FEDERAL RESERVE BANK OF NEW YORK

ANNUAL REPORT 1962

FEDERAL RESERVE BANK OF NEW YORK

February 27, 1963

To the Member Banks in the
Second Federal Reserve District:

I am pleased to present our forty-eighth Annual Report, reviewing the economic and financial developments of 1962. As you know, the domestic economy advanced moderately during the year, but less-than-satisfactory progress was made in absorbing unused resources of men and machinery. The persistent balance-of-payments deficit was of continuing concern throughout the year. As in 1960-61, monetary policy had to look both ways--seeking to encourage the domestic expansion and, at the same time, to protect the international position of the dollar. At the year end it was encouraging to observe the growing public awareness of the complexity of the twofold task of stimulating more rapid economic growth at home and correcting the stubborn payments imbalance. New measures extending far beyond the narrow sphere of monetary policy were clearly required. In particular, the need for tax reduction and the urgent requirement for specific additional measures to correct our balance-of-payments deficit were high on the agenda of unfinished business. Nevertheless, monetary policy remained ready to do its part in contributing to a satisfactory solution of these pressing problems.

Alfred Hayes

ALFRED HAYES
President

Federal Reserve Bank
of New York

FORTY-EIGHTH ANNUAL REPORT

For the Year
Ended
December 31, 1962

Second Federal Reserve District

Contents:

CHARTS

Reconciling Domestic and International Goals

A year ago, at the beginning of 1962, the record showed a strong upswing from the unusually mild 1960-61 recession. Total output of goods and services had risen to an all-time high, and employment had moved up encouragingly. Prices had been relatively stable, and inflationary psychology had largely disappeared. While neither unemployment nor excess capacity was so large as a year earlier, they were still at levels implying that the economy was operating considerably below its potential. A continuance of the strong 1961 uptrend would, however, have provided at least a partial solution of this problem.

At the same time, the persistence of a substantial, though reduced, balance-of-payments deficit was a continuing source of concern. The cumulative effects of large deficits during 1958-61 had shown up in a sizable, though reduced, outflow of gold during 1961. In addition, there was a further build-up of foreign liquid claims on the United States. Although speculative pressures against the dollar had been successfully resisted, partly through the resumption of Treasury operations in foreign exchange markets (conducted by this Bank as the Treasury's agent), the situation remained delicate. More basic measures to improve the balance-of-payments situation were still being developed and were beginning to take effect, but could not be expected to come quickly to full fruition.

Against the 1961 background, domestic developments during 1962 provided grounds for only moderate satisfaction. The economy did continue to move ahead despite such complicating factors as the working-off of steel inventories built up early in the year in anticipation of a steel strike, the adverse effects on business sentiment of the steel price episode in April, the stock market break in May, the Canadian dollar crisis in June, and the Cuban crisis in October. That the economy weathered these disturbances as well as it did was some ground for reassurance. Yet the domestic advance was markedly slower than in 1961, and fell below the pace achieved in the last previous strong cyclical upswing in 1954-57. Corporate profits and business fixed investment both reached record peacetime levels, but lagged relative to over-all activity. Unemployment, after declining early in the year, subsequently leveled off and, on balance, showed only moderate improvement over the year. In this environment it was not surprising that, as the year progressed, attention veered toward the possibility that the expansion would run out of steam before the economy had approached its full potential.

If the domestic economic expansion during 1962 proved to be less than strong, the international payments position of the United States continued to be unsatisfactory. The over-all balance-of-payments deficit did decline in 1962, an encouraging result in the face of a substantial rise in imports associated with higher levels of domestic economic activity. But the deficit still remained uncomfortably high at a little over $2 billion, and was reflected in both a decline in the United States gold stock and an increase in foreign holdings of liquid dollars. Of course, with every increase in the stock of such United States liquid dollar liabilities, the risk of further gold losses became greater.

In the setting of a slower domestic advance and a continued serious international payments position, monetary policy faced a set of circumstances similar in broad terms to those that had characterized 1960 and 1961. At no time was the domestic outlook strong enough to justify — and even less, to require — the kind of shift away from monetary ease that had occurred even earlier in the two previous cyclical expansions. A further substantial advance in bank credit was encouraged. And, in fact, the growth of bank credit over the year actually exceeded the rapid 1961 pace; in contrast, during the earlier cyclical upswings, the growth of bank credit had slowed markedly after the first year of expansion. For a period more than a year after the bottom of the recession, the banking system remained unusually liquid, interest rates unusually stable, and nonbank liquidity unusually high.

On the other hand, the continuation of a sizable balance-of-payments deficit, further gold losses, and a further increase in foreign liquid dollar holdings all pointed to the seriousness of the balance-of-payments problem. There was a continuing danger that liquidity provided to encourage domestic expansion would spill abroad, thus worsening our payments position. As a defense against adverse short-term capital outflows, the Federal Reserve System and the Treasury cooperated closely to maintain a firm short-term interest rate structure. Treasury debt management policies made a major contribution, mainly by increasing the volume of short-term Treasury securities outstanding. At the same time, System open market operations to provide reserves through purchases of Government securities were conducted, whenever possible, outside the bill area. And a substantial part of the seasonal needs for reserves in the fall of the year was made available by easing reserve requirements on time deposits.

In 1962, the Federal Reserve System assumed a major role in the cooperative international effort to build defenses against exchange rate and gold speculation and disruptive international capital flows. For the first time since the interwar period, the System actively undertook open market transactions in foreign currencies, and in the course of the year these were of major importance. Such operations were closely coordinated with the Treasury operations in this area that had been resumed in 1961. The effectiveness of coordinated international action to meet emergencies was demonstrated most vividly during the summer, when potentially dangerous speculative pressures stemming from the world-wide drop in stock prices were effectively minimized and when international resources were quickly mobilized to defend the Canadian dollar. Throughout the year, System and Treasury foreign exchange market operations served to dampen speculative and other temporary influences that might have adversely affected confidence in the dollar. In addition, operations to protect the United States gold stock, by absorbing dollars flowing temporarily into foreign official reserves, were conducted directly with foreign central banks and treasuries. It was to some extent a measure of the demonstrated success of the techniques employed that the Cuban crisis had only a modest and fleeting impact on the gold and foreign exchange markets.

As 1962 drew to a close, the freedom and ability of monetary policy to do more to spur the domestic economy further were increasingly brought into question. The balance-of-payments situation ruled out actions that would flood the economy with liquidity, since the odds were strong that a policy of even greater ease would aggravate the payments problem and raise doubts in the minds of foreign holders of dollars as to our willingness to defend the dollar.

Furthermore, given the very ample liquidity already available and the rapid advance in bank credit, doubts were raised as to whether monetary policy could do much more, by inducing an even more rapid increase in bank credit, to revitalize the domestic business situation.

Increasingly, attention turned to the possibility of using new methods, rather than pressing further on those which had already been tried. Fiscal policy, specifically a reduction in Federal tax rates, stood out as a desirable method of providing enduring benefits through a less burdensome tax structure, and thereby stimulating more rapid economic growth and reducing unemployment. There seemed to be a fair degree of agreement that the alternative possibility of increasing Federal Government expenditures simply to increase aggregate demand was unacceptable and that all proposals for increased outlays should be judged on their own merits. By the same token, reduced expenditures had obvious merits wherever unnecessary Governmental services could be eliminated, or existing services provided at reduced cost. A continuous reappraisal of the need for, and benefits from, existing services as compared with other needs and alternatives, including new types of Government programs, is of course an integral part of a dynamic fiscal policy. To most observers, Government spending, undertaken solely to spur the economy, had little merit as compared with the alternative of encouraging private spending through a tax cut that would add to after-tax personal incomes and profits. Indeed, a tax cut of any sizable magnitude clearly implied the need for greater efforts to restrain unnecessary Government spending.

Despite widespread agreement on the advisability of a tax cut as a means of stepping up economic activity, there were potential problems that had to be recognized. The slower-than-expected pace of the economic advance had already resulted in a sharp revision in budget estimates for fiscal 1963 — from a small surplus to an estimated $8.3 billion cash deficit — as tax receipts fell short of earlier projections. Expectations of an even larger deficit, an inevitable initial result of a tax cut, raised the possibility that inflationary fears would revive and adversely affect the stability of the dollar internationally. To minimize such possible effects of a temporarily enlarged budget deficit, it was essential that the deficit be prudently financed, with reliance on current savings rather than bank financing to the extent that this seemed advisable in the light of the whole complex of domestic and international conditions. A more rapidly advancing domestic economy would also tend, at least in the short run, to increase imports and perhaps reduce in some degree the attractiveness of foreign markets to United States exporters. Thus, while a stronger domestic advance would undoubtedly enhance the opportunities for profitable investment in plant and equipment at home — thereby simultaneously reducing the relative attractiveness of investment abroad and the availability of United States funds to foreign borrowers, and also tending to increase the cost of such borrowing — there were still, at least in the short run, balance-of-payments risks inherent in more rapid growth.

Tax reductions, although primarily designed to spur the domestic economy, should not be taken to imply any letdown in concern over the balance of payments. On the contrary, if tax cuts have the expected expansionary effects, the monetary authorities would have increased freedom to move significantly away from the long-continued policy of credit ease, should international considerations make this necessary. In more general terms, tax reductions can be a means of increasing the expansionary force jointly exerted by fiscal and monetary policies — as they seek to achieve domestic goals — and a means of providing greater freedom to change the part played by monetary policy, if this becomes advisable for international reasons.

In the past, monetary policy has frequently borne the major burden of checking both deflationary and inflationary pressures, with little active assistance from fiscal policy. In part, this has stemmed from the fact that the economic scene changes too rapidly for the relatively slow changes in fiscal policy to catch up with current developments. It should not be impossible, however, for fiscal policy to adjust more rapidly to changing economic conditions.

While the cessation of inflationary pressures and the disappearance of inflationary psychology may over the long run turn out to be merely temporary, 1962 was in these respects highly reassuring. Both prices and costs in the United States showed an encouraging degree of stability. This stability, especially in the context of substantial price and cost advances in most industrial countries abroad, provided a setting which, if enduring, would be a factor of major importance tending, over the long pull, to correct our balance-of-payments deficit. More immediately the balance-of-payments deficit was a matter of great urgency, requiring specific additional corrective measures.

