1961, GNP rose substantially throughout the rest of the year. In line with the pattern of earlier cycles, final demand sagged less during the recession than total output and rose by a smaller amount during the subsequent revival.

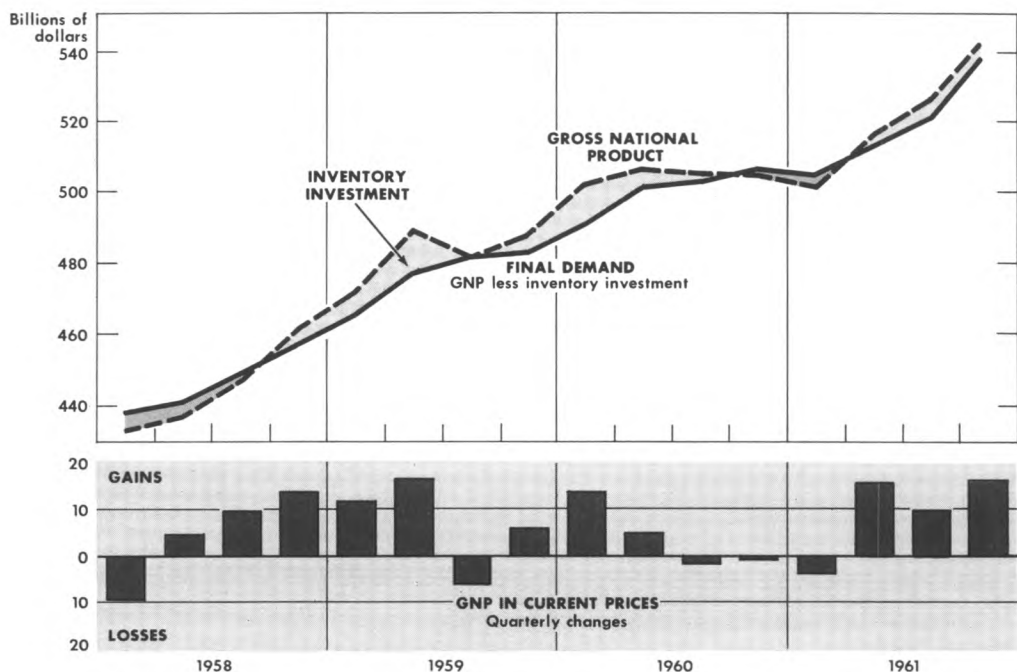


CHART 1

Seasonally adjusted annual rates.

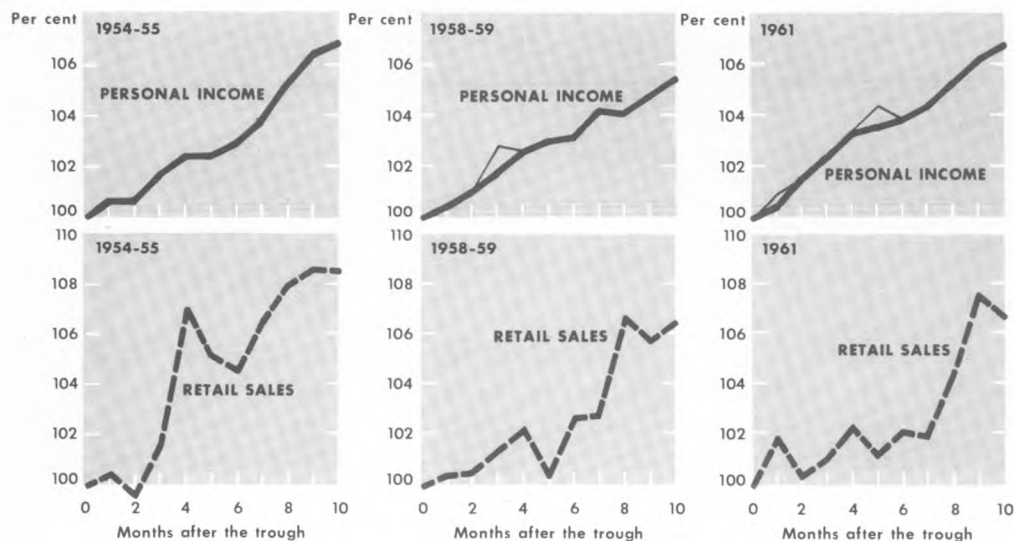
inventory control in recent years may also have tended to reduce the levels of inventories required to support a given volume of sales.

The rise in Government outlays, after going a long way toward offsetting the declines in other components of domestic demand in the first quarter, provided further support to the expansion for the rest of the year. The increase in Federal Government purchases of goods and services in part was the outcome of anti-recessionary efforts, such as the speeding of existing programs. The payment of additional unemployment compensation as well as of a special dividend on National Service Life Insurance also helped expand consumer income. As the year progressed, however, the need for specific counter-recessionary

measures was lessened by the expansion in private spending and the step-up in defense expenditures called for by the international situation. State and local outlays also increased in 1961, advancing at a somewhat more rapid pace than in most of the previous decade.

Another source of strength in 1961 was the expansion of private fixed investment. While business spending on fixed capital, at the year end, was still somewhat below its April-June 1960 level, it had increased more markedly than in the comparable periods of previous upswings. Residential construction expenditures, which had continued to move irregularly downward in 1960 from their mid-1959 peak, began to strengthen in the first quarter. They continued to rise moderately, with some interruptions, for the rest of the year, and

**PERSONAL INCOME AND RETAIL SALES IN THREE EXPANSIONS.** Retail sales responded relatively slowly to gains in income in the current business expansion. In the final quarter of 1961, however, sales shook off their lethargy and their average level jumped sharply over that of the preceding quarter.



Trough month (100 in each case): August 1954, April 1958, and February 1961. All figures are seasonally adjusted. The thin solid line in personal income reflects special one-time payments: July 1958, retroactive salary increases for Federal employees; March 1961, prepaid dividends, and July 1961, special dividend, on National Service Life Insurance policies.

CHART 2

by December had reached a level that was 22 per cent above the February 1961 low. Contributing to this improvement were easier conditions in the mortgage market, which tend to play a key role in the fluctuations of housing construction. To be sure, the mortgage market eased only moderately during the recession and rates remained well above those that prevailed during previous recessions. In contrast to earlier periods, however, the easing continued into the recovery phase. At the year end, mortgage rates, despite a very modest advance in the latter part of 1961, remained below their levels at the business trough; in earlier recoveries, rates had by this time gone well above trough levels.

In contrast to the strength shown by Government expenditures and private investment outlays, gains in consumer spending on goods were somewhat disappointing until late in the year. While consumer outlays on services continued to expand vigorously throughout 1961, there appeared to be a longer than usual lag in the response of goods sales to the increase in consumer income (see Chart 2). Personal disposable income, following its slight first-quarter decline, had risen to new record levels before the end of the year. Total retail sales, on the other hand, after advancing fairly sharply in the first month of the recovery period, moved sideways until October. The picture improved considerably in the last quarter, however, when rising sales of automobiles as well as of other durables pushed total retail sales back to their pre-recession peak in April 1960.

**PERSISTING UNEMPLOYMENT.** Industrial production rose in each month after February except for a strike-induced decline in September. By December, it was 13 per cent above the February 1961 trough and 4 per cent above its pre-recession peak. Rising output was accompanied by increasing employment, but unemployment showed relatively little change. The rate of unemployment remained close to 7 per cent through October, and it was not until the last two months of the year that the proportion of the total labor force that was unemployed declined significantly (see Chart 3). Even so, it still stood at about 6 per cent as the year closed. In the Second District, employment developments closely paralleled events in the nation as a whole. As in recent business cycles the decline in employment in the District had been somewhat more moderate than that in the entire country during the period of contraction, but lagged substantially behind the nation-wide recovery in the upswing (see Chart 4).



The persistence of unemployment problems in the United States during prosperity as well as during recession, which contrasted sharply with the labor shortages that have prevailed in most Western European countries in recent years, constituted one of the most serious economic and social challenges for the American economy. The problem, moreover, is likely to be compounded by the rapid increase in the labor force expected over the coming years. To be sure, the failure of employment to respond more strongly to the expansion of output in 1961 could in part be attributed to relatively sharp increases in productivity and the lengthening of the workweek of already employed workers—developments typical of an early stage in a business upswing. Nevertheless, the fact that unemployment remained near its recession high through most of the year made it difficult to gauge to what extent a further expansion of aggregate demand and general business activity would be sufficient to eliminate unemployment other than that inevitably associated with the free movement of people from job to job. These uncertainties in turn made it all the harder to deter-

**THE UNEMPLOYMENT PROBLEM.** Unemployment remained at close to 7 per cent of the labor force through most of 1961. Although it dropped toward the end of the year, it still remained substantial.



**NONFARM EMPLOYMENT IN THE UNITED STATES AND THE SECOND DISTRICT.** Second District employment fell less than the United States total in the recession and rose less rapidly in the recovery.

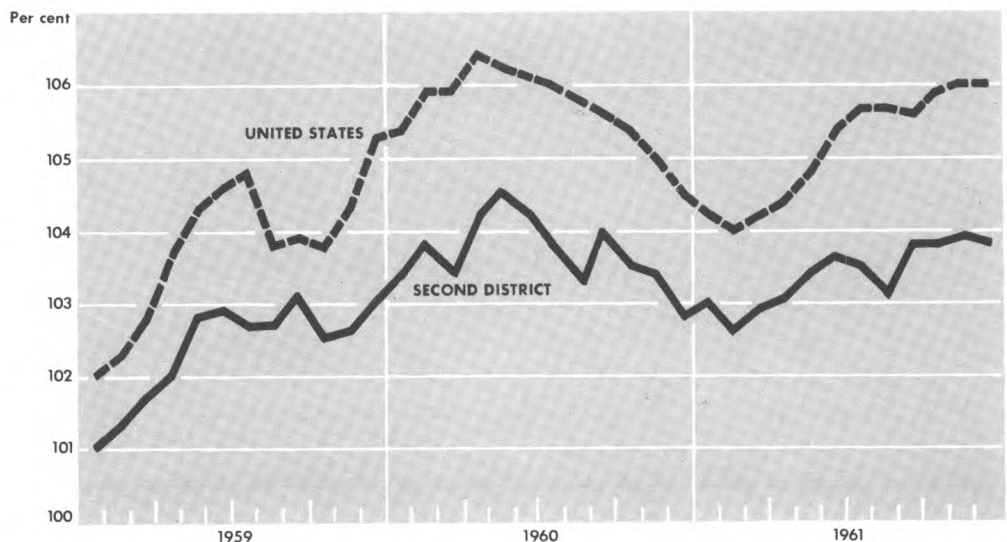


CHART 4

1958=100; seasonally adjusted.

mine in what degree more fundamental readjustments might be necessary. Such readjustments would entail the stimulation of new industry in depressed areas, the retraining of workers with skills that are no longer needed, and the promotion of equality of opportunity in general education and in the types of vocational training that have become increasingly essential for obtaining and holding a job.

**A HIGH DEGREE OF PRICE STABILITY.** A striking characteristic of 1961 was the high degree of over-all price stability in the face of the substantial upswing in economic activity. In December—ten full months after the economy had resumed its upward course — the consumer price index was only  $\frac{1}{2}$  of 1 per cent above its level of a year earlier, and wholesale prices were actually down slightly. In contrast, during 1958, a closely comparable year in cyclical terms, wholesale prices had risen and the advance in consumer prices had been much more substantial than in 1961 (see Chart 5).

A decline in food prices during the past year — reflecting the fact that supply grew more rapidly than demand—contributed to the stability of the over-all indexes. Movements in many nonfood prices, however, were also partly responsible for the good showing. At the retail level, the index of commodities other than food rose noticeably less than in 1958. Prices paid by consumers for services, which for the past quarter century have moved in an upward secular trend that has withstood all recessions, rose more moderately than in any of the last sixteen years. At the wholesale level, the price indexes of all major subgroups declined. Particularly significant was the moderate decline over the year in the price of industrial commodities as a group. Such prices

**PRICE STABILITY IN A BUSINESS RECOVERY.** Consumer prices increased only moderately in 1961—less than half as much as in 1958, a similar year of business upswing. Wholesale prices, which had risen in 1958, actually declined in 1961.

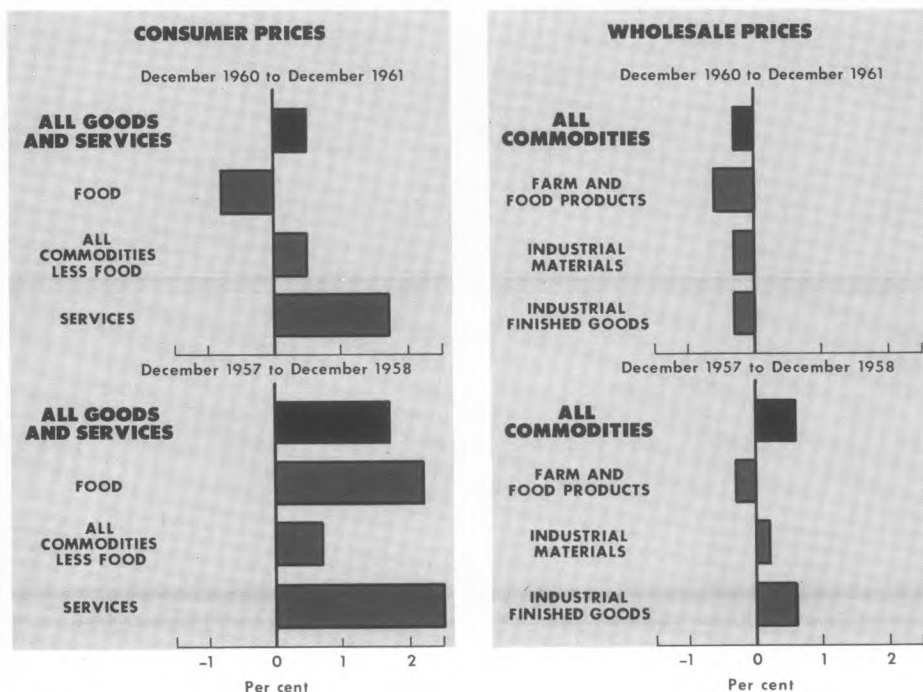


CHART 5

generally respond fairly rapidly to changes in business conditions, and had increased in 1958.

Many of the factors restraining price increases during 1961 had also existed in the periods following the previous two recessions, including an easing of farm prices and excess industrial capacity. In 1961, however, industrial capacity seemed to be better balanced than in the previous upswings to meet the increase in demands. The greater degree of price stability last year may also have reflected public pressure for restraint in wage and price policies and, even more importantly, the heightened vigor of foreign competition.

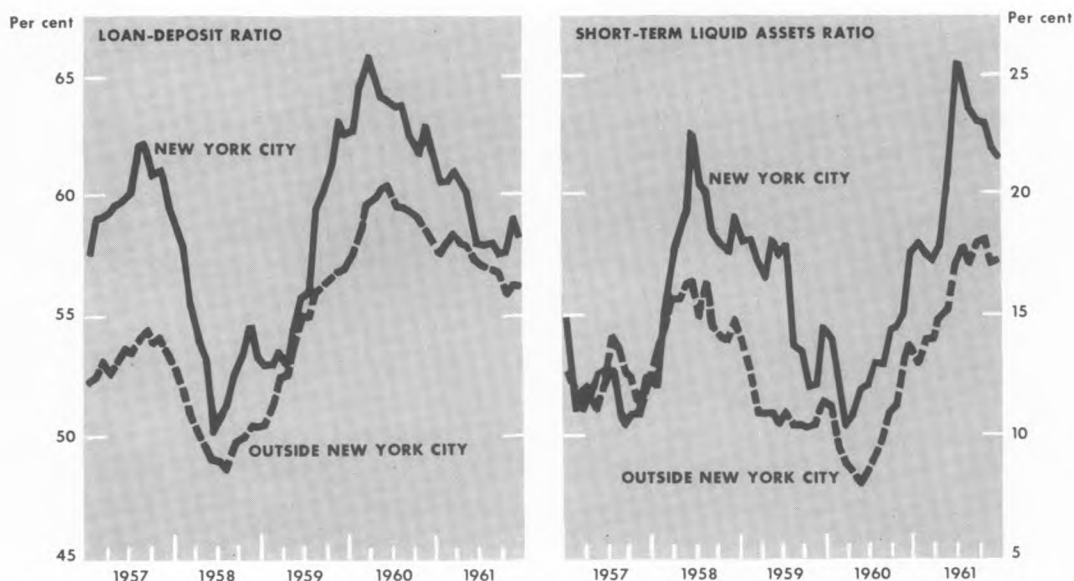
## **Monetary Policy: Credit Ease Continues**

The basic problem confronting monetary policy in 1961 was to provide the maximum possible encouragement to the emerging upswing in general business while protecting the international position of the dollar. Monetary ease was maintained throughout 1961, as evidenced by a near-record expansion in bank credit, a sizable increase in member bank reserves, a significant advance in bank and nonbank liquidity, and the relative stability of intermediate- and long-term interest rates in the face of a sharp rise in the demand for funds. At the same time, however, the use of new techniques in carrying out monetary policy served to hold up short-term interest rates at about the levels that had prevailed in late 1960.

The maintenance of monetary ease well beyond the upturn in business contrasted sharply with the previous upswing when the Federal Reserve moved toward reduced ease within four months after the business trough. In 1961, however, the road to full employment appeared to be a particularly arduous one in view of the expected rapid expansion in the labor force. Uncertainties regarding the strength and course of the recovery, moreover, prevailed during much of the year.

In addition, the risks for the domestic economy involved in maintaining ease beyond the turning point were considerably smaller than in earlier periods. There were no indications of emerging inflationary pressures or of speculative

**BANK LIQUIDITY.** The loan-deposit ratios of all weekly reporting member banks fell during most of 1961, but remained well above levels reached during the 1958 recovery. Short-term liquid assets ratios rose sharply during the first half of the year, but declined somewhat during the second half.



The loan-deposit ratio shows loans (adjusted) less loans to brokers and dealers as a percentage of total deposits less cash items in process of collection. The short-term liquid assets ratio shows vault cash, balances with domestic banks, loans to banks, loans to brokers and dealers, and United States Government securities maturing within one year, less borrowings, as a percentage of total deposits less cash items in process of collection and reserves held at the Federal Reserve Banks. While vault cash became eligible to be counted as part of the reserves during 1959-60, it has been retained in the numerator of the ratio, and has not been deducted from the denominator, in order to maintain the continuity of the series.

CHART 6

psychology. Commercial bank liquidity positions had improved only moderately during the recession, and banks were substantially less liquid in early 1961 than around the trough of the previous recession in the second quarter of 1958 (see Chart 6). The money and capital markets in 1960, moreover, had not eased so sharply as in earlier recessions, and interest rates had not declined so much. Under these circumstances, there was relatively small risk that the build-up in liquidity would turn out to be excessive and lead to an inflationary

credit spiral at a later stage of the business expansion.

The System's ability to maintain ease in 1961 was further strengthened by a harmonious meshing of monetary, fiscal, and debt management policies. The rise in Government outlays, as previously noted, was an important factor in helping to limit and then overcome the recession. At the same time, however, the Federal deficit was substantially smaller than in the recovery period of 1958-59. This reduced the need for Federal Government borrowing in the money and capital markets and made it possible to give greater encouragement to other borrowers in these markets without risking an excessive total credit expansion. Moreover, while the shift from deficit to surplus with improving business conditions was likely to be less pronounced than in 1958-59, the prospect was that a moderate surplus in the budget (as measured in the national income accounts) would emerge relatively early in the upswing.

The recession and the revival, however, had developed against the background of the persistent deficit in the United States international balance of payments. With substantially higher levels of interest rates prevailing in a number of other international financial centers, it was incumbent upon monetary policy to prevent an excessive decline in short-term rates lest the deficit be enlarged by a stepped-up flow of short-term capital toward these money markets. While monetary policy thus aimed at making the maximum contribution to the emerging upswing, the need for flexibility in open market operations was very great.

On February 20, 1961, it was announced that open market operations would be broadened to include transactions in Government securities outside the short-term area, some of which would exceed five years. A first step in this direction had been taken in late October 1960, when System Account operations were extended to include short-term certificates, notes, and bonds, in addition to Treasury bills. A significant portion of the Government securities purchased by the System during 1961, in fact, consisted of securities outside the short-term area. The bulk of the System's purchases outside the one-year area was in one- to ten-year maturities, although a small volume of over-ten-year purchases also was made. At times, trends in the bill rate made it necessary to sell bills and purchase longer issues almost simultaneously. The System's purchases of intermediate- and long-term issues not only had the effect of providing bank reserves in a way that would minimize downward pressure on short-term rates, but also stimulated the flow of long-term funds into constructive uses that would hasten recovery and economic growth.

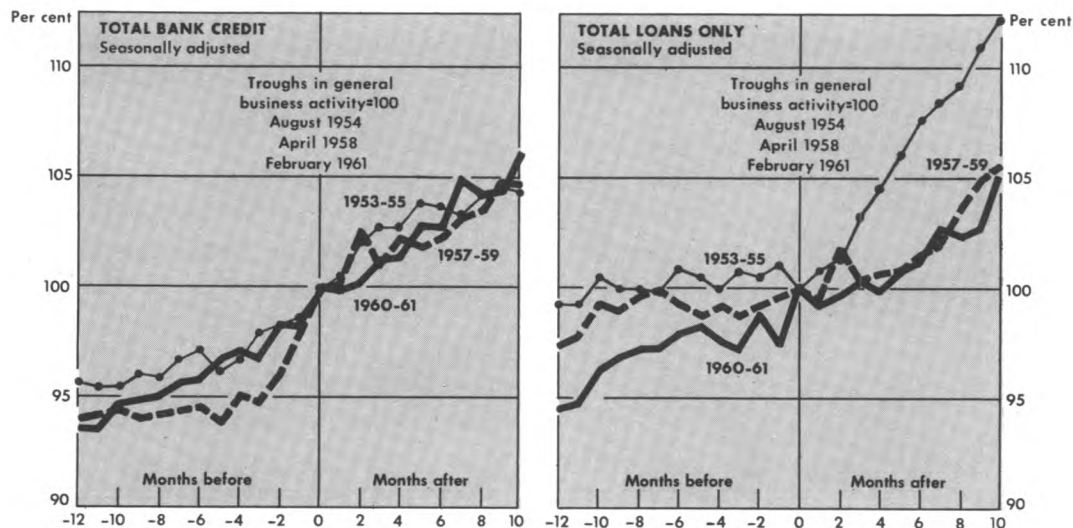
Debt management policy supplemented Federal Reserve efforts to maintain short-term rates and facilitate the flow of long-term capital into domestic investments. Thus Government trust funds and investment accounts used additional funds accumulated during the year to purchase long-term securities and, in addition, improved the return on existing holdings by selling some of their holdings of short-term securities to acquire longer issues. Treasury cash financing in 1961, furthermore, was concentrated largely in the short-term area. Of the \$16 billion of new cash raised (including seasonal borrowings), \$12.5 billion was obtained through the sale of Treasury bills, partly through issues of tax anticipation bills, and through increases in the amount of the special one-year bill issues and of the regular weekly issues sold at auction. On two occasions, bills also were sold through the use of a new debt management device—"strip financing"—under which equal additional amounts of outstanding bills maturing in successive weeks were sold in a package. Despite the marked increase in the amount of Treasury bills outstanding, the average maturity of the marketable debt, at four years seven months, was kept about the same at the end of 1961 as at the beginning. This largely reflected further use of the advance refunding technique introduced in 1960, with nearly \$10 billion of outstanding issues maturing during 1962-71 having been exchanged for new securities due 1966-98.