As the year closed, the continued existence of unused real resources and the relatively slow pace of the business advance put the risks of inflation from expansionary fiscal measures at home at a minimum. It was, however, as important as ever to guard against any general upward push in prices and costs if rapid growth at home and international equilibrium were to be achieved.

THE AMERICAN ECONOMY IN 1962

Business Conditions: A Disappointing Advance

Despite the fact that most measures of business activity rose to new highs during 1962, the economy's performance had to be marked down as a disappointment. The advance over the year was slow and sporadic, in sharp contrast to the vigorous pace of recovery during most of 1961 and also in contrast to what many had expected at the year's outset. Indeed, there were few months in which a majority of the broader measures of production, employment, and sales showed any substantial rise, and doubts about the durability of the expansion were widespread during much of the year.

A series of developments tended to dampen business optimism during the first six to nine months of 1962 and hence undoubtedly contributed to the economy's lackluster performance. The year got off to a shaky start in its very first month, as unusually severe weather conditions helped to bring about a decline in production and payroll employment. Although the March labor agreement in the steel industry had encouraging implications for price stability and the longer run prospects for sound economic growth, its more immediate effect was a working-off of inventories built up in anticipation of a possible strike —a process that tended to exert a significantly depressing influence on the economy until autumn. Moreover, the quick reversal of the steel price rise in April under the combined impact of Government efforts and a weak demand had a clearly adverse impact on business sentiment. In the meantime, the erosion of stock prices which had begun in late 1961 — partly in belated recognition of the lessened influence of inflationary forces in the economy — was gathering momentum. When prices broke sharply in late May and early June, confidence in the business outlook touched what was perhaps its low point for the year.

By fall, however, there appeared to be some renewal of confidence. Fears of a year-end recession—widely forecast during the summer months—began to ebb, while the stock market recovered much of its earlier losses. At the same time, the drag on output exerted during the spring and summer by the larger-than-expected liquidation of steel inventories was substantially eliminated and new orders for machinery and other equipment picked up somewhat in the final quarter of the year. Consumer buying, moreover, expanded strongly in the fourth quarter, spurred by the highly favorable reception accorded to the new automobile models. Yet despite these bright spots, the over-all performance of the major indicators of production and employment continued to lack vigor. Indeed, as 1962 came to a close, industrial production and nonagricultural employment were little changed from their levels six months earlier. And while the fourth-quarter increase in gross national product was greater than the very small gain registered in the preceding quarter (see Chart 1), the total GNP expansion since the low point of the 1960-61 recession had been less than the increases achieved during comparable portions of the previous postwar upswings.

In many respects, of course, comparison of the 1962 experience with other postwar periods of expansion might be misleading. The modest gains that did

CHANGES IN GROSS NATIONAL PRODUCT AND INVENTORY INVESTMENT. **Quarter-to-quarter gains in GNP in 1962 were much more modest than the advances registered in the last nine months of 1961. The lessened pace of increase in part reflected the reduced strength of inventory accumulation, which sagged noticeably in the middle quarters of 1962.**

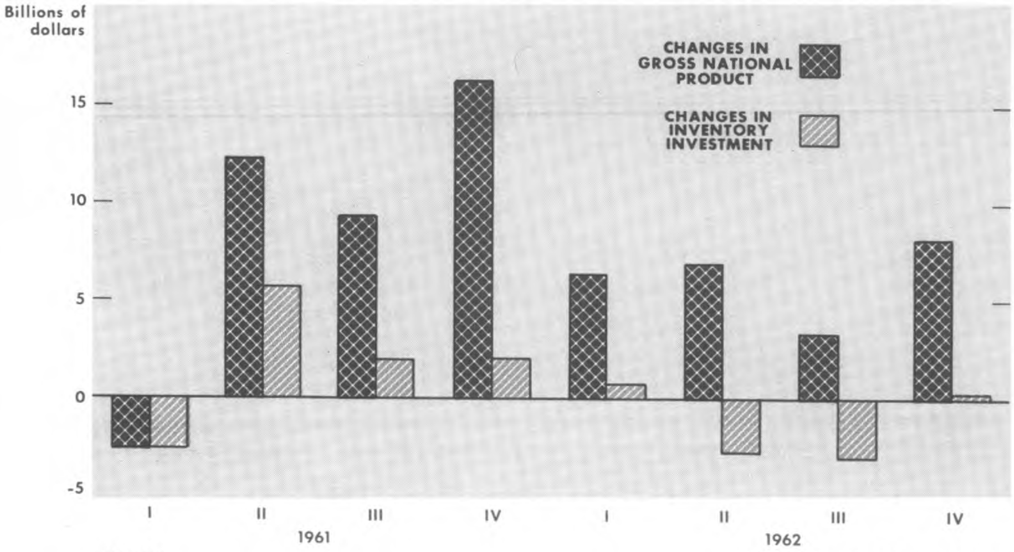


CHART 1

Seasonally adjusted annual rates.

take place in 1962 were achieved in a more competitive environment. Inflationary expectations had, at least for the moment, largely disappeared—not simply because of a lack of buoyancy in over-all demand, but also because of the impact of foreign competition and other structural factors. In such a setting, a more irregular pace of advance, often strongly influenced by swings in sentiment, might have been expected. Indeed, many of the factors that tended to have adverse effects on at least some segments of business sentiment in 1962 could be regarded as sources of strength in the longer run. This was particularly true of the growing recognition that it had become more difficult to pass on cost increases by raising prices, and of the fact that businessmen were generally pursuing more cautious inventory policies than in the earlier periods. And while inventory behavior accounted for much of the lag in total GNP growth in 1961-62 relative to the two preceding periods of upswing, it would be hard to regard the slower pace of inventory accumulation as a true source of weakness. On the contrary, the avoidance of a speculative inventory build-up based on expectations of future shortages and price increases removed a source of instability often associated with sudden reversals in the business trend.

While assessment of last year's performance along these lines thus yielded a more favorable picture relative to other recent years than was suggested at first sight, it was also true that a mere repetition of past patterns of economic expansion might not be enough, given the rates of growth in productivity and the labor force. Unused capacity — whether measured in terms of men or of machines — remained uncomfortably high as 1962 ended. A much fuller use of the economy's potential had to be achieved before the performance of the economy could be considered satisfactory.

THE PROBLEM OF UNUSED RESOURCES. The disappointing nature of the advance in 1962 comes into clearer focus against the background of developments over the preceding five years. Between the fall of 1957 and the end of 1961—a period marked by two recessions and a prolonged steel strike—unemployment had remained almost continuously above 5 per cent of the labor force (see Chart 2), rising substantially higher during recessions. Plant utilization likewise fell considerably short of capacity. Over the same period, moreover, there had been a decline in plant and equipment spending and only a small advance in corporate profits. In each of these respects, 1962 showed little improvement.

THE UNEMPLOYMENT PROBLEM. Unemployment in 1962 averaged somewhat lower than in 1961, but remained above the levels that prevailed in other recent nonrecession years. At the same time, the percentage of the population in the labor force continued to decline.

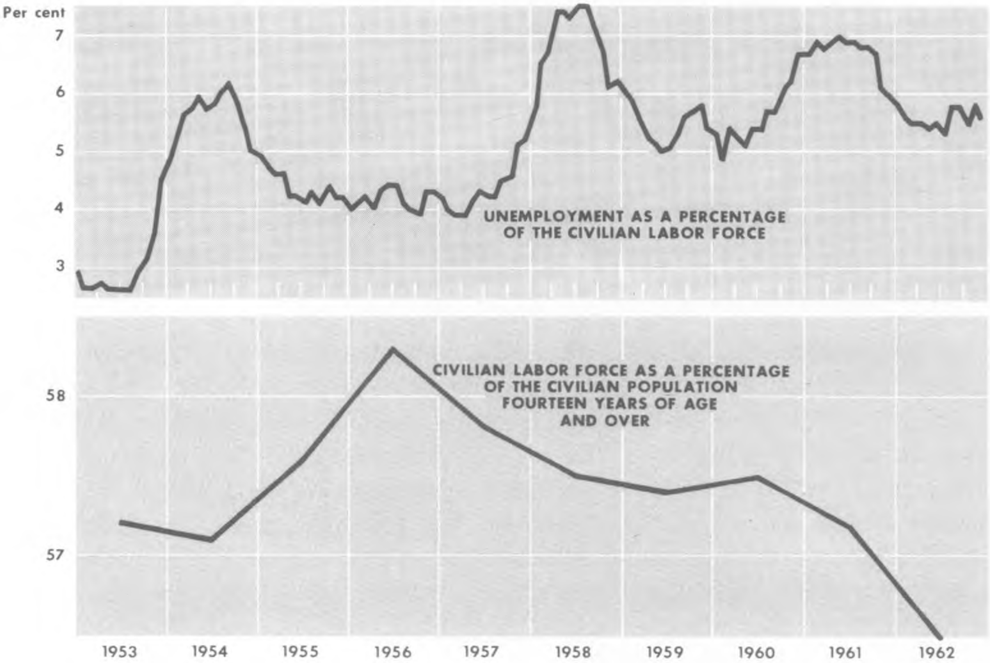


CHART 2

Unemployment rate is seasonally adjusted. Population figures exclude persons in institutions.

The unemployment rate, to be sure, fluctuated around a lower level in 1962 than had prevailed in 1961, when the economy was still pulling out of the recession; part of the improvement, moreover, reflected a reduction in the volume of long-term unemployment. Nevertheless, the rate showed virtually no change after the beginning of the year and, at 5.6 per cent in December, stood higher than at almost any time during the postwar years, excepting periods directly associated with recessions or major strikes. Moreover, the proportion of the population at work or looking for work in 1962 continued the decline that had begun in 1956. This decline was widespread among the various age groups. It reflected not only the tendency toward earlier retirements and the fact that students, on average, were remaining in school longer, but also a significant reduction in the labor-force participation of men in the prime 20- to 59-year age group. In part, at least, this reduction may have been due to withdrawals from the labor force of men who had become discouraged about the prospects of obtaining work.