In contrast to previous periods of recession and recovery, the rate on three-month Treasury bills generally moved within a  $2\frac{1}{8}$  per cent to  $2\frac{5}{8}$  per cent range from the time of the business downturn in May 1960 through November 1961, rising somewhat in December for largely seasonal reasons. During the comparable period of 1958-59, these rates had ranged between about  $\frac{5}{8}$  per cent and 3 per cent. In 1961, long-term rates fluctuated within an unusually narrow range, despite the impressive rise in the volume of funds raised in the capital markets after the first quarter (see p. 26).

**BANK CREDIT.** Total loans and investments at all commercial banks rose by about \$15 billion in 1961, an expansion exceeded during the postwar period only in 1958. The strength of total bank credit primarily reflected a sharp rise in commercial bank investments. With reserves readily available, the commercial banks increased their total holdings of Government securities by \$5.5 billion over the year. In addition, bank investments in other securities, particularly obligations of State and local governments, also rose markedly in 1961.

In contrast, the growth in loans was only moderately strong. When measured

**BANK CREDIT.** The 1961 increase in total bank credit (loans plus investments) was about in line with earlier recoveries. Total loans, however, after a strong showing during the recession itself, advanced somewhat less rapidly than in the 1954-55 upswing, but about matched the 1958-59 record.



Data compiled by the Board of Governors of the Federal Reserve System and adjusted with seasonal factors prepared by the Federal Reserve Bank of St. Louis.

CHART 7

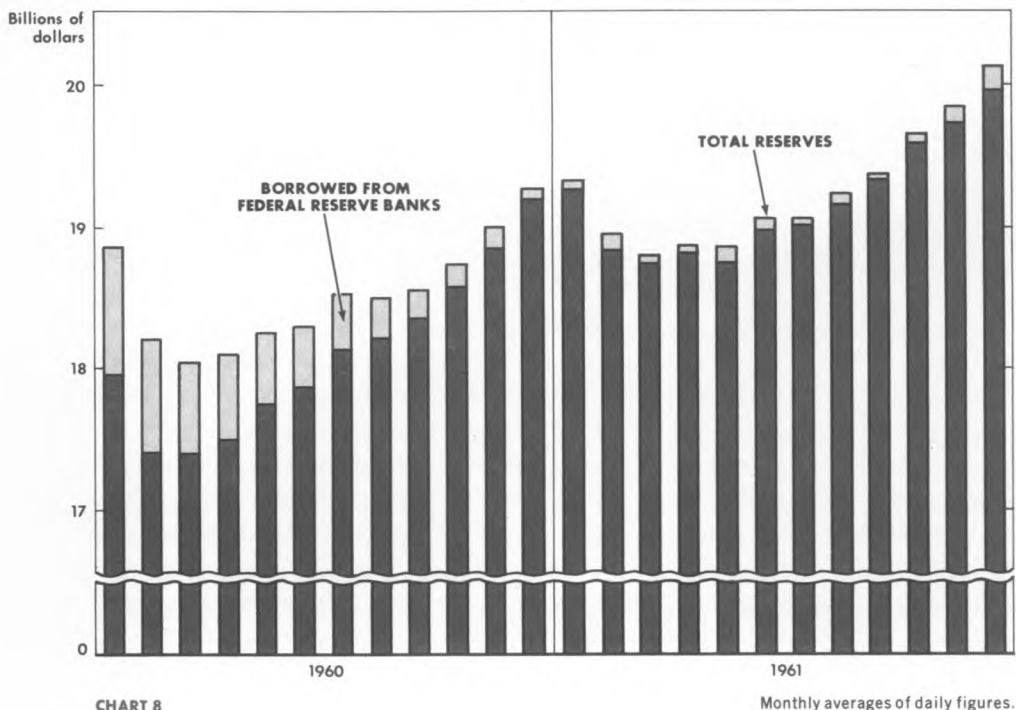
from the February 1961 trough in general business activity, the rise in seasonally adjusted bank loans through the end of the year was smaller than the increase over the first ten months of the 1954-55 business upswing and roughly in line with the slower loan advance over the comparable months of 1958-59 (see Chart 7). Business firms, however, drew extensively on financing outside banks in 1961 through the sale of stocks, bonds, commercial paper, and bankers' acceptances, while consumer demands for bank accommodation were unusually light until near the end of the year. In addition, the rise in the internal resources of corporations typical of the early stages of a revival may have lessened corporate reliance on bank credit. The over-all 1961 loan performance must, moreover, be viewed in the light of the greater strength in loans during the recent recession than in earlier postwar periods of economic contraction. Business loans



in particular had shown unusual vigor, due in part to the relative mildness of the recession and to rather low business liquidity that tended to hold down loan repayments. Hence, when the recent business loan expansion is measured from the May 1960 peak in business activity, it actually proves to have been somewhat greater than the increases over corresponding stages of earlier business cycles.

Underlying the expansion in bank credit was a sizable increase in reserve availability, as Federal Reserve open market operations more than offset the drains on reserves associated with gold losses and other factors. Total member bank reserves grew sharply during the year (see Chart 8), as did nonborrowed reserves (total reserves less borrowings at the Federal Reserve Banks). Excess reserves of all member banks fluctuated narrowly around \$600 million through-

**BANK RESERVES.** Total reserves of member banks rose appreciably in 1961, and borrowing at Reserve Banks remained very low throughout the year.



out the year, while their borrowings at the Federal Reserve Banks, which had already declined to less than \$100 million by December 1960, generally remained below that level until late in the year. This was the longest period since 1950 in which member bank borrowings had remained at this low level. As a result, member bank average free reserves remained at about \$500 million during most months of the year.

**BANK AND NONBANK LIQUIDITY.** Bank liquidity, which had improved only moderately during the recession, increased further during the first several months of the revival. Moreover, despite some tightening in the latter part of 1961, as the recovery proceeded, the banks were more liquid at the end of the year than they had been in February when the upswing began (see Chart 6). In fact, at the year end the banks' "immediate liquidity", as measured by the ratio of short-term liquid assets to deposits, was still close to the previous high point reached in 1958 when economic activity was just starting to pull out of that recession. As measured by loan-deposit ratios, however, banks were less liquid at the end of 1961 than they had been in 1958.

Total liquid assets held by the nonbank public rose markedly during 1961, largely on the strength of record increases of \$11 billion in time deposits at commercial banks and \$9 billion in savings and loan shares, and of a \$5.6 billion rise in the private money supply (demand deposits adjusted plus currency outside banks). However, the ratio of total nonbank holdings of liquid assets to GNP, following a rise in the second half of 1960 and the first quarter of 1961, receded during the balance of the year as GNP rose even faster than such holdings (see Chart 9).

The sharp rise in savings and time deposits at commercial banks since the onset of the recession in 1960 reflected in good part the lower level of market interest rates on competing investment outlets, such as Treasury bills. While in past periods the rate of increase in commercial bank time deposits had begun to slow down soon after the business cycle trough, special factors helped to sustain their growth throughout 1961. Open market rates over the year showed relatively little increase from recession lows, whereas in the comparable periods of earlier recoveries they had risen rather sharply. Moreover, the offering of negotiable certificates of deposit by some commercial banks that began in February attracted a significant volume of corporate funds which might otherwise have been invested in other instruments. The action taken by the Board of Governors of the Federal Reserve System late in the year to increase as of

**NONBANK LIQUID ASSETS AS A PERCENTAGE OF GNP.** While total liquid assets held by the nonbank public rose substantially throughout 1961, the increase in GNP after the first quarter was even more rapid. As a result, the ratio of liquid assets to GNP declined as it usually does in recovery periods.

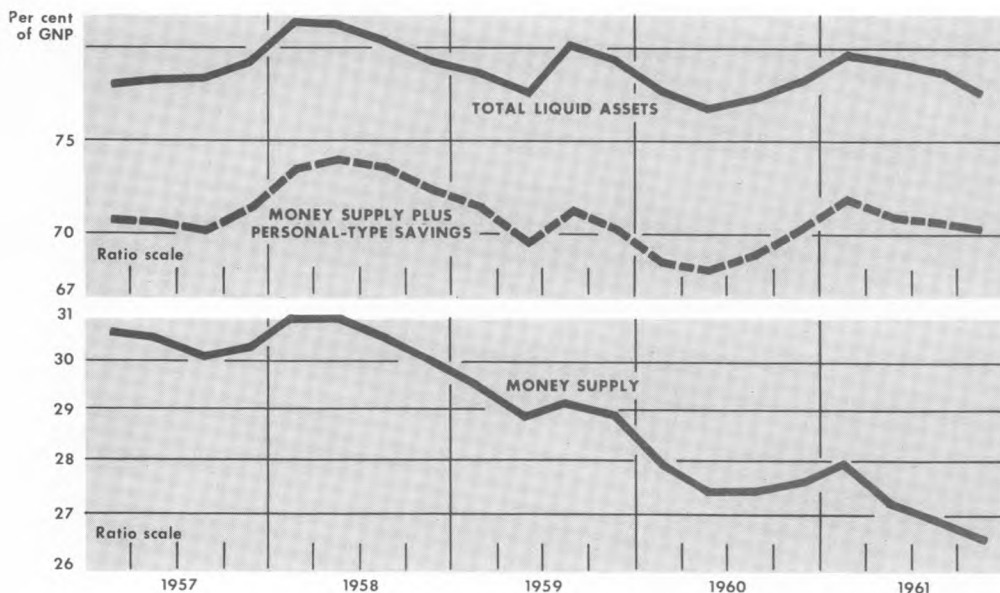


CHART 9

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

January 1, 1962 the maximum interest rates allowable on time deposits under Regulation Q is likely to provide a further stimulus to the growth in such deposits. The ceiling rates payable by member banks on savings deposits and on time deposits and certificates of at least six months' term were raised to 3½ per cent, and to 4 per cent on deposits with a term of one year or more. (Prior to the increase, the maximum allowable rate had been 3 per cent on all savings deposits and on all time deposits with a term of six months or more). In the announcement of the change in Regulation Q, the Board stated that its action was designed to increase the freedom of member banks to compete for savings and time deposits, including foreign deposits that might otherwise move abroad in search of higher returns. During December a substantial number of banks in New York and elsewhere announced that they would be paying the higher rates in 1962.

**CAPITAL AND CREDIT FLOWS.** The recovery in general business activity in 1961 found its counterpart in a sharp rise, after an exceptionally low first quarter, in the volume of funds raised in the credit and equity markets. Over the year as a whole, the volume of funds raised in these markets was substantially higher than in 1960, although it remained below the record postwar high set in 1959. Despite the heavy calls on the capital market after the first quarter, yields on intermediate- and long-term securities rose only moderately during 1961 (see Chart 10) and, at the end of the year, were still at levels appreciably lower than their pre-recession highs. The relative stability of interest rates in good part reflected the expanded supply of funds reaching the markets. Bank credit was readily available, while as usual much of the increased savings of the nonbank public was channeled into the capital market through nonbank financial intermediaries. Monetary and debt management policies, moreover, contributed importantly to the relative stability of rates both directly and through their effects on market expectations. Interest rate movements in 1961 thus contrasted sharply with developments in 1958, when prospects of an economic upturn were followed by drastic price declines in the securities markets and by accompanying sharp increases in interest rates.

The rise in the volume of funds raised in the credit markets over 1960 was largely attributable to heavier demands by government—particularly by the Federal Government which swung from a net supplier in 1960 to a net borrower in 1961. Demands by nonfinancial business were somewhat higher, while borrowing by consumers declined.

Whereas the Federal Government concentrated its cash financings in the short-term area, as noted earlier, the opposite was largely the case for other borrowers. Thus, bank loans to business moved up moderately, but net securities issues by corporations were well above 1960 and 1959 levels. Such offerings rose to a record high during the second quarter—when the Federal Reserve and Government trust fund accounts were doing their heaviest buying of Treasury issues outside the short-term area—before subsiding somewhat in the second half of the year. The net increase in State and local government borrowing during 1961 also was largely in the long-term area. An increase in this type of borrowing has been characteristic of postwar recessions, but in the most recent period relatively heavy borrowing continued well into the expansion period. State and local borrowing costs rose only moderately in 1961, while commercial banks devoted an increased volume of funds to investment in tax-exempt securities.

Consumers, too, concentrated their borrowing in the long-term rather than the short-term area, although for different reasons. As a counterpart of the sluggishness in consumer spending, consumer credit extensions were exceptionally low until late in the year, falling behind repayments during much of the period. The net increase of about \$1.4 billion in outstanding consumer credit over the year was \$2.5 billion less than the 1960 increase. On the other hand, the \$18 billion increase in mortgage credit outstanding (commercial as well as

**LONG-TERM INTEREST RATES.** Long-term interest rates, which had declined only moderately during the 1960-61 recession, rose much more slowly during the 1961 recovery than they had in 1958.

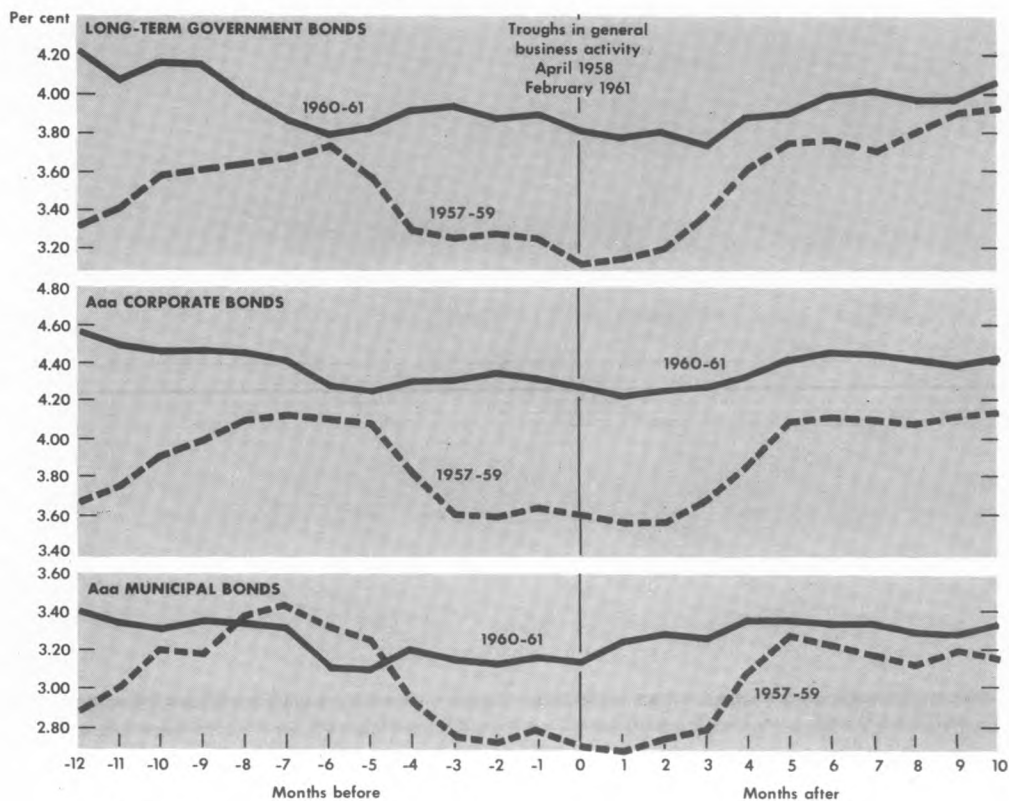


CHART 10

residential) was \$3 billion above the 1960 rise, as mortgage credit became more readily available and at lower rates. Savings and loan associations in particular greatly increased their investments in mortgages, while commercial banks and mutual savings banks also stepped up the pace of their mortgage lending. The Federal Government took several steps during the year to encourage the flow of mortgage credit and to reduce mortgage rates. The maximum allowable interest rate on mortgages insured by the Federal Housing Administration, for example, was reduced in two steps from  $5\frac{3}{4}$  per cent to  $5\frac{1}{4}$  per cent.

## **THE QUEST FOR BALANCE IN THE INTERNATIONAL PAYMENTS SYSTEM**

Adjustment to continuing and fundamental changes in the world economy and the strengthening of the international financial system were major concerns of economic and financial policy here and abroad during 1961.

With currency convertibility now well established in Europe, private investment funds, to a greater extent than at any time since the war, were free to respond to market forces. Even when the foreign exchange markets were calm, interest rate differentials between major financial centers, as well as differences in the availability of credit, created incentives for substantial short-term capital movements. When the markets were also affected by exchange rate speculation, the movement of funds at times became massive. However, as a result of prompt and concerted action by the financial authorities of the United States and other leading industrial countries, there was no cumulation of speculative pressures that might have endangered the proper functioning of the world's payments system. Indeed, the United States and its major trading partners made highly gratifying progress during 1961 in evolving cooperative techniques to reduce or absorb the force of disequilibrating capital flows.

The problem of volatile shifts of short-term capital funds was, of course, partly an outgrowth of broader balance-of-payments difficulties. To some extent, these difficulties reflected differences in the phasing of the cycles of business activity in this country and in Europe. In large measure, however, they stemmed from more basic developments, including changes in the balance of economic power among the major industrial countries. These changes, as noted earlier, called for fundamental adjustments by both deficit and surplus countries—adjustments that had been slow in coming. Although important steps toward bringing economic policies into better alignment with the changed situation were taken in 1961, the problems that remained to be resolved were formidable.

### **Strengthening the International Financial System**

Few had been under any illusions that the economic adjustments needed to bring the underlying payments flows into better balance could be completed

quickly. From the very beginning of the year, therefore, the authorities here and abroad were concerned with minimizing the danger of speculative forays against one currency or another and with generally strengthening the international financial system. It was clear that, without firm confidence in the stability of that system, the required economic adjustments would be difficult, if not impossible, to achieve.

The need for decisive support measures became all too evident in the winter of 1960-61 when a serious dollar exchange crisis was in the making. Confronted by mounting speculative pressure against the dollar and by heavy gold losses, the United States Government took a variety of steps designed to achieve a speedy restoration of confidence and, in addition, initiated the more basic measures discussed in the next section. Reaffirming the position of the previous Administration, the President early in February 1961 stated that "the United States official dollar price of gold can and will be maintained at \$35 an ounce". He pledged that the total United States gold stock and its quota in the International Monetary Fund (IMF) stood "behind the value of the dollar for use if needed". The President further reaffirmed that

exchange controls over trade and investment will not be invoked. Our national security and economic assistance programs will be carried forward. Those who fear weakness in the dollar will find their fears unfounded. Those who hope for speculative reasons for an increase in the price of gold will find their hopes in vain.

In addition, the President reaffirmed an executive order, issued early in January before the change in Administration, which forbade persons subject to the jurisdiction of the United States to buy or hold gold abroad and gave them until June 1, 1961 to dispose of any such holdings. These unequivocal statements, and the improvement in the United States payments position, led to a strengthening of the dollar.

However, as sentiment about the dollar improved, the world's other key currency—the pound sterling—came under pressure. The deficit in the sterling area's basic balance of payments, which had been obscured by heavy inflows of short-term capital into Britain during 1960, was still running at a very high rate early in 1961. As these inflows were reversed, the magnitude of the sterling area's payments deficit was laid bare. In February 1961 Britain's gold and convertible currency reserves, which had been rising uninterruptedly for twelve months, turned downward. Then, early in March, Germany and the Netherlands



appreciated their currencies by 5 per cent, and this was followed by a massive wave of speculation that further exchange rate adjustments were in the offing. The movement of funds across the exchanges rose to a volume the like of which had not been experienced in the postwar period.

As the speculative pressures mounted, it became clear that, unless prompt and effective countermeasures were taken, the existing exchange rate structure would be undermined. To meet this threat, the central bank governors attending the monthly meeting of the Bank for International Settlements at Basle, Switzerland, issued a statement on March 12 that rumors about further currency adjustments were without foundation and that their central banks were cooperating closely in the foreign exchange markets. They thus sought to insure that no country in the so-called Basle group would be forced by speculative pressures to deviate from its existing exchange rate policy. With this aim in view, various continental countries subsequently extended to Britain short-term loans equivalent to a large proportion of the funds that moved out of London after the appreciations of the German and Dutch currencies. These loans, which at their maximum totaled \$910 million equivalent, were granted to provide a "breathing space" during which the United Kingdom could develop a longer term program to improve its international payments position. The great bulk of the loans was repaid during August and September, after Britain drew from the IMF \$1.5 billion equivalent in United States dollars and eight other currencies and, in addition, obtained a \$500 million stand-by credit from that institution.

The turbulence in the exchange markets that followed the revaluation of the German and Dutch currencies clearly called for cooperative measures, not only to support sterling, but also to minimize the spread of the pressure to the dollar. The capital outflow from London was effected through sales of pounds for dollars which were in turn sold for continental currencies. As the British authorities were selling dollars in support of the sterling exchange rate and as private dollar balances were exchanged for continental currencies, a number of the continental central banks had to purchase increasing amounts of dollars to keep their currencies from appreciating beyond the limits set under the European Monetary Agreement. As most of the speculation centered on Germany and Switzerland, hundreds of millions of dollars flowed into those two countries within a span of a few weeks. To be sure, part of this flow was, in effect, reversed by the credits made available to Britain by the continental central banks. Even so, the flow was so large that there was a rapid accumula-

tion of dollars in the hands of these central banks, whose potential demands on the United States gold stock were thereby greatly increased.

Moreover, an abnormally wide discount on dollars for three-month forward delivery had emerged (see Chart 11), since foreigners anticipating dollar receipts were anxious to sell them forward so as to be protected against possible further currency revaluations. And, with the discount on forward dollars so large, foreigners anticipating dollar receipts found it cheaper to obtain forward cover, not through the forward exchange market, but by borrowing dollars (which they would repay out of future receipts), selling them spot for local currency, and investing the proceeds. These transactions thereby produced a further flow of dollars into continental official reserves. The wide discount on forward dollars also made it unprofitable for some foreign investors, especially in Switzerland, to retain liquid funds in the form of dollars.

In these circumstances, the United States Treasury, operating through the New York Reserve Bank as its fiscal agent, began dealing in foreign exchange, in close consultation with foreign monetary authorities. These consultations were aided by Federal Reserve participation, on a regular basis, in the monthly meetings of central bankers at Basle. Although operations were conducted in several currencies during the course of the year, the Treasury transactions were mainly in Deutsche marks and Swiss francs and were concentrated in the comparatively "thin" forward markets, where intervention might prove most effective. In the case of the mark operations, for example, more than one billion marks of such forward sales were outstanding at the end of June. The speculative tide had, however, already begun to recede before the Berlin crisis and, by mid-December, the entire volume of forward contracts had been liquidated at maturity. With the market again operating smoothly, only token intervention was required to counter a temporary widening in the forward dollar discount in the final weeks of the year. Sizable operations were also carried out in the forward Swiss franc market, where cooperative measures undertaken with the Swiss National Bank succeeded in reducing the unduly high premium on the forward Swiss franc. This premium had been one of the factors that deterred Swiss commercial banks and other investors from placing in dollar assets the short-term capital that had flowed into Switzerland. In order to facilitate these operations, the United States Treasury supplemented its holdings of Swiss francs by issuing short-term Treasury obligations denominated in that currency.

In effect, both the mark and the Swiss franc operations helped to bridge the gap between heavy speculative buying and the subsequent restoration of

**THE FORWARD DOLLAR DISCOUNT IN 1961.** The discount on forward dollars against major continental European currencies widened sharply in March and again in the early summer, after having narrowed in the intervening months; thereafter it again narrowed as exchange market conditions calmed. Only token intervention was required to counter the temporary widening in the discount against the Deutsche mark toward the end of the year.