Like unemployment, unused plant capacity in manufacturing in 1962 showed some reduction from 1961 levels and, at about 14 per cent, was near the lowest levels of the 1957-61 period. In the earlier postwar years, however, unused capacity had typically amounted to 10 per cent or less, except for recession periods. By this comparison, the 1962 rate was disappointingly high. Although the many conceptual and technical difficulties associated with the measurement of capacity require particular caution in the interpretation of these data, it does seem clear that unused capacity continued to be a major deterrent to vigorous gains in capital investment.

The presence of idle plant and equipment has also had an important impact on corporate profits. While labor costs per unit of manufacturing output moved downward in 1962 to the lowest level since 1956, the costs of maintaining large amounts of idle capacity helped to push up total per unit outlays. Given the slow growth in sales, corporate profits thus edged up only slightly during 1962. In the final quarter of the year, they reached an estimated $52 billion, less than $1 billion above the level of a year earlier. Corporate cash flow, however, which includes the steadily expanding depreciation allowances as well as retained profits, continued the strong uptrend of the past five years.

THE LAG IN AGGREGATE DEMAND. The persistence of substantial unemployment and unused capacity could to a large extent be attributed to the fact that total demand, though rising, was not rising fast enough. Indeed, among the major components of expenditures, only residential construction outlays and government spending showed greater strength in 1962 than in comparable periods of earlier business expansions.

The increase over the year in residential construction outlays contrasted markedly with the generally downward movements experienced in the corresponding periods of the two previous expansions. Undoubtedly one of the major factors supporting the continued advance in 1962 was the further easing of the mortgage market, where rates declined contrary to the rising pattern of earlier business upswings. This reversal of past cyclical experience, in turn, reflected both the continuation of general monetary ease and the sharp increase in mortgage lending by banks eager to find outlets for time deposit funds.

In the government sector, outlays for goods and services rose more rapidly than in the comparable periods of the two preceding expansions and accounted for a substantially larger fraction of the total increase in GNP. Spending by state and local governments continued to move along the steady upward trend that it has shown in recent years. Expenditures by the Federal Government increased more than in other recovery periods, largely as a result of the higher military spending that followed the Berlin crisis in mid-1961. Nevertheless, the ratio to GNP of Federal spending on goods and services remained at about the 11 per cent rate that has prevailed since 1955.

Among business outlays, spending on additions to inventories in 1962 lagged sharply behind the 1961 advance. As already noted, moreover, the total expansion in such expenditures since the business-cycle trough turned out to be much less than during comparable periods of earlier upswings. It was the slow rate of growth in business spending on plant and equipment, however, which was a major source of concern. Although business spending for new plant and equipment rose by 9 per cent in 1962 to reach a record annual rate of $38 billion in the fourth quarter (see Chart 3), this amount represented a gain of only $0.6 billion over the previous peak in the third quarter of 1957 — and in real terms was actually somewhat below the 1957 high. With the presence of unused capacity, much of the new capital spending was designed primarily to improve products or to reduce per unit costs, rather than to accommodate a rising volume of sales.

It is clear that the slow growth of sales in recent years and the persistence of substantial excess capacity have played a key role in the sluggishness of fixed business investment. Part of this excess capacity is the heritage of the capital spending boom of 1956-57, during which many businessmen formulated plans in hopes that the vigorous growth of consumer demand in 1955 would continue unabated. With the rate of growth in demand falling short of these optimistic expectations, however, the willingness of industry to expand capacity still further has naturally suffered. The expectation of a sharp acceleration in business activity might have outweighed this influence in 1962, but the decline in stock prices, uncertainty about the course of Government policies, and doubts regarding the strength of the near-term outlook all tended to be unfavorable to such a development.

SLUGGISHNESS IN BUSINESS INVESTMENT. In 1962 business expenditures on plant and equipment were scarcely higher than five years earlier, despite gains in economic activity over the period. Thus, the share of capital spending in the advance of gross national product between 1957 and 1962 was less than 1 per cent, in contrast to an 11 per cent share from the peak in business activity in 1953 to the 1957 peak.

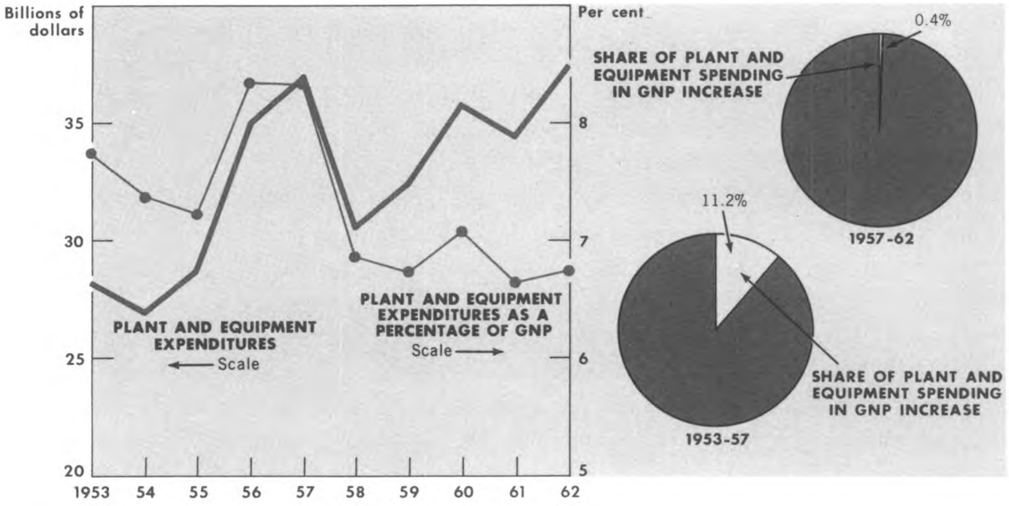


CHART 3

Like business spending, total consumer outlays on goods and services advanced at a slower pace in 1962 than during the quarters of the preceding year when over-all activity was rising, and their rate of gain since the 1961 trough in business activity lagged well behind the percentage gains in the two previous expansions. To a significant extent, the lack of real vigor in these outlays was due to a comparatively slow growth in disposable personal income. While the advance in personal income in the current business upswing was about in line with the weak 1958-60 expansion, it fell significantly short of the rate of gain in the comparable portion of the upturn after mid-1954. Moreover, with the steady rise in incomes, many individual taxpayers have been pushed into higher tax brackets, so that the Federal personal income tax on average now tends to take a larger proportion of each income gain than was the case several years ago.

The lags in both business and consumer spending clearly were interrelated. On the one hand, capital spending by business had not been sufficiently vigorous to make a dynamic contribution to the growth of consumer incomes. As a result, consumer spending suffered. By the same token, the slow growth in consumer spending made existing capacity excessive and thereby helped to depress the incentives for business investment.

It is of course possible that longer run factors have been at work to undermine strength in both sectors. But whatever the role played by such factors, it seemed clear as the year progressed that additional measures to promote faster growth were needed. Since monetary policy, as noted in the opening section of this *Report* and detailed further below, was already making a significant contribution, attention focused increasingly on the role that reductions in personal income and corporate profits taxes could play in stimulating both the business and consumer sectors.

Two steps tending to expand corporate cash flow and the net rate of investment on new business equipment were in fact taken in 1962. In July the Treasury revised its regulations regarding depreciation allowances on equipment to facilitate more rapid write-offs of capital goods in line with current experience. The net effect was substantially shorter depreciation guidelines, a reduction in current tax liabilities, and new stimulus for equipment spending. In September, moreover, Congress authorized corporations to take a tax credit of up to 7 per cent (3 per cent for public utilities) of the cost of productive equipment acquired. Whether these two measures were as yet having a significant effect on capital spending, however, was not clear as 1962 ended.

In any case, the need for further tax measures to stimulate both business and consumer spending remained. Indeed, just as the weakness of one sector has tended to depress the other, so the stimulus of tax reductions in both sectors would tend to be mutually reinforcing. A lowering of personal income tax rates would increase personal disposable income, thereby encouraging a higher volume of consumer spending and, therefore, the incentive to expand capacity in meeting the growing demand. A personal income tax cut, to the extent that it substantially reduced the very high marginal rates currently applicable to the top tax brackets, would also directly strengthen incentives for investment and would improve business psychology. At the same time, a reduction in corporate income taxes would increase the supply of funds available to business for financing expansion. Moreover, a reduction in corporate tax rates would enlarge the potential after-tax profitability of new investments and thereby increase the incentives to take on the risks that are always involved in the acquisition of new plant and equipment.

THE CONTINUING NEED FOR PRICE STABILITY. While the importance of finding new ways to encourage a more rapid growth of demand was apparent, the importance of continued vigilance against the development of inflationary pressures remained equally clear.

In 1962, prices continued to show the relatively high degree of stability that had characterized most of the 1958-61 period. Wholesale prices again fluctuated within a very narrow range and at the end of 1962 were no higher than four years earlier. As in 1961, prices of industrial commodities showed a small decline but, contrary to the experience in that year, prices of agricultural goods registered a small increase. The 1.2 per cent rise in the consumer price index, to be sure, exceeded the small 0.6 per cent advance in 1961 (see Chart 4), but the difference was due mainly to the behavior of food prices rather than to the presence of any over-all inflationary pressures. Food prices had declined in 1961 but advanced in 1962 as a result of special market developments affecting individual products, notably meats. Retail prices of goods other than food advanced by less than 1 per cent, while the increase in the price of services was the smallest of the postwar period.

The relative steadiness of prices in the United States over the past two or three years could be regarded with considerable satisfaction, particularly in view of this country's pressing need to become more competitive in world markets. But the fact that this stability was associated with excess manufacturing capacity and a substantial degree of unemployment raised the question to what extent it could be maintained once the business atmosphere becomes more buoyant. The answer will depend upon many factors, among them the willingness of management and labor to exercise a reasonable degree of restraint and the strength of foreign competition as a disciplining influence.

Our ability to prevent the resurgence of inflationary tendencies as full employment approaches may also depend on how successfully the problem of structural unemployment can be handled. To the extent that a significant part of the labor force is tied to regions, industries, and occupations particularly hard hit by shifts in the composition of demand or by technological innovations, efforts to reduce unemployment through increases in aggregate demand are more likely to put upward pressure on prices as the economy operates closer

PRICE CHANGES. Consumer prices showed somewhat larger increases in 1962 than in 1961, but the acceleration largely reflected special supply-demand situations in some agricultural commodities. Consumer prices other than those for food and services moved up only slightly, while wholesale prices other than those for farm products and processed foods edged downward.