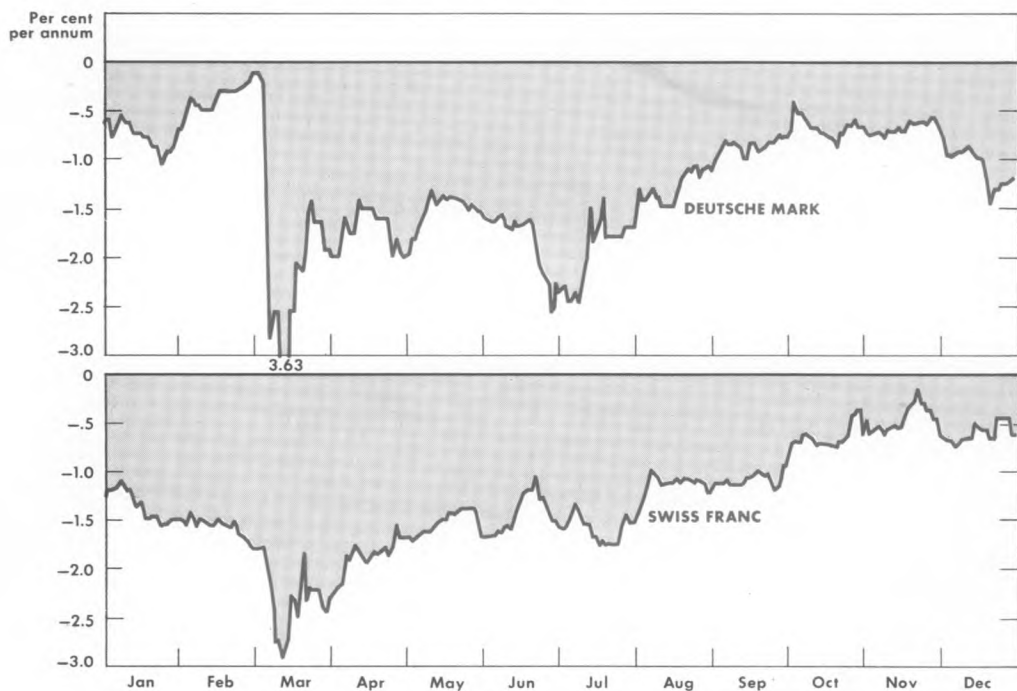


CHART 11

Discount on three-month forward dollar calculated on the basis of spot rates.

more balanced payments flows. They thus appear to have played an important role in moderating the movement of funds into official hands and in reducing potential demands on the United States gold stock. Furthermore, the exchange market's awareness of the continuing intervention of the central banks on a cooperative basis contributed significantly to quieting speculation and restoring the orderly pattern of exchange rates that is so necessary for the smooth flow of international payments.

The official exchange market operations were paralleled by monetary

policy changes that in several major industrial countries were in large measure also directed toward restoring better balance in the flows of short-term capital. Deficit countries generally attempted to curb short-term capital outflows or to encourage inflows while several surplus countries aimed at the opposite and complementary objective. The United States authorities, as noted earlier in this *Report*, acted to prevent a drop of short-term interest rates to the low level reached in the 1958 recession, a drop which would have increased the incentives for outflows of short-term capital. At the same time, the tax exemption previously granted to certain central banks on their interest receipts was extended to all such banks, thus giving banks benefiting from the new law a greater incentive to hold United States Government securities. The pursuit of United States monetary policy objectives was also facilitated by monetary policies followed during 1961 by several of the major surplus countries of continental Western Europe (see Chart 12). In Germany, in particular, the authorities acted to reverse the heavy foreign exchange influx by successive cuts in short-term interest rates and in reserve requirements, and by complementary operations in the foreign exchange market. These measures and, subsequently, the political uncertainties arising from the Berlin difficulties dampened the short-term capital flow into Germany during April-June and actually changed it to a substantial outflow during the balance of the year. In Britain, where the Bank of England's discount rate had been increased to 7 per cent late in July as part of the concerted effort to support sterling, the discount rate was reduced to 6 per cent during the autumn after the speculative pressure against sterling had been reversed.

In addition, special transactions were undertaken to help offset the imbalance in payments flows among the major industrial countries. These helped in several instances to reduce both foreign official liquid dollar holdings and potential foreign gold purchases from the United States. Germany, in particular, made an advance debt payment of \$587 million to the United States, part of which was transferred in Deutsche marks that were utilized by the United States Treasury in connection with its foreign exchange market operations. Several other countries also made smaller advance debt repayments. Moreover, in integrating its operations into the changing flow of multilateral payments, the IMF increasingly directed its members' drawings toward the currencies of countries that were accumulating reserves or that had relatively large reserves. All of these cooperative measures were facilitated by informal discussions within the IMF and by the consultations that took place in the newly established

Organization for Economic Cooperation and Development, a twenty-nation group consisting of the United States, Canada, and the eighteen European members of the former Organization for European Economic Cooperation.

**SHORT-TERM INTEREST RATES.** Short-term interest rates were sharply reduced or maintained at low levels in major surplus countries in 1961. In the deficit countries they were sharply increased or, in the United States, prevented from dropping to the very low levels that had been reached in the 1958 recession.

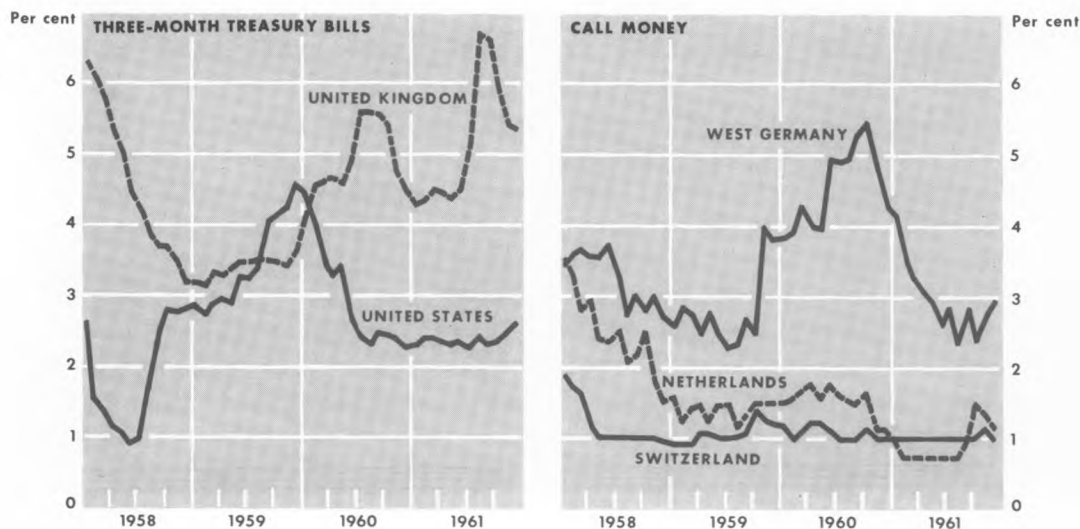


CHART 12

The rates shown are representative of money market conditions in the various countries but, because of differing maturities, are not fully comparable.

## Dealing with Basic Payments Difficulties

Closer international monetary cooperation, as noted earlier, was mainly designed to provide a breathing space that would permit both surplus and deficit countries to cope with the more basic causes of the imbalance in international payments. A major element in this imbalance was the fact that, over the past decade, industrial countries abroad had grown rapidly in economic strength relative to the United States. Another was that the economic growth of the primary-producing countries had lagged considerably behind that of the industrial countries and that the burden of economic aid to overcome this lag had, to a large extent, been carried by the United States.

During 1961, the major industrial countries took some significant measures to deal with these and related problems. Thus, a number of the surplus countries of continental Western Europe, notably Germany, expanded their aid commitments to underdeveloped countries. Some of our European allies also agreed in principle to increase their military purchases from the United States, and such additional purchases were expected to begin in 1962. Steps were taken, moreover, by such countries as Italy, the Netherlands, and Switzerland to expand long-term capital outflows, while several countries further reduced restrictions against imports. The 5 per cent appreciations of the German mark and the Dutch guilder in early March were in part undertaken in an effort to reduce external surpluses.

Nevertheless, most of the major industrial countries of continental Western Europe continued during 1961 to show substantial surpluses in their balances of payments on current account and long-term capital account.<sup>1</sup> Germany's surplus, it is true, was significantly reduced from the previous year's level by a decline in net service receipts and by substantially enlarged long-term capital outflows. While other countries' merchandise imports were considerably higher in January-September 1961 than a year earlier, this rise was offset in most instances by increased export and service receipts. Moreover, enlarged net flows of long-term private capital to the continental countries other than Germany apparently offset most, if not all, of the increase in their aid to other areas.

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<sup>1</sup>The balance of payments on current account and long-term capital account is here defined to include merchandise trade, services, and other current account transactions (including military expenditures), official and private long-term capital flows, and government foreign aid. It excludes special debt prepayments, short-term capital flows, and unidentified transactions, i.e., the so-called "errors and omissions".

The steps adopted by the surplus countries were paralleled by complementary measures which the deficit countries took to redress their balances of payments on current account and long-term capital account. The United States, in particular, continued policies initiated in earlier years and introduced additional corrective measures. To gain some immediate relief for this country's payments position, the Government placed increased emphasis on procurement in the United States under its foreign aid programs. The results of this measure have already begun to be felt and, in 1961, only 30 per cent of the \$4.0 billion (gross) expenditures under the foreign aid programs was spent outside the United States. As of September 1961, moreover, duty-free allowances for returning tourists were reduced to \$100 per person from the \$500 at which they had stood since 1948.

On a more basic level, the Government began major revisions of its tax depreciation schedules with a view to stimulating investment in modern machinery and equipment that would promote domestic productivity and economic growth and strengthen the international competitiveness of American products. Other Governmental efforts aimed at realizing more of this country's existing export potential. Exports were promoted through the enlargement of the commercial staffs attached to our embassies abroad, through increased United States participation in foreign trade fairs, through the dissemination of more information about sales opportunities abroad, and through a further broadening of the Export-Import Bank's export credit insurance facilities. In addition, tourist visa formalities were simplified and other steps taken to promote foreign travel in the United States. The beneficial effect of such measures could not, of course, be expected to materialize overnight but they are likely to be substantial over the years.

The United States also took steps during 1961 to increase the effectiveness of its foreign aid programs, both by unifying their administration and by placing greater emphasis on the creation of conditions that would lead more rapidly to self-sustaining growth of the less developed countries. More explicit recognition was given to the fact that economic development could not be speeded up by financial assistance alone, but had to come about through the efforts of the less developed countries themselves to institute needed social and economic reforms. The new approach to foreign aid was exemplified by the launching in August of the Alliance for Progress between the United States and nineteen Latin American signatory countries. Under the Alliance, the Latin American republics receiving development aid from the United States undertook to intro-

duce thoroughgoing reforms in their systems of administration, taxation, education, and land tenure. The Alliance for Progress in itself will, of course, call for enlarged United States aid outlays. However, such outlays will in large measure give rise to increased purchases of United States goods and services. Moreover, to the extent that the new aid approach hastens the economic growth of the developing countries and progressively reduces their dependence on assistance from abroad, the functioning of the international economic system will be improved and the burden of foreign aid on the United States balance of payments may ultimately be lightened.

The measures taken by the United States, together with those adopted abroad, led to a \$1.4 billion decline in the over-all deficit in the United States balance of payments to an estimated \$2.5 billion in 1961 from \$3.9 billion a year before (see Chart 13). The 1961 deficit was the smallest in four years, but with about half the reduction from 1960 attributable to advance debt repayments, the deficit was clearly still much too large. In the early months of the year, when sterling was under pressure, the deficit on account of United States short-term capital outflows and unrecorded transactions declined significantly. But, after having almost disappeared in the third quarter, the deficit on these accounts was much enlarged in the final quarter and the total for the year was about as large as in 1960. However, much of this outflow was connected with short-term credits to Japan and with the financing of foreign trade, whereas in the fall and winter of 1960 the outflow appears to have been largely speculative.

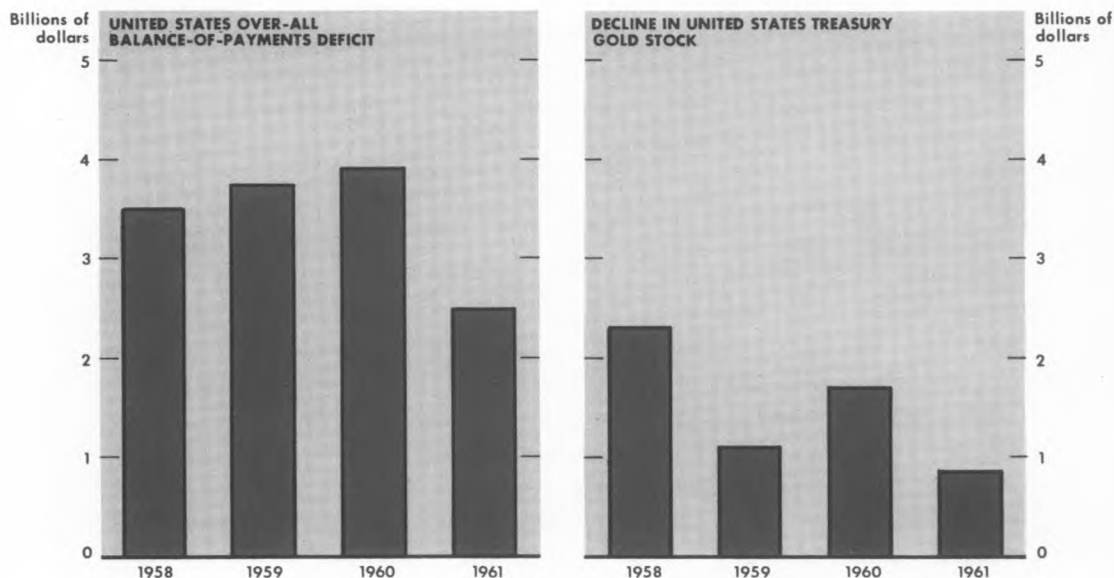
Thus, apart from the \$0.7 billion in special debt prepayments,<sup>2</sup> the 1961 improvement in the United States balance of payments was entirely attributable to a decline in the deficit on current account and long-term capital account to \$1.2 billion from \$2.0 billion in 1960. The year-to-year improvement, however, was concentrated in the first half of 1961, when especially favorable cyclical factors enabled this country to chalk up a surplus in the current account and long-term capital account of \$0.6 billion at a seasonally adjusted annual rate; after midyear, unfavorable cyclical influences shifted the balance in these accounts to a deficit, at a seasonally adjusted annual rate, of about \$2.9 billion. Mainly because the United States economy in the first half of 1961 was still influenced by the previous year's recession, the rate of imports in that period was the

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<sup>2</sup>Including payments of \$587 million by Germany, and a total of about \$85 million more from Italy and the Netherlands.



**THE UNITED STATES BALANCE OF PAYMENTS.** In 1961, the over-all deficit in the United States balance of payments and the decline in the Treasury gold stock were the smallest in four years. However, both were still much too large.



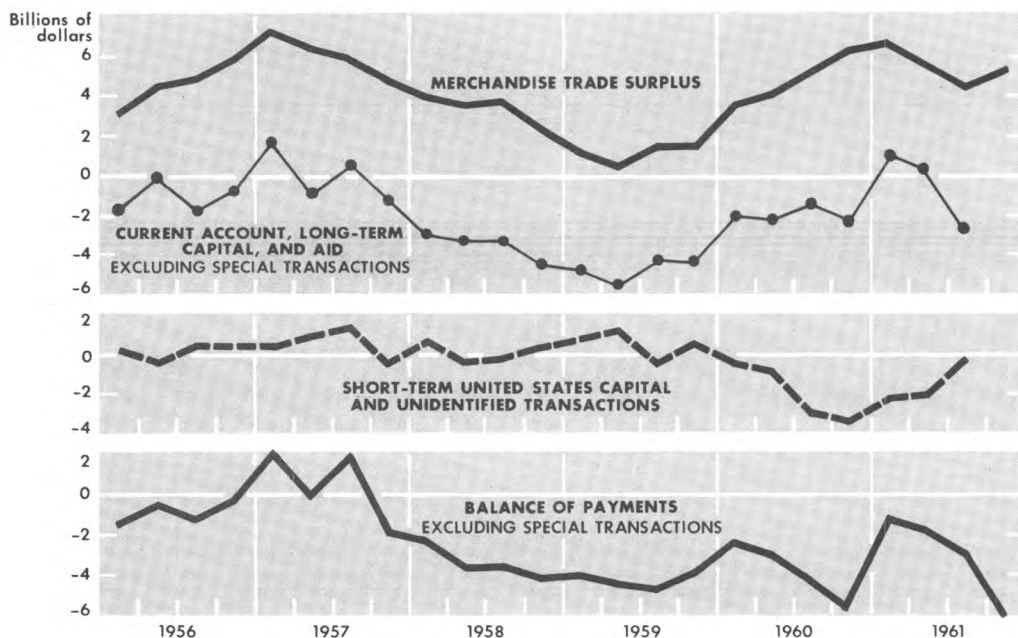
The balance-of-payments deficit for 1959 does not include the \$1,375 million payment to cover the increase in the United States subscription to the International Monetary Fund. The decline in the United States Treasury gold stock, however, does include \$344 million paid to the International Monetary Fund in gold as part of that subscription payment.

CHART 13

lowest since 1958, another recession period. At the same time, United States exports gained substantial support from the continued economic expansion of major industrial countries abroad, and our merchandise trade surplus consequently rose to a near record in January-June 1961 (see Chart 14). Imports moved sharply upward in the third quarter, when the United States business recovery was well under way, but the import rise slackened in the final quarter. While exports leveled off in April-September, they expanded to a new all-time peak in October-December; much of the rise, however, reflected larger shipments under aid programs. Despite the fourth-quarter improvement, the export surplus was reduced by \$1¼ billion (seasonally adjusted annual rate) from the first to the second half of 1961. Meanwhile, the net private long-term

capital outflow, which had dropped in the year's first half and had thus contributed to a further reduction in our payments deficit in that period, rose again in July-December 1961, when, furthermore, foreign aid also increased substantially. Taken together, the net outflows on Government aid and military account and on private long-term capital account in the second half exceeded

**MAJOR COMPONENTS OF THE UNITED STATES BALANCE OF PAYMENTS.**  
The United States balance-of-payments deficit was much reduced early in 1961, as the merchandise trade surplus increased moderately and outflows on other accounts declined. Thereafter the payments deficit rose, at first mainly because of a drop in the merchandise trade surplus and subsequently because increased outflows on other accounts more than offset the fourth-quarter improvement in the trade surplus.



Seasonally adjusted annual rates. Certain ordinary debt service payments by foreign governments are included in the third quarter of 1961 (in which they were originally scheduled), rather than in the second quarter when they were actually made. Special transactions comprise the \$1,375 million United States subscription to the International Monetary Fund in 1959 and advance debt repayments to the United States Government. Fourth quarter 1961 estimated.

CHART 14

by a considerable margin the still large United States surplus on commercial goods and services transactions.

Among other deficit countries, Britain adopted broad measures to end the recurrent balance-of-payments difficulties that have inhibited its postwar economic growth and, as already noted, obtained substantial international financial assistance to support sterling while this program was taking effect. The government's objective was to transform the deficit on current account payments, which had appeared late in 1959 and had become enlarged in 1960, into a surplus large enough to offset Britain's substantial net outlays on long-term capital account. Accordingly, the government during the spring and summer tightened both its fiscal and monetary policies, in contrast to its practice in earlier years when it had relied very largely on monetary policy alone to deal with the country's payments difficulties. It increased various excise taxes to restrain the rise in personal consumption but avoided any increase in direct taxes that might discourage individual effort or cause a weakening of existing tax incentives to invest. The large over-all budgetary deficit in the year ended March 1961 was expected to be reduced in the current fiscal year. Monetary policy was tightened through increases in the special deposits that the Bank of England is authorized to call from the commercial banks and by the increase toward the end of July in the discount rate to 7 per cent from 5 per cent. The government also undertook a vigorous campaign to check the accelerated rise in wages and other incomes and, to enable Britain to participate in the dynamic growth of the continent, applied to become a member of the European Economic Community. Later in the year there was a significant improvement in Britain's over-all balance-of-payments position. The improvement was, in part, attributable to a reversal of speculative pressures against sterling (which permitted the discount rate to be lowered again to 6 per cent by November). It also reflected a decline in imports that materially reduced Britain's deficit on current account; this decline stemmed partly from decreased importing for inventories and from lower import prices.

In Japan, where extraordinarily rapid economic growth had been accompanied in 1958 and 1959 by an equally dramatic rise in exports, the pace of the export boom began to slacken in late 1960 and 1961 while the rise in imports accelerated. With the trade surplus changing to a deficit in early 1961 and with a slowing of short-term capital inflows, the Japanese acted to cope with the ensuing decline in the country's gold and foreign exchange reserves by adopting a more restrictive monetary policy. To bolster its reserves while the

corrective measures were taking effect, Japan obtained substantial loans in the United States.

Major fiscal and exchange rate policy changes were adopted in Canada. Concerned over the relatively slow growth of the economy in recent years, the government adopted an expansionary budget that included special incentives for industrial investment. Moreover, without indicating any target rate, the Minister of Finance stated in June that the Canadian Exchange Fund would be utilized to achieve an exchange rate that would contribute to a better current account position and to substantially higher rates of domestic production and employment. In the period 1952-60, the Canadian dollar had been worth more than the United States dollar in the exchange market. Immediately following the Minister's announcement, the Canadian dollar dropped to \$0.97. During the autumn, it gradually declined further. At the year end it stood just under \$0.96.

Among the primary-producing countries, whose efforts to achieve rapid development were accompanied by persistent inflationary and balance-of-payments strains, a few countries devalued their currencies or adopted fluctuating rates while several others sought to protect their scanty gold and foreign exchange reserves through increases in import duties or a tightening of quantitative import restrictions.

Because of the significant advance in international financial cooperation and of modest improvements in the underlying payments balance within the Free World, the surplus and deficit countries' gains and losses of international reserves were smaller in 1961 than in the previous year. For the United States, the \$878 million drop in the Treasury gold stock in 1961 was half that of a year earlier, although the \$1.7 billion increase in liquid dollar liabilities was only \$0.4 billion less than in 1960. The gold and foreign exchange gains of industrial countries abroad both from the United States and from the rest of the world were reduced to about one half of the 1960 amount. Since it is likely that continental Western Europe's holdings of sterling dropped in 1961, these gains probably accrued entirely in gold and dollars. It is significant that in contrast to 1960, when doubts about the dollar led foreign industrial countries to expand gold holdings more than liquid dollar balances, last year's gains were about equally divided between dollars and gold. Moreover, the rise in dollar balances mainly reflected an increase in foreign private holdings; in 1960 such private holdings had declined.

During 1961, approximately \$2.7 billion of gold became available to the

Free World outside the United States—an estimated \$1.4 billion from new production and Soviet gold sales, \$0.9 billion from the above-mentioned decline in the Treasury's gold stock, and \$0.4 billion from net IMF sales. Of the total, \$1.5 billion went into official holdings of the industrial countries abroad, while primary-producing countries gained about \$0.2 billion. While some of the remainder went into industrial uses, a good part seems to have “disappeared” into private hoards. This reflected unsettled exchange market conditions and political tensions in many parts of the world, in the absence of which a larger part of new gold production would have found its way into official hands.