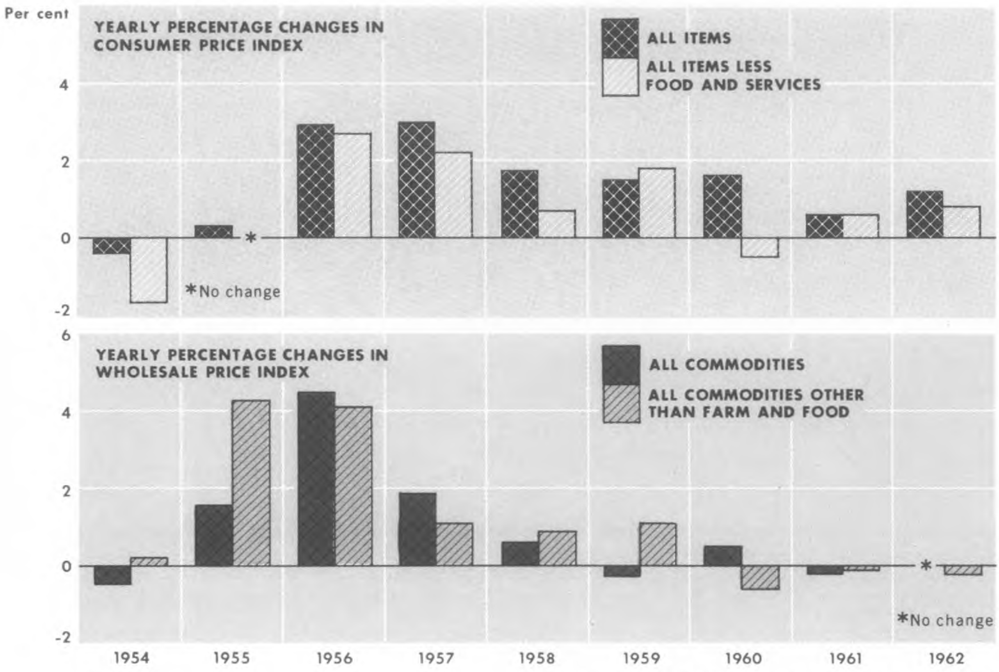


CHART 4

Data are percentage changes from December to December.

to its potential. Structural changes have of course characterized our entire history, and it is very difficult to determine whether they have become more significant recently than in the past. In a setting of weak over-all demand, however, they result in especially acute problems for many groups of workers — particularly the unskilled and undereducated, who are often members of minority groups for whom access to educational opportunities and to some occupations is especially difficult. And there can be no doubt that efforts to reduce structural unemployment by increasing job mobility through retraining and other techniques will contribute to our ability to achieve full employment without inflation.

Monetary Policy: Another Year of Ease

The main features of the problem confronting the monetary authorities in 1962 were in broad outline similar to those that had characterized 1961. As in that year, the objective was to encourage the domestic economy while protecting the international position of the dollar. The absence of inflationary pressures permitted—and the sluggishness of the business advance required—the maintenance of a basic policy of ease throughout the year. At the same time, the balance-of-payments situation remained serious and continued to be a major source of concern. Thus the Federal Reserve sought to encourage economic expansion by promoting ample liquidity for the domestic economy while doing this in such a way as to avoid levels of short-term interest rates that would lead to unduly large capital outflows.

Reflecting the sluggish character of the business advance and the continuation of monetary ease over a far longer period than in earlier expansions, the behavior of most financial variables in 1962 contrasted markedly with that experienced in the comparable stages of previous upswings. This could be seen, for example, in the record expansion in bank credit, the mild decline in long-term interest rates, and the significant improvement in nonbank liquidity. The magnitudes and directions of many financial flows, moreover, were profoundly affected in 1962 by the widespread increases in rates paid by commercial banks on time and savings deposits following the rise on January 1 in maximum rates permitted under Regulation Q. This development was partly responsible for the extraordinary growth in these deposits, the relatively slow growth in the money supply (demand deposits plus currency) and the record expansion of real estate loans as well as of bank investments in state and local securities.

As in 1961, the Federal Reserve System and the Treasury employed a number of techniques to offset or reduce downward pressures on short-term interest rates in a manner that would offer minimal interference with other policy objectives. In supplying reserves through open market operations, the System sought to avoid direct pressures on Treasury bill rates—and on short-term rates in general—through an extensive use of repurchase agreements and through purchases of Treasury coupon issues whenever feasible. Conversely, when seasonal factors called for the withdrawal of reserves, open market sales were frequently concentrated in the three-month maturity area where interest rates relative to those paid abroad are a particularly important determinant of international capital movements.

Complementing these efforts, the Treasury continued to enlarge the market supply of bills through additions to the regular weekly auctions of three- and six-month issues and to the offerings of special one-year bills in January and October. In November, moreover, the Treasury offered a $1 billion "strip" of bills maturing in each of ten successive weeks and sold as a package. Despite these operations in the short-term area, the Treasury successfully maintained a debt structure appropriate to longer range needs and lengthened the average maturity of the total marketable Federal debt from four years seven months at the end of 1961 to four years eleven months at the end of 1962. This was accomplished largely through successful advance refundings, involving offerings of longer term issues in exchange for outstanding securities of shorter maturity.

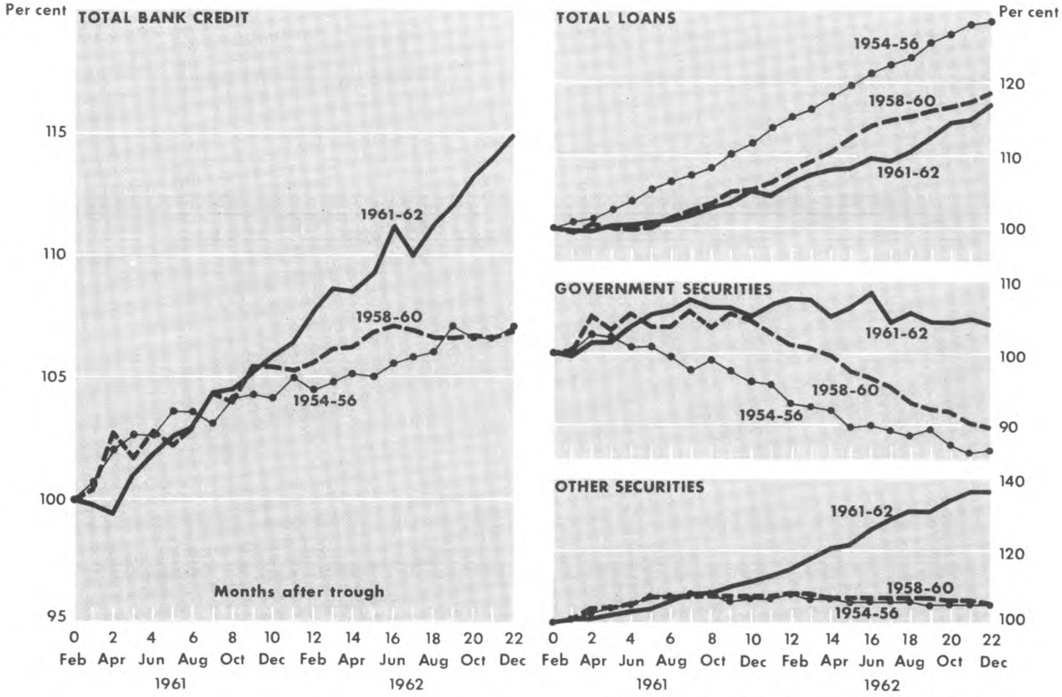
To provide for the longer term growth of bank reserves, while at the same time minimizing direct pressure on short-term interest rates, the Board of Governors of the Federal Reserve System announced in October a reduction from 5 to 4 per cent in the reserve requirement on member bank time and savings deposits. Coming at a time when seasonal reserve needs are normally high, this move released about $780 million of reserves that would otherwise have had to be provided through open market purchases, largely of short-term issues. The Board's action was in part also designed to improve the competitive position of member banks relative to other savings institutions, which in many cases are entirely exempt from reserve requirements.

Another action affecting time deposits was taken in the fall, when Congress suspended for three years the interest rate ceilings applicable on time deposits of foreign governments, central banks, and other monetary authorities, as well as of certain international financial institutions. Effective October 15, this step enabled commercial banks to increase the attractiveness of holding official foreign dollar claims in this form. A number of the large money market banks did raise the rates paid on these deposits, and holdings rose during the closing months of the year.

Taking account of the sharp reduction in stock market credit that had occurred following the spring break in stock prices and of the subsequent abatement of speculative psychology, the Board of Governors on July 9 reduced from 70 to 50 per cent the minimum equity or "margin" that buyers of stock must supply in purchasing securities with credit obtained from brokers or banks. The change was the first since July 1960 when margin requirements were lowered from 90 to 70 per cent.