### **The Continuing Task of Achieving Financial Stability and Economic Balance**

With the United States gold losses much reduced and confidence in both the dollar and sterling strengthened, the foreign exchange and gold markets became considerably calmer in the latter part of 1961 than they had been during the previous fall and winter. But these improved conditions provided no grounds for complacency. During the fall of the year, accordingly, the authorities both in this country and abroad proposed steps to give added strength to the international payments system and to deal with the more basic problems facing the world economy.

The main focus of the proposals to strengthen the international financial system was on the IMF. The continued heavy use of the Fund's resources had led to a reduction in its holdings of several major currencies to a level that was quite inadequate in relation to the potential demand for them. How to deal with this imbalance was accordingly the major problem before the annual meeting of the Fund's governors, held toward the end of September in Vienna. The governors rejected schemes for a drastic remodeling of the international payments system. Instead, they agreed in principle on arrangements under which the Fund, in case of need, would borrow from a group of industrial countries to augment its holdings of the major currencies. At the same time, they also noted the feasibility of direct Fund borrowing of particular currencies. Negotiations ensued and, just after the year end, the Fund announced that agreement had been reached on arrangements under which some \$6 billion equivalent would

be made available to the Fund on a stand-by basis by the United States and nine other industrial countries. The arrangement provides safeguards for the lending countries and requires, as in all major Fund operations, that drawings be contingent upon the adoption by the borrowing country of policies that would effectively deal with its balance-of-payments difficulties. If legislative approval is granted by the various participating countries, the new arrangement would greatly strengthen the existing machinery of international financial cooperation.

While the negotiations to strengthen the IMF were taking place, the need to press forward with new measures to redress the imbalance in the Free World economy was not forgotten. During the year the need for adjustments was actually made progressively greater by the further strengthening of the European Economic Community. The EEC, to be sure, could somewhat ease the rest of the world's adjustment problem by continuing to increase its share of the Free World's defense and of economic aid to less developed countries and by removing its remaining and often unduly tight restrictions on certain dollar imports, on tourist allowances, and on the outflow of long-term capital. Yet, even if Europe were to achieve a clean slate on this score, the rest of the world, and the United States in particular, would still have to act vigorously. The United States urgently needed to expand its trade surplus to an amount adequate to offset its substantial deficit on government and long-term capital account. At the same time, Europe offered major market opportunities to a wide range of United States producers. To take advantage of these opportunities, the President proposed on December 6, 1961 that "a new and bold instrument of American trade policy" be fashioned under which the Administration would be granted new tariff-reducing authority. This would provide "the means to persuade the Common Market to reduce external tariffs to a level which permits our products to enter on a truly competitive basis". The United States economy would benefit not only from rising exports but also from enlarged imports which, he said, would

give our consumers a wider choice of goods at competitive prices. We need those imports to give our industries and Defense Establishment the raw materials they require at prices they can afford and to keep a healthy pressure on our own producers and workers to improve efficiency, develop better products, and avoid the inflation that could price us out of markets vital to our own prosperity.

Such an import rise would doubtless lead to difficult adjustment problems in certain industries but the simultaneous and larger export rise anticipated by

the President would create new opportunities for capital and labor elsewhere in the economy. Moreover, the President indicated that he would request additional authority to enable the Government to provide temporary assistance in cases where the shift in resources proved particularly difficult.

The quest for balance in the international payments system was thus going forward on two closely related fronts. The United States, together with other major countries, was acting to achieve basic adjustments that would help to secure better international economic balance. Simultaneously, the major countries were cooperating in order to minimize international financial disturbances that would hamper progress toward that goal. On both counts, they were reinforcing not only the stability of the world's key currencies but the foundation for more solid growth within the Free World.

## **THIS BANK'S OPERATIONS**

### **Volume and Trend of the Bank's Operations**

**DOMESTIC OPERATIONS.** In most departments of the Bank the volume of operations expanded moderately in 1961, reflecting higher levels of business and financial activity.

The volume of checks handled rose substantially during 1961. For the year as a whole, this Bank processed 625 million checks (excluding United States Government checks). This was an increase of 5.9 per cent over 1960, much above the average annual increase of 3.8 per cent during 1953-60. The total dollar amount of checks processed in 1961 amounted to \$361 billion, an increase of \$27 billion (8 per cent) over 1960. About two thirds of the increase reflected a rise in the dollar volume of checks drawn on this Bank (such checks represent mainly Federal funds transactions and other interbank transfers of funds). The dollar volume of other checks increased in 1961 by \$8 billion (3.5 per cent), compared with a rise of \$5 billion (2 per cent) in 1960.

The impressive increase in check volume was accompanied by a sizable rise in the use of this Bank's wire facilities. The dollar volume of wire transfers, other than Treasury transfers between Federal Reserve Districts, totaled \$1,095 billion in 1961, an increase of 13 per cent over 1960. The number of transfers rose 4 per cent.

Substantial progress was made in the Federal Reserve System's program to improve the speed and efficiency of its check collection operations by the use of high-speed electronic check-handling equipment utilizing the Magnetic Ink Character Recognition (MICR) program of the American Bankers Association. During 1961, the pilot tests of such equipment at four Federal Reserve Banks, including this Bank, were completed, and the equipment was accepted as having met specifications.

By the year end, this Bank was processing approximately 120,000 checks daily on its high-speed equipment consisting of a Stored Reference Computer and a Sorter. The full capabilities of the computer will not be realized, however, until two additional sorters, which will be delivered during 1962, are installed. Completely efficient and economical utilization of high-speed equipment in the



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

<b>Number of pieces handled</b> (in thousands) ★	<b>1961</b>	<b>1960</b>
Currency received .....	1,308,147	1,288,094
Coin received .....	2,184,729	2,159,025
Gold bars and bags of gold coin handled .....	327	310
Checks handled:		
United States Government checks .....	59,891	57,954
All other .....	625,354	590,628
Postal money orders handled .....	36,120	37,931
Collection items handled:		
United States Government coupons paid .....	4,685	4,742
Credits for direct sendings of collection items .....	403	391
All other .....	14,888	13,545
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds .....	27,466	27,583
All other obligations of the United States and Federal agencies .....	6,285	6,732
Obligations of the International Bank for Reconstruction and Development .....	43	122
Safekeeping of securities:		
Pieces received and delivered .....	7,208	7,865
Coupons detached .....	4,783	4,336
Wire transfers of funds † .....	702	676
<b>Amounts handled</b> (in millions of dollars)		
Discounts and advances ‡ .....	4,054	7,719
Currency received .....	8,637	8,616
Coin received .....	252	245
Gold bars and bags of gold coin handled .....	4,586	4,151
Checks handled:		
United States Government checks .....	20,676	20,445
All other .....	360,715	333,861
Postal money orders handled .....	653	675
Collection items handled:		
United States Government coupons paid .....	2,517	2,667
Credits for direct sendings of collection items .....	733	633
All other .....	2,634	2,129
Issues, redemptions, exchanges by fiscal agency departments:		
United States Savings bonds .....	1,739	1,831
All other obligations of the United States and Federal agencies .....	445,325	441,855
Obligations of the International Bank for Reconstruction and Development .....	308	396
Safekeeping of securities:		
Par value pieces received and delivered .....	604,678	619,822
Wire transfers of funds † .....	1,095,010	966,308

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

† Excludes Treasury transfers between Federal Reserve Districts.

‡ The number of discounts and advances handled in 1961 was 993, compared with 1,688 in 1960.

entire operation will depend largely on the progress made by the commercial banks in having check forms redesigned and preprinted with their transit number routing symbols and in encoding dollar amounts on checks deposited with Federal Reserve Banks for collection.

There was a rise of 10 per cent in the number of noncash collection items handled (other than United States Government coupons). The dollar volume of these collection items rose by 22 per cent. The number of pieces of all Government obligations, other than United States Savings bonds, and obligations of Federal agencies processed by this Bank dropped by 7 per cent in 1961 to about 6.3 million. The decline was due mainly to a reduction in the number of securities involved in "making change" — that is, the exchange of one denomination of an issue into different denominations of that issue. On balance, small denominations were exchanged for larger denominations. In contrast to the drop in the number of pieces handled, the dollar volume of securities processed increased by about \$3 billion to \$445 billion. All of this increase represented a rise in the dollar volume of denominational exchanges and interdistrict transfers. The dollar volume of securities received and delivered by this Bank in connection with cash and refunding offerings by the Treasury and Federal agencies declined slightly during 1961. The number and the dollar volume of securities received and delivered in conjunction with safekeeping operations declined in 1961 for the second consecutive year.

The number of issues, redemptions, and exchanges of United States Savings bonds processed by this Bank in 1961 was slightly lower than in 1960, while the dollar volume dropped by 5 per cent. This was the fourth consecutive decline for the dollar volume of Savings bonds handled.

As an outgrowth of an extensive Treasury-Federal Reserve System study of the United States Government securities market, culminating in a report published in 1959-60, this Bank began to collect and publish new data on the Government securities market. These data, including daily composite closing bid-and-asked prices for United States Government securities and weekly statistics on the volume of transactions, position, and financing of Government securities dealers, were first released in March 1961.

Lending activities of this Bank declined during 1961 for the second consecutive year, reflecting the continuation of easy credit conditions and greater use made of the Federal funds market. For the year as a whole, the aggregate volume of Second District member bank borrowing was only \$4.1 billion, the lowest since 1943. In 1960, advances had totaled \$7.7 billion, down

sharply from \$24 billion in 1959. Like the dollar volume, the number of advances granted was also substantially smaller in 1961 than during 1960 and 1959. Of the member banks in this District, 45 per cent borrowed from this Bank in 1961, compared with 55 per cent the year before.

For the Bank as a whole, the somewhat larger volume of operations necessitated a 2.5 per cent increase in the average number of employees over 1960. At the end of 1961, the Bank's officers and staff numbered 4,071, including 250 at the Buffalo Branch.

**FOREIGN AND INTERNATIONAL OPERATIONS.** Gold and dollar assets held for foreign and international account increased \$569 million, a lesser increase than in the immediately preceding years. At the close of the year, such assets were at an all-time high of \$24.3 billion.

Assets held by this Bank for foreign account accounted for \$496 million of the rise, bringing the aggregate at the year end to \$17.2 billion, also a new high. Of these assets, gold earmarked for foreign account increased \$240 million; United States Government securities, \$280 million; and dollar deposits, \$62 million. Miscellaneous securities (including bankers' acceptances) declined by \$86 million. The accounts of the international organizations rose \$73 million to exceed slightly last year's peak of \$7.1 billion. New accounts were opened during the year for the monetary authorities of Kuwait, Liberia, and Saudi Arabia.

Gold operations were substantial in number and dollar volume, reflecting large purchases from, and sales to, the United States Treasury by European central banks and others, and substantial releases of gold from earmarked accounts for export. The extension of credits against gold collateral to foreign banks to assist them in meeting seasonal and other temporary dollar demands was relatively limited. New arrangements aggregating \$42 million were made with three institutions; all of these were fully utilized, but repayments during the year reduced the aggregate outstanding at the year end to \$15 million.

Fiscal agency activities on behalf of the United States Treasury increased markedly, owing to the initiation of foreign exchange market operations in several major convertible currencies and to the implementation of United States stabilization agreements with several Latin American countries. Foreign exchange operations on behalf of foreign correspondents also increased.