BANK CREDIT AND BANK LIQUIDITY. The policy of ease maintained by the monetary authorities in 1962 resulted in the largest year-to-year expansion in total bank credit since World War II — $18.7 billion. Since the rise in 1961 had been only slightly smaller, the rate of advance over the entire period from the recession trough in February 1961 to the end of 1962 proved far greater than the gains in the corresponding portions of the two previous recoveries

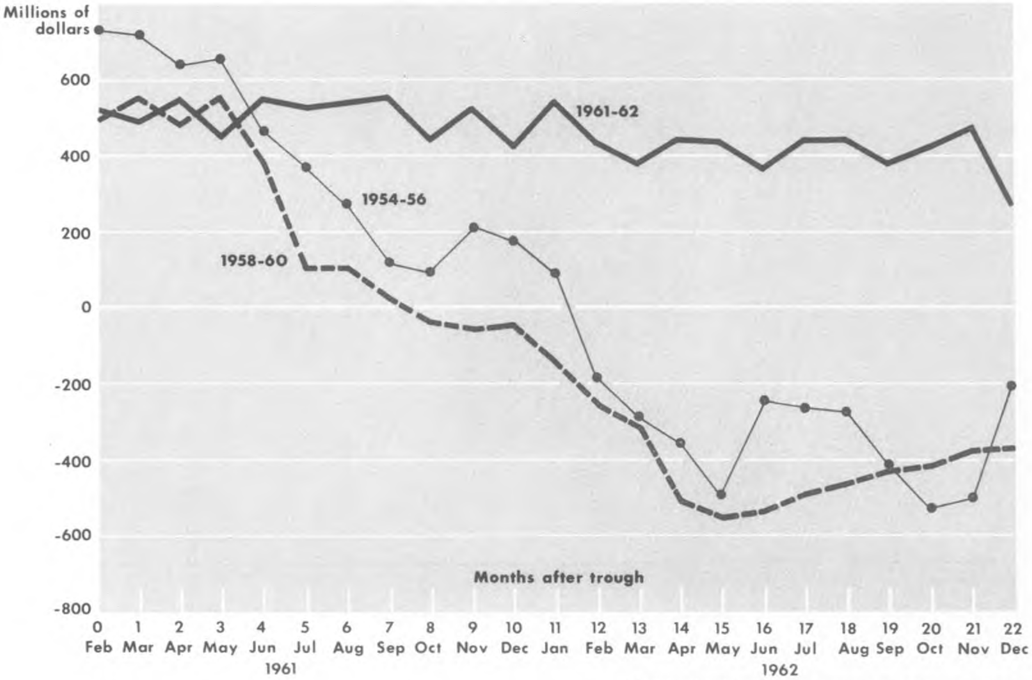
BANK CREDIT. The rapid rate of bank credit expansion in 1962 contrasted markedly with bank credit behavior in corresponding periods of earlier recoveries. Bank holdings of Government securities in 1962 remained about unchanged, and their holdings of other securities rose rapidly; in the comparable stages of previous recoveries, holdings of both types of securities had declined. The growth in total loans in 1962, however, was slower than in the corresponding phases of earlier cycles.



All data are seasonally adjusted. Troughs in general business activity in August 1954, April 1958, and February 1961 are set equal to 100.

CHART 5

FREE RESERVES. Free reserves remained generally high in 1962, in most months averaging only slightly below recession levels. The contrast with earlier business upswings was even more striking than in 1961.



Member bank free reserves are excess reserves less borrowings from the Federal Reserve. Troughs in general business activity: August 1954, April 1958, and February 1961.

CHART 6

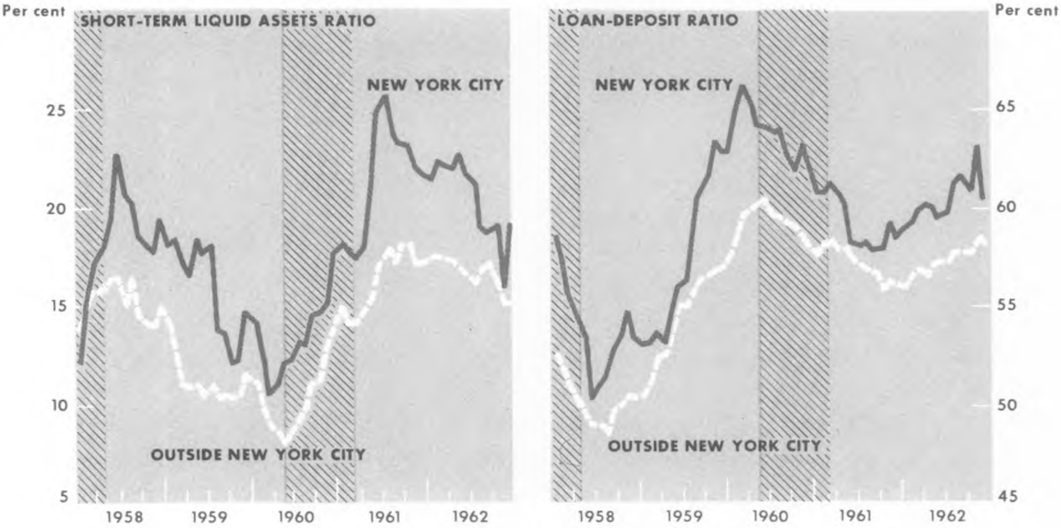
(see Chart 5). The rapidity of this increase largely reflected the continued availability of an ample supply of reserves. For most of 1962, free reserves were maintained within a range of approximately $350 million to $450 million (see Chart 6), just slightly below the 1961 average and at a level experienced during the past decade only in recessions. Total reserves of member banks grew by nearly $700 million in 1962, after adjusting for the effects of the reduction in the reserve requirement ratio against time and savings deposits. While this expansion was a bit smaller than the 1961 increase, bank credit was able to grow by a record amount since the bulk of total deposit expansion was in time and savings accounts, for which reserve requirements are relatively low.

As their lending capacity generally tended to outrun business loan demands, banks aggressively sought to employ their funds in other outlets, thereby contributing to the ready availability of long-term credit. In particular, the gains in total securities holdings—concentrated in state and local government issues—contrasted sharply with the reductions that had taken place in the corresponding months of earlier business advances. The striking $5 billion increase in bank holdings of tax-exempt bonds was more than 1½ times the 1961 gain. This record expansion was stimulated by the need to find additional high-yielding assets to meet increased interest costs on rapidly expanding time and savings deposits. More generally, the large growth of savings deposits, which are regarded as less volatile than demand deposits, increased the willingness of banks to lengthen their investment portfolios.

Although total loans rose more rapidly than in 1961, the increase (seasonally adjusted) lagged behind that of the corresponding months of the two previous recoveries, owing largely to the moderate character of the business loan advance. These loans showed relatively little increase in the first seven months of the year, but rose somewhat more rapidly over the rest of the period, apparently reflecting in part the reduced rate of new securities flotations. Bank loans to consumers also lacked buoyancy, even though there was a substantial rise in total consumer credit. On the other hand, banks extended a record volume of real estate loans, as they sought to increase their share of mortgage lending in response to the savings deposit advance and continued credit ease.

The fact that the 1962 expansion in many types of loans fell short of bankers' expectations clearly was due not to a lack of lending capacity but to a disappointing demand connected with the relatively slow business expansion, the enlarged flow of internally generated business funds, and the growth of nonbank lending. Indeed, there was overwhelming evidence that, if the demand had been present, banks would have been both able and willing to expand loans by substantially greater amounts. The banking system as a whole had ample liquidity throughout the year. While the ratio of short-term liquid assets to deposits declined somewhat over the year (see Chart 7), it remained well above the levels reached during the corresponding stages of previous expansions. Loan-deposit ratios, although somewhat higher than in the comparable months of previous business advances, rose less than in these earlier periods, and many banks apparently felt comfortable with loan-deposit ratios that in

BANK LIQUIDITY. Although the ratios of short-term liquid assets to deposits at banks in New York City and elsewhere declined during the year, they averaged somewhat higher in 1962 than in the 1958-59 upswing. Loan-deposit ratios moved only moderately higher.



Monthly averages of Wednesday figures for weekly reporting member banks. 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. 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. Shaded areas show recessions as dated by the National Bureau of Economic Research.

CHART 7

earlier postwar years would have been considered high. Indeed, most banks were aggressively reaching out for loans at interest rates virtually unchanged from recession lows and, at least in some instances, were offering concessions on nonrate terms.

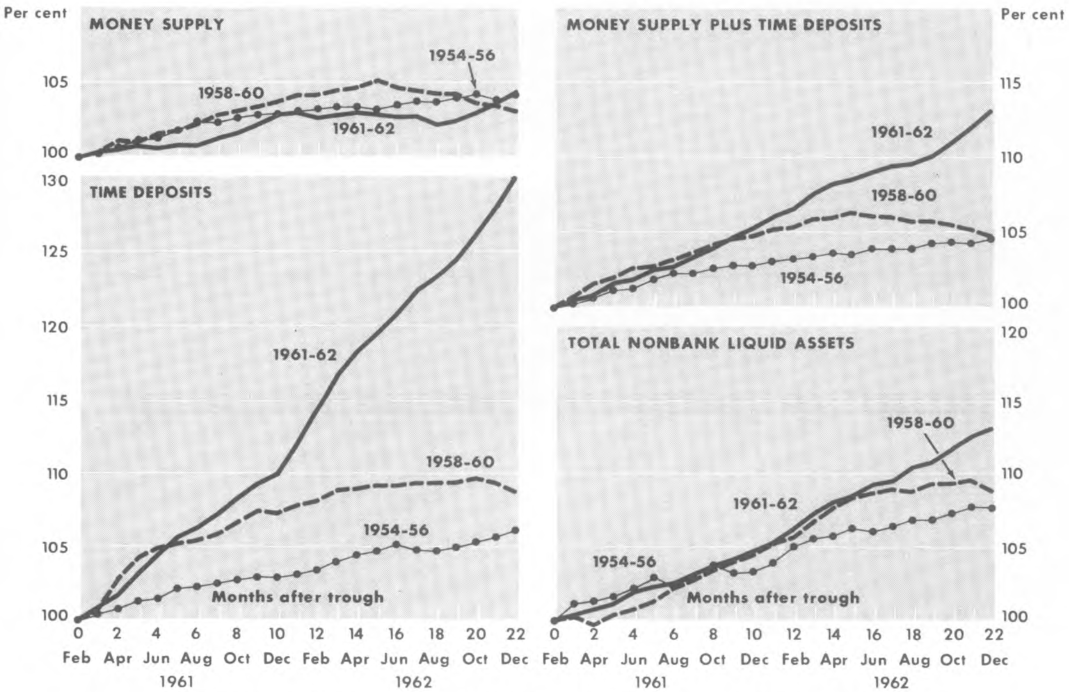
THE PUBLIC'S LIQUIDITY. Paralleling the rise in bank credit, the public's holdings of commercial bank deposits expanded by a record 8 per cent in 1962. Most of the 1962 increase took the form of an unprecedented build-up of individual savings and other time deposits, on which interest rates had risen at the beginning of the year. Savings deposits grew at a rapid rate throughout the year, while much of the increase in other time deposits was concentrated in the first five months. Growth in both types of deposits was encouraged by the sluggishness of the business advance which held down the public's demand for checking deposits. An additional reason for the rapid expansion in time deposits in 1962 was the further broadening of the market for negotiable time certificates of deposit. Issues of these certificates by large New York City banks jumped by 80 per cent, while growth in other parts of the country appears to have been even more rapid. The relative stability of rates on competing open market instruments was also a factor sustaining the growth in time and savings deposits. During the corresponding period of the previous business expansion, the sharp rise in such rates had led to withdrawals of these deposits by investors seeking a higher rate of return.

There was little evidence that the expansion in savings and other time deposits at commercial banks came at the expense of deposit growth in competing savings institutions. Indeed, savings and loan shares and deposits at mutual savings banks continued to expand at about the rapid 1961 rate — although it is of course possible that savings at these institutions might have grown even more rapidly had there been no increase in commercial bank interest rates. To some extent increased balances in commercial bank time and savings accounts may have reflected withdrawals of funds from the stock market during its precipitate spring decline. Evidence is not available, however, as to the degree to which such transfers may have been offset by reductions in these deposits on the part of individuals purchasing stock.

With the heavy increase in time and savings deposit growth and the build-up of United States Treasury deposits at commercial banks that occurred during the first half of the year, the private money supply (demand deposits plus currency) drifted irregularly downward until August. While the subsequent rapid gains more than offset this decline, the money-supply increase from the end of 1961 to the end of 1962 amounted to only 1.5 per cent.

Despite the small net expansion of the money supply last year, the total rise in money supply since the business-cycle trough in February 1961 (4.3 per cent) slightly exceeded the increase over the corresponding period of the 1954-56 upswing and was distinctly ahead of the 1958-60 advance (see Chart 8). Moreover, with a 30 per cent rise in commercial bank time deposits, the gains since the 1961 recession in money supply plus time deposits and in total liquid assets held by the public (in both cases amounting to 13.2 per cent) far outstripped the rates of advance in the two previous business upswings. This piling-up of liquid assets, together with the eagerness of banks to expand loans, suggested that, if the business advance had accelerated, supporting funds would have been in ample supply. Indeed, contrary to normal cyclical experience, the ratio of total liquid assets to GNP climbed throughout the year, reaching a level that actually exceeded its previous peak, attained during the 1960-61 recession.

NONBANK LIQUID ASSETS. While the money supply rose only moderately in 1962, the increase in time deposits was very large. The growth in money supply plus time deposits pulled far ahead of that in earlier business expansions — as did the rise in total liquid asset holdings of the nonbank public.



Money supply (comprising demand deposits and currency in the hands of the public) and time deposits at commercial banks are on a daily average basis. Total liquid assets held by the nonbank public, including money supply, time deposits, other savings deposits and shares, United States Government savings bonds, and securities due in less than one year, are measured as of the last Wednesday of the month. All data are seasonally adjusted. Troughs in general business activity in August 1954, April 1958, and February 1961 are set equal to 100.

CHART 8

INTEREST RATE AND CAPITAL MARKET DEVELOPMENTS. In 1961 both long- and short-term interest rates had shown a stability that contrasted markedly with the increases in the two previous recoveries. With the broad outline of underlying economic conditions little changed in 1962, interest rate movements continued to be modest. Largely reflecting the increase in consumer credit and in mortgage lending, the total volume of funds raised on the credit and equity markets reached a record. Yet the substantial flow of financial savings and the large increase in bank credit occurring against a background of monetary ease permitted the market to satisfy these heavy demands without strain, and long-term interest rates edged downward over the year (see Chart 9).

Short-term rates, however, fluctuated within a range somewhat above that prevailing in the previous year, partly as a result of the various official actions noted earlier and the concentration of bank investments in the long-term area. Rates on three-month Treasury bills ranged between 2.60 and 3.00 per cent,

INTEREST RATES. While Treasury bill rates averaged higher in 1962 than in the previous year, long-term rates declined.

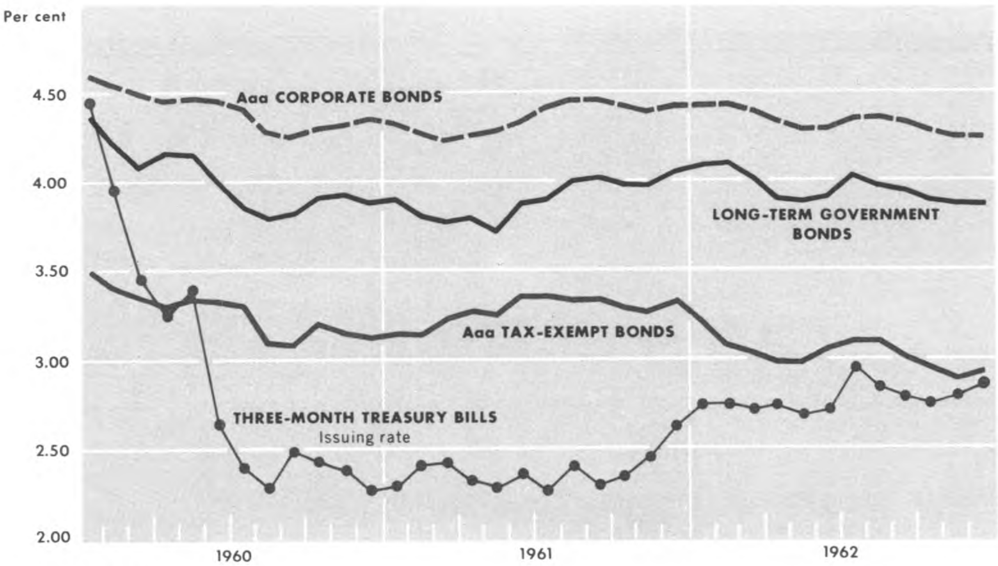


CHART 9

compared with a 2.25-2.65 per cent range in 1961. With these divergent movements in long- and short-term rates, the yield spread between three-month bills and long-term Treasury bonds moved down from 1.44 per cent in December 1961 to 1.01 per cent in December 1962.

The largest net increase in credit extensions occurred in mortgage lending, where demands were stimulated by the advance in new construction and apparently also by an increase in borrowing against existing buildings. Contrary to the experience of previous recoveries, rates declined further. To a large degree this decline reflected the heavy increase in mortgage lending by commercial banks seeking an outlet for the expanded flow of time and savings deposits, as well as stepped-up lending by other savings institutions specializing in the mortgage field. The expansion of time and savings deposits also played a major role in the decline of yields on tax-exempt bonds of state and local governments by helping to stimulate a record commercial bank demand for these securities. With capital spending by state and local governments expanding only moderately, the supply of new tax-exempt issues was little changed from high 1961 levels.

In the corporate sector, bond yields declined, on balance, partly in response to declines in other long-term rates and also to a marked reduction in capital market flotations, particularly in the final half of the year. A large part of this reduction, however, reflected the drying-up of new equity issues following the spring break in stock prices. The stock market decline tended, of course, to increase the difficulties of placing equity issues, and its psychological impact may also have generated some reluctance to take on additional long-term debt. Thus the drop-off in capital market flotations that occurred during the summer and autumn was accompanied by an increase in sales of short-term corporate paper and an increase in business borrowing from banks.

Total borrowing by the Federal Government in calendar year 1962 was unchanged from the previous year. The cash deficit declined by about $1.0 billion to $5.7 billion, as a rise in cash outlays was more than offset by higher cash receipts associated with the advance in tax revenues generated by the upward movement of the economy. While the need to raise funds to meet the current cash deficit declined, additional borrowing was undertaken to build up the level of Treasury balances at the Federal Reserve and commercial banks. Should a tax cut be enacted this year, demands of the Federal Government on the capital market would of course be stepped up. This development could well prove to be a significant element in determining the character of money and capital market developments in 1963.

BUTTRESSING THE INTERNATIONAL PAYMENTS SYSTEM

Innovation in the techniques of international monetary cooperation and further progress toward payments balance among many of the industrial countries — but a smaller improvement in the United States balance of payments than had been hoped for — were the hallmarks of 1962.

The network of cooperative international monetary arrangements begun in crisis during 1961 was extended and consolidated. The monetary mechanism successfully weathered several major tests, most notably the speculative attack on the Canadian dollar, the sharp decline in stock prices in May and June, and the Cuban crisis in October. Moreover, short-term interest rates in Western Europe and in the United States tended to come into closer alignment, thereby reducing the scope for purely interest-induced short-term capital flows and easing the pressures on the international monetary system.

Underlying these improvements was the continued progress toward adjustment in the relative balance-of-payments positions of the industrial countries. Nevertheless the United States payments imbalance remained stubborn and, although a calm atmosphere prevailed in the exchange markets at the year end, it was clear that the United States would have to intensify its efforts to achieve full equilibrium. At the same time, it was also apparent that the surplus countries of Western Europe would have to make further significant efforts toward reaching payments balance.

The year produced few signs of progress toward closing the gap that separates the levels of living of the underdeveloped areas of the world from those of the industrial countries. Indeed, in far too many instances the poorer nations did not share in the rise in living standards and fell even further behind the industrial world, in part because of failure to carry out internal reforms that would contribute to growth. As the year ended it seemed clear, however, that, if the underdeveloped countries were to grow significantly and if the industrial world was to achieve better balance in its international payments, more rapid economic growth in the key currency countries and freer trade and payments among all countries were urgently needed.

Easing Short-run Pressures on the International Monetary Mechanism

The most striking international economic development during 1962 was the increasing scope and success of cooperation among central banks and treasuries in creating defenses against exchange rate speculation and other disruptive capital flows. This phase of postwar international financial cooperation had begun in March 1961 at the regular monthly Bank for International Settlements (BIS) meeting of central bankers. Its immediate purpose was to cope with the exchange market strains that followed the revaluations of the German mark and the Dutch guilder through an informal agreement to provide assistance to the Bank of England for the defense of sterling. Soon thereafter the scope of cooperation was extended when the United States Treasury undertook market operations in foreign currencies.

Experience with consultation and cooperation among central banks and treasuries and the International Monetary Fund (IMF) proved sufficiently successful in dealing with the exchange crisis of 1961 to encourage further efforts in this direction as 1962 began. It was apparent at once that, because of the key role of the dollar in the international financial mechanism, the United States would have to play a major part in any extension of the informal measures thus far arranged. In particular, it seemed likely that a significant increase in the volume of official United States foreign exchange operations would be necessary.