# Financial Statements

## STATEMENT OF CONDITION

(In thousands of dollars)

<b>Assets</b>	<b>DEC. 31, 1961</b>	<b>DEC. 31, 1960</b>
Gold certificate account .....	3,479,129	3,819,405
Redemption fund for Federal Reserve notes .....	278,306	254,584
Federal Reserve notes of other Banks .....	107,774	118,167
Other cash .....	54,645	58,805
<b>Total cash</b>	<b>3,919,854</b>	<b>4,250,961</b>
Discounts and advances .....	105,600	2,480
Acceptances .....	51,523	73,597
United States Government securities .....	7,262,246	7,130,744
<b>Total loans and securities</b>	<b>7,419,369</b>	<b>7,206,821</b>
 Other assets:		
Cash items in process of collection .....	1,643,694	1,456,311
Bank premises .....	8,898	9,386
All other .....	58,640	51,864
<b>Total other assets</b>	<b>1,711,232</b>	<b>1,517,561</b>
<b>Total Assets</b>	<b>13,050,455</b>	<b>12,975,343</b>

**STATEMENT OF CONDITION**

(In thousands of dollars)

<b>Liabilities</b>	<b>DEC. 31, 1961</b>	<b>DEC. 31, 1960</b>
Federal Reserve notes .....	6,751,488	6,662,953
Deposits:		
Member bank reserve accounts .....	4,516,757	4,581,510
United States Treasurer — general account .....	129,236	72,160
Foreign ★ .....	88,059	64,206
Other .....	229,209	396,898
<b>Total deposits</b>	<b>4,963,261</b>	<b>5,114,774</b>
Other liabilities:		
Deferred availability cash items .....	955,610	844,369
All other .....	15,602	9,593
<b>Total other liabilities</b>	<b>971,212</b>	<b>853,962</b>
<b>Total Liabilities</b>	<b>12,685,961</b>	<b>12,631,689</b>
<b>Capital Accounts</b>		
Capital paid in .....	121,498	114,551
Surplus .....	242,996	229,103
<b>Total Capital Accounts</b>	<b>364,494</b>	<b>343,654</b>
<b>Total Liabilities and Capital Accounts</b>	<b>13,050,455</b>	<b>12,975,343</b>
Contingent liability on acceptances purchased for foreign correspondents † .....	36,004	64,376
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined .....	32.1%	34.6%

★ After deducting participations of other Federal Reserve Banks amounting to

190,800

153,010

† After deducting participations of other Federal Reserve Banks amounting to

90,000

166,023

**STATEMENT OF EARNINGS AND EXPENSES FOR THE  
CALENDAR YEARS 1961 AND 1960** (In thousands of dollars)

	<b>1961</b>	<b>1960</b>
Total current earnings .....	235,242	277,093
Net expenses .....	32,776	30,752
	<hr/>	<hr/>
Current net earnings	202,466	246,341
Additions to current net earnings:		
Profit on sales of United States Government securities (net) .....	859	607
Transferred from reserve for contingencies (net) .....	0	1,838
All other .....	11	26
	<hr/>	<hr/>
Total additions	870	2,471
Deductions from current net earnings .....	4	6
Net additions .....	866	2,465
	<hr/>	<hr/>
<b>Net earnings available for distribution</b>	<b>203,332</b>	<b>248,806</b>
Dividends paid .....	7,043	6,802
Paid United States Treasury (as interest on Federal Reserve notes) ..	182,396	233,806
Transferred to surplus .....	13,893	8,198
<b>Surplus Account</b>		
Surplus—beginning of year .....	229,103	220,905
Transferred from net earnings for year .....	13,893	8,198
	<hr/>	<hr/>
<b>Surplus - end of year</b>	<b>242,996</b>	<b>229,103</b>

## Changes in Membership

During 1961 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 491 to 475. The net decrease of 16 banks was the result of mergers of 17 member banks with other members, and two member banks with nonmembers, the admission of one State bank to membership, the conversion of one nonmember bank to a national bank, and the organization of one new national bank. The 475 banks constitute 86 per cent of all national banks, State banks, and trust companies in this District and hold 95 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)

Type of Bank	DECEMBER 31, 1961			DECEMBER 31, 1960		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks *	328	0	100	336	0	100
State banks and trust companies	147	80	65	155	81	65
<b>Total *</b>	<b>475</b>	<b>80</b>	<b>86</b>	<b>491</b>	<b>81</b>	<b>86</b>

\* Includes one national bank located in the Virgin Islands.

### CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1961

<b>Total membership at the beginning of the year</b>	<b>491</b>
<b>Increases:</b>	
State bank admitted	1
Conversion of nonmember to national bank	1
Newly organized national bank	1
<b>Decreases:</b>	
Member banks combined with other members	17
Member banks combined with nonmembers	2
<b>Total membership at the year end</b>	<b>475</b>

## Changes in Directors and Officers

**CHANGES IN DIRECTORS.** In August 1961, member banks in Group 3 elected Albert L. Nickerson, Chairman of the Board of Socony Mobil Oil Company, Inc., 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, 1963. He succeeded Augustus C. Long, Chairman of the Board of Texaco, Inc., New York, N.Y., who resigned effective April 6, 1961, after having served as a Class B director since May 10, 1957.

In November 1961, member banks in Group 1 elected George Champion, Chairman of the Board, The Chase Manhattan Bank, New York, N.Y., a Class A director for a term of three years beginning January 1, 1962. Mr. Champion succeeded Henry C. Alexander, Chairman of the Board of Morgan Guaranty Trust Company of New York, New York, N.Y., whose term expired December 31, 1961.

At the same time, member banks in Group 1 re-elected B. Earl Puckett, Chairman of the Board of Allied Stores Corporation, New York, N.Y., a Class B director for the three-year term beginning January 1, 1962.

In December 1961, the Board of Governors of the Federal Reserve System redesignated Philip D. Reed, former Chairman of the Board of General Electric Company, New York, N.Y., as *Chairman* of the Board of Directors and *Federal Reserve Agent* for the year 1962. At the same time, the Board of Governors reappointed James DeCamp Wise, former Chairman of the Board of Bigelow-Sanford, Inc., New York, N.Y., a Class C director for the three-year term beginning January 1, 1962, and as *Deputy Chairman* of the Board of Directors for the year 1962.

At the Buffalo Branch of the Federal Reserve Bank of New York, in December 1961, Whitworth Ferguson, President of the Ferguson Electric Construction Co., Inc., Buffalo, 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, 1962. Also in December 1961, the Board of Directors of the Federal Reserve Bank of New York designated Raymond E. Olson, President of Taylor Instrument Companies, Rochester, N.Y., as *Chairman* of the Board of Directors of the Buffalo Branch for the year 1962. At the same time, the Board of Directors of this Bank reappointed Anson F. Sherman, President of The Citizens Central Bank, Arcade, N.Y., a director of the Branch for the three-year term beginning January 1, 1962. The Board of Directors also



appointed Elmer B. Milliman, President of the Central Trust Company Rochester N.Y., Rochester, N.Y., a director of the Branch for the three-year term beginning January 1, 1962. Mr. Milliman succeeded John W. Remington, President of Lincoln Rochester Trust Company, Rochester, N.Y., whose term expired December 31, 1961.

**CHANGES IN OFFICERS.** Since February 1961, two officers have retired and one has resigned:

Herbert A. Muether, Manager of the Building Operating Department, retired effective June 1, 1961. Mr. Muether had completed forty-one years of service with the Bank and had been an officer since 1951.

William F. Palmer, Manager of the Cash Department, resigned effective June 1, 1961, to accept the position of controller with a manufacturer of chemical products.

Franklin E. Peterson, Manager of the Cash Department, retired effective August 1, 1961. Mr. Peterson had been a member of the Bank's staff since March 1919 and had been an officer since 1944.

The following additional changes in official staff have taken place since February 1961:

Martin French, formerly Administrative Assistant in the Cash and Collections function, was appointed Manager, effective March 10, 1961, and assigned to the Cash Custody Department.

Alan R. Holmes was appointed Assistant Secretary, effective March 10, 1961, continuing as Manager of the Securities Department. Effective January 4, 1962, Mr. Holmes was appointed Assistant Vice President.

Thomas M. Timlen, Jr., formerly Assistant Secretary, was appointed Secretary, effective March 10, 1961, continuing as Assistant Counsel. The appointment of William H. Braun, Jr., Assistant Counsel, as Secretary was terminated on the same date.

Leonard I. Bennetts, formerly Chief of the Wire Transfer Division, Collection Department, was appointed Manager, effective May 5, 1961, and assigned to the Collection Department.

Walter S. Rushmore, Manager, formerly assigned to the Collection Department, was assigned to the Government Bond and Safekeeping Department, effective May 5, 1961.

William M. Schultz, formerly Training Director, Personnel Relations Division, Personnel Department, was appointed Manager, effective May 5, 1961, and assigned to the Personnel Department.

Kenneth E. Small, Manager, formerly assigned to the Government Bond and Safekeeping Department, was assigned to the Cash Department, effective May 5, 1961.

Francis H. Schott, formerly Chief of the Foreign Research Division, Research Department, was appointed Manager, effective August 1, 1961, and assigned to the Foreign Department.

Robert W. Stone, formerly Manager of the Securities Department, was appointed Assistant Vice President, effective January 4, 1962, and assigned to the Open Market Operations and Treasury Issues function.

Merlyn N. Trued, formerly Manager of the Foreign Department, was appointed Assistant Vice President, effective January 4, 1962, and assigned to the Foreign function.

Robert Lindsay, formerly Special Assistant in the Research Department, was appointed Senior Economist, effective January 4, 1962.

Paul Meek was appointed Assistant Secretary, effective January 4, 1962, continuing as Manager of the Public Information Department.

Peter D. Sternlight, formerly Special Assistant in the Securities Department, was appointed Manager, effective January 4, 1962, and assigned to the Securities Department.

Harold A. Bilby, Vice President, in addition to having responsibility for the Government Bond and Safekeeping of Securities function and the Loans and Credits function, was assigned responsibility for the Building Operating and Service function, effective January 5, 1962.

Norman P. Davis, Assistant Vice President, formerly assigned to the Administrative Services function, was assigned to the Accounting and Planning function, effective January 5, 1962.

Lawrence E. Quackenbush, Assistant Vice President, formerly assigned to the Administrative Services function, was assigned to the Building Operating and Service function, effective January 5, 1962.

Thomas O. Waage, Assistant Vice President, formerly assigned to the Foreign function, was assigned to the Public Information function, effective January 5, 1962.

**MEMBER OF FEDERAL ADVISORY COUNCIL—1962.** The Board of Directors of this Bank selected George A. Murphy to serve during 1962, for the second successive year, 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.

## Directors of the Federal Reserve Bank of New York

<b>DIRECTORS</b>	<i>Term expires Dec. 31</i>	<i>Class</i>	<i>Group</i>
GEORGE CHAMPION ..... Chairman of the Board, The Chase Manhattan Bank, New York, N. Y.	1964	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.	1964	B	1
KENNETH H. HANNAN ..... Executive Vice President, Union Carbide Corporation, New York, N. Y.	1962	B	2
ALBERT L. NICKERSON ..... Chairman of the Board, Socony Mobil Oil Company, Inc., New York, N. Y.	1963	B	3
PHILIP D. REED, <i>Chairman, and Federal Reserve Agent</i> ..... Former Chairman of the Board, General Electric Company, New York, N. Y.	1962	C	
JAMES DECAMP WISE, <i>Deputy Chairman</i> ..... Former Chairman of the Board, Bigelow-Sanford, Inc., New York, N. Y.	1964	C	
EVERETT N. CASE ..... President, Colgate University, Hamilton, N. Y.	1963	C	

### **DIRECTORS — BUFFALO BRANCH**

RAYMOND E. OLSON, <i>Chairman</i> ..... President, Taylor Instrument Companies, Rochester, N. Y.	1962
HOWARD N. DONOVAN ..... President, Bank of Jamestown, Jamestown, 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
WHITWORTH FERGUSON ..... President, Ferguson Electric Construction Co., Inc., Buffalo, N. Y.	1964
ELMER B. MILLIMAN ..... President, Central Trust Company Rochester N. Y., Rochester, N. Y.	1964
ANSON F. SHERMAN ..... President, The Citizens Central Bank, Arcade, N. Y.	1964

### **MEMBER OF FEDERAL ADVISORY COUNCIL — 1962**

GEORGE A. MURPHY ..... Chairman of the Board, Irving Trust Company, New York, N. Y.	1962
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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*  
 ALAN R. HOLMES, *Assistant Vice President*  
 JOHN P. JENSEN, *Assistant Vice President*  
 PETER P. LANG, *Adviser*  
 ROBERT G. LINK, *Assistant Vice President*  
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