Consequently, in February 1962 the Federal Open Market Committee of the Federal Reserve System — with the full concurrence of the United States Treasury — authorized the resumption of Federal Reserve foreign exchange operations. The Federal Reserve System's re-entry into this field was in keeping with both its exchange stabilization experience in the interwar period and its general function of safeguarding the value of the dollar. The System's operations were to be conducted in cooperation with the Treasury. Close coordination of Treasury and Federal Reserve exchange transactions was to be ensured by the fact that the Federal Reserve Bank of New York would carry out System operations (in accordance with instructions from the Federal Open Market Committee) while continuing to act as agent for the Treasury.

In order to perform its new task, the Federal Reserve System had to acquire foreign currencies with which to deal in the exchange market. After making small initial purchases of several convertible currencies from the United States Treasury, the System began to acquire more substantial balances directly from foreign central banks through a series of swap arrangements. These arrangements involved reciprocal credit facilities under which a bank agreed to exchange on request its own currency for the currency of the other party, up to a maximum amount and over a limited period (such as three or six months), with forward cover provided to both parties. By the end of 1962 such arrangements had been entered into with eight of the major European central banks, the Bank of Canada, and the BIS, for a total of $900 million. Moreover, the United States Treasury had been able to widen the scope of its foreign exchange operations through a series of short- and medium-term borrowings in Switzerland and Italy.

Funds acquired through these facilities were used throughout the year in System and Treasury market operations to minimize disturbing fluctuations in both spot and forward exchange rates in order to maintain orderly market conditions and reduce the flow of dollars into foreign official reserves. During the first half of 1962, for example, when the German mark was temporarily strong, the Treasury supported the dollar by spot sales of marks. The Treasury also entered the Italian lira market, dealing in both spot and forward lire through the Bank of Italy. Later in the year, both the Treasury and the Federal Reserve System carried out additional operations to smooth fluctuations in several continental European currencies, including the German mark, the Netherlands guilder, and the Swiss franc.

Throughout 1962 the System and the Treasury also engaged in direct transactions with central banks. In these operations, foreign currency holdings acquired in swap arrangements were used to mop up temporary flows of dollars to the cooperating central banks, thereby reducing the potential drain on the United States gold stock. Such operations were effected with the Swiss National Bank in July, after the large inflow of dollars to Switzerland following the sharp decline in stock prices here and abroad and the speculative attack on the Canadian dollar in May and June. Similar operations were subsequently conducted with the Netherlands Bank, the National Bank of Belgium, the Austrian National Bank, and the Bank of Italy. Some of these operations soon proved reversible. By the end of the year, the System had repaid a part of the drawings made under swap arrangements and in other instances had reconstituted balances previously acquired through swaps.[1]

[1] *For a detailed review of Treasury and Federal Reserve foreign exchange operations, see this Bank's* Monthly Review *of October 1962, pp. 131-40.*

Federal Reserve and Treasury exchange operations were conducted in the context of a steadily widening pattern of consultation and cooperation among the governments and central banks of the North Atlantic community. The monthly BIS meetings provided a valuable forum both for general discussion and for more detailed coordination. At the same time, the regular meetings of the OECD Working Party on balance-of-payments problems became increasingly important, for they brought together, on a continuing basis, representatives of the member countries' central banks as well as of the treasuries and other government agencies. Contacts made in these formal gatherings were multiplied by frequent telephone communications and informal meetings.

Although a variety of stabilizing exchange operations was conducted during the year, the first major test of the arrangements during 1962 occurred when the Canadian dollar came under heavy speculative attack in the late spring. The rapid mobilization of over $1 billion in international assistance for the defense of the Canadian dollar, coupled with measures by Canada to reduce the country's balance-of-payments deficit, quickly brought the speculation to an end. This episode provided a convincing demonstration of the effective manner in which joint and prompt action by the various monetary authorities could ward off a massive speculative attack on a major currency. By the year end, Canada had repaid a large part of the assistance, removed some of the emergency import taxes, and raised its international reserves above the pre-crisis level.

The sharp break in prices on the New York, London, and other stock exchanges, which occurred at the same time as the attack on the Canadian dollar, produced widespread nervousness in the exchange markets. The withdrawal of foreign-owned funds from New York and London to Switzerland and other continental countries put some pressure on the United States dollar and tended to reinforce existing exchange uncertainties. In these circumstances, coordinated operations in several currencies were undertaken by the Federal Reserve System and the Treasury, both to maintain orderly market conditions and to neutralize dollar gains of foreign central banks.

The success of the Canadian effort, the actions taken during the stock market decline, and the other ventures in international financial cooperation during the summer months helped to create and preserve an atmosphere of relative calm in the exchange markets. This climate was further strengthened in October when, with the adherence of the United States, the IMF's supplementary borrowing arrangements came into effect. Under these arrangements, up to $6 billion of additional reserves may be made available to the Fund by ten major industrial countries provided such action is needed to forestall or cope with an impairment of the international monetary system. Thus, the Fund gained access to convertible currency reserves sufficient to meet even a very large United States drawing should the need ever arise. The relative stability displayed by the exchange and gold markets during the subsequent Cuban crisis reflected in part the fact that the world-wide nature of the danger made it difficult for investors to find a safe haven for their funds anywhere. Nevertheless, prompt cooperative action by the monetary authorities of the major countries, coupled with the markets' awareness of the very extensive arsenal of weapons to counter speculation that the authorities had available, clearly contributed to the preservation of orderly market conditions.

The cooperative efforts in the exchange markets were accompanied by a somewhat greater degree of coördination of monetary policies, as the industrial countries took increasing account of the effects of domestic policies on the international payments mechanism. Thus, some progress was made toward bringing short-term interest rates in the various money market centers into closer alignment, thereby reducing purely interest-induced capital flows while encouraging the financing of a greater proportion of trade in the surplus countries. However, in several countries with large payments surpluses the outflow of capital was held back by relatively high interest rates and by the continuation of direct controls. Such restrictions tended to inhibit the growth of the market instruments and institutions necessary to ensure the efficient domestic and international mobilization of capital. Much remained to be done, therefore, in relaxing such restrictions and in achieving the appropriate balance of interest rates among the major industrial countries. Nevertheless, the steps taken toward reducing large disparities in interest rates during 1962, in conjunction with the efforts in the field of exchange and gold market operations, seemed by the year end to have significantly reduced the possibility of the development of speculative threats to major currencies arising from short-term payments imbalances. At the same time, it was evident that these achievements had not lessened the need for continued efforts to make the longer range adjustments necessary to restore equilibrium in international transactions and to assure further growth in international trade and payments.

Slow Progress Toward Equilibrium

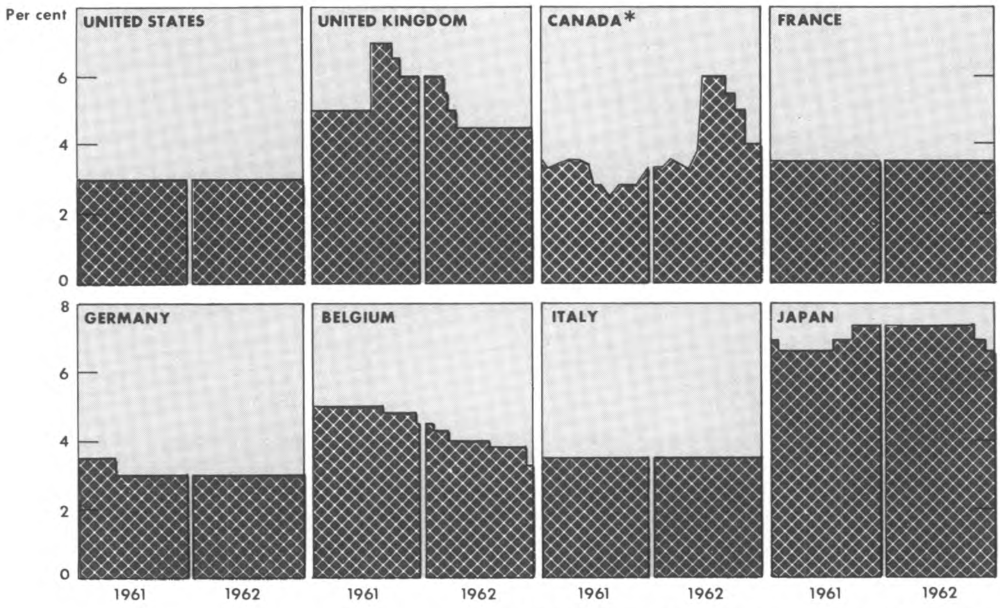
A number of major industrial countries, both those in deficit and those in surplus, moved significantly closer to payments balance during 1962. These improvements were the result both of the natural workings of the economic adjustment mechanism and of the use of the instruments of monetary and fiscal policy. The adjustment process remained difficult, however, and progress toward more general international payments balance continued to be slow and uneven.

The most striking improvements in balance-of-payments conditions occurred in the United Kingdom, Canada, and Japan — in each case following the imposition of fiscal and monetary restraints and the receipt of international assistance. As their payments positions improved, central bank discount rates in these countries were lowered (see Chart 10) and other steps were taken to ease credit, for the necessary restraint associated with the resolution of the payments crisis had in each country been accompanied by a slowdown in domestic economic growth.

While these three countries were engaged during 1962 in reversing large deficit positions in their international payments, most leading continental nations — with the major exception of France, which continued in substantial surplus — were moving toward payments equilibrium from the opposite direction. Economic policy measures played a role on the continent too, for clearly the gradual evaporation of the large surpluses of Germany and the Netherlands was partly a result of the 1961 exchange rate revaluations which had cut into the competitive margin enjoyed by exporters in these two countries while also making imports cheaper. Moreover, Italy, France, and Austria took advantage of continued surpluses to ease trade and payments restrictions further, in part as a means of relieving inflationary pressures in their domestic economies. Nevertheless, numerous controls remained in force at the year end. Indeed, in view of the continued very high level of economic activity on the continent, and the fact that such restraint in most cases no longer seemed justifiable on balance-of-payments grounds, the dismantling of restrictions on imports and on capital flows did not seem to have proceeded so rapidly as might reasonably have been expected.

Although such liberalization as occurred did contribute to the movement toward payments equilibrium, the increases in wages and prices in Europe (see Chart 11) — at a time when prices in other industrial countries were stable — probably were the most important factors in the reduction of the trade sur-

CENTRAL BANK DISCOUNT RATES. There was a tendency for discount rates in the major industrial countries to be brought into line with each other during 1962, as exchange crises were resolved and those deficit countries that had pursued restrictive monetary policies could relax restraint.



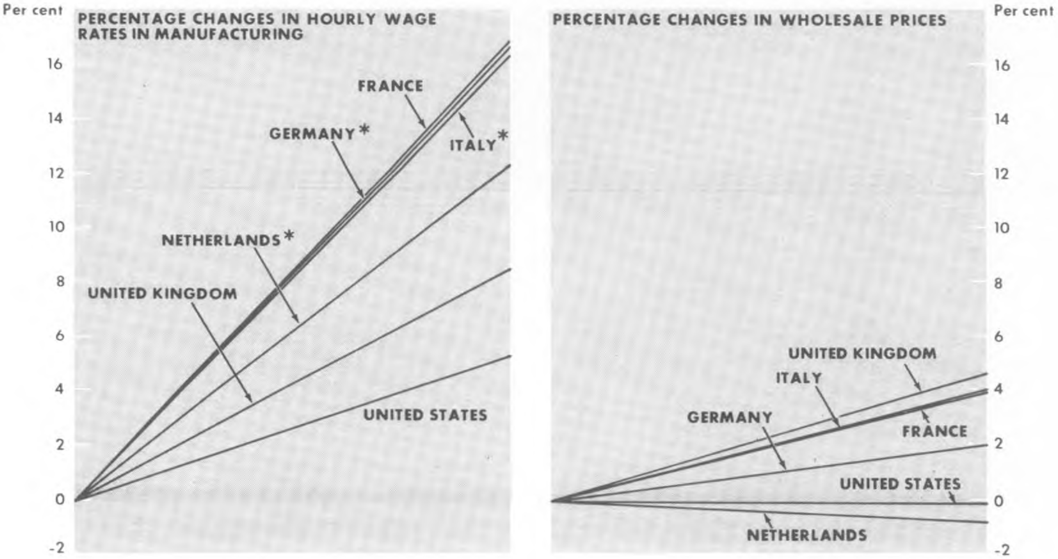
* Canada established a fixed discount rate in June 1962. Prior to that, the discount rate was set at 1/4 per cent above the weekly average tender rate for 90-day Treasury bills; data shown are end of month.

CHART 10

pluses. Exports rose at a much slower pace than in 1961. It had been anticipated that a slowdown in export growth would result in some slack in the continental economies. In most cases, however, rising wages bolstered consumer demand, thereby maintaining or increasing pressures on available domestic resources. Consequently, imports tended to rise rapidly, thus further cutting into trade surpluses.

Significant imbalances persisted, however, despite the gains made by both deficit and surplus countries. In particular, the United States deficit, though slightly reduced, still totaled somewhat over $2 billion. Earnings from the export of nonmilitary goods and services rose $1.3 billion, but this improvement was insufficient to finance the increase in imports. Consequently, the net surplus arising from transactions in civilian goods and services declined \$0.7 billion to \$7 billion. On the other hand, with the assistance of further prepayments of postwar economic aid debts by France and Italy, an increase in German payments for military equipment purchases in this country, and more effective tying of foreign aid to American exports, the net balance-of-payments drain of United States Government expenditures abroad appeared to have been about \$800 million less than in 1961. Net outflows of private capital remained large, however, as the movement of private short-term funds abroad was reduced, but the flow of longer term American investment continued at about its previous rate. Thus, after several years of efforts to eliminate it, the United States payments deficit remained large and of considerable concern.

RECENT WAGE AND PRICE CHANGES IN EUROPE AND THE UNITED STATES. Between the final quarter of 1960 and the final quarter of 1962, wage rates and prices rose significantly faster in Western Europe than in the United States.



Latest data partially estimated.

*Change between fourth quarter of 1960 and third quarter of 1962.

CHART 11

Even so, last year's payments performance contained some hopeful signs for the longer run outlook. The most important single adverse development from a balance-of-payments standpoint was the 12 per cent rise in merchandise imports — over half of which was in finished manufactures from Western Europe — to a total of $16.2 billion. But this substantial increase was largely a natural concomitant of cyclically rising domestic business activity. Moreover, during the second half of 1962, imports seem to have been somewhat smaller in relation to gross national product than at the comparable stages of either of the two preceding business recoveries.

United States merchandise exports rose about 3½ per cent. That the increase was no greater — despite the continued existence of unused capacity in major export industries and the maintenance of stable prices and wages — was due in part at least to special factors. Two of this country's principal export markets — Canada and Japan — suffered from serious balance-of-payments problems which were countered with measures tending to curtail imports. As a result, United States exports to Japan declined sharply during the first three quarters of 1962, prior to the relaxation of monetary restraint in the country, while the growth of sales to Canada was curbed by the special surcharges and domestic restraint employed there. With these difficulties largely resolved, with Government export promotion efforts getting under way, and with American business increasingly sensitive to the export potential, the 1963 outlook for further increases in United States exports seemed good if price stability could be maintained. Such an expansion of United States exports is necessary, of course, primarily to finance military and foreign aid expenditures and the continued outflow of private capital.

A major contribution to the reduction in the over-all United States payments deficit in 1962 was the significant decline in aggregate short-term capital movements and unrecorded transactions (see Chart 12). Net short-term capital outflows and so-called "errors and omissions" dropped to roughly $1.3 billion in 1962, compared with about $2 billion in 1961. In addition to the generally more stable international monetary climate, the principal factor accounting for the improvement was the virtual cessation of net short-term borrowing here by Japan, in part because that country's payments deficit and the need to finance it declined sharply as a result of its policy of domestic restraint.

Interest arbitrage flows continued to be an important element in the outflow of short-term capital from the United States. This was true especially during the first quarter of the year, when relatively high rates in the United Kingdom

MAJOR COMPONENTS OF THE UNITED STATES BALANCE OF PAYMENTS. The United States payments balance improved sharply in the first half of the year, as the goods and services surplus rose and short-term capital outflows declined. The gain was partly offset during the second half, despite an improvement on Government account, by renewed short-term capital outflows and a decline in the trade surplus.

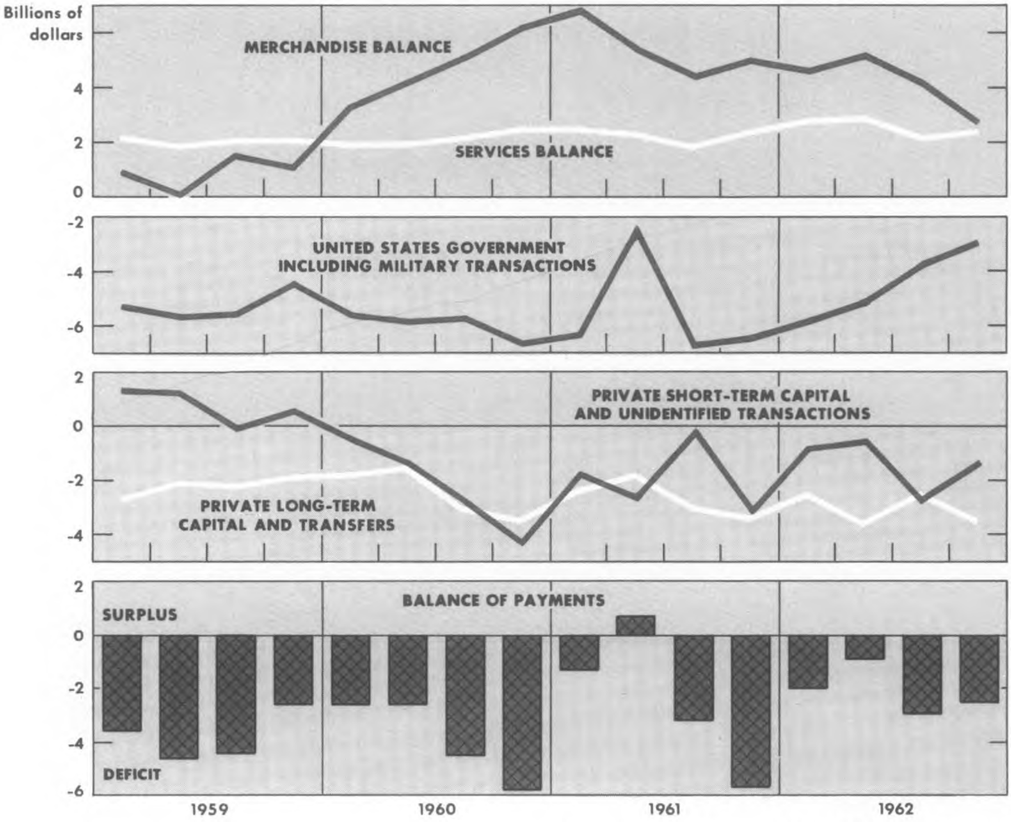


CHART 12

Seasonally adjusted annual rates; 1962 data preliminary.

attracted some funds, and during the third quarter, when there were substantial flows to Canada. Although the United States three-month Treasury bill rate moved upward and interest rates generally came into closer alignment later in the year, there was still scope for the flow of funds abroad in search of higher returns. Exchange speculation was again the cause of some money movements, especially when funds were transferred to Switzerland in search of a safe haven during the "bear" attack on the Canadian dollar and in reaction to the May break in stock prices. For the year as a whole, however, the impact of "hot" money flows was far less than in 1961.

Although the total net outflow of long-term funds from the United States changed little during 1962, the volume of new portfolio investment rose while that of direct investment declined. Net direct foreign investment by American firms appears to have been lower than the $1.5 billion and $1.7 billion of

LONG-TERM GOVERNMENT BOND YIELDS. Long-term borrowing costs remained substantially lower in the United States than in other industrial countries, except Switzerland, as yields tended to rise or remain at relatively high levels on the continent and in Canada. Although yields in the United Kingdom dropped sharply, they remained among the highest in Europe.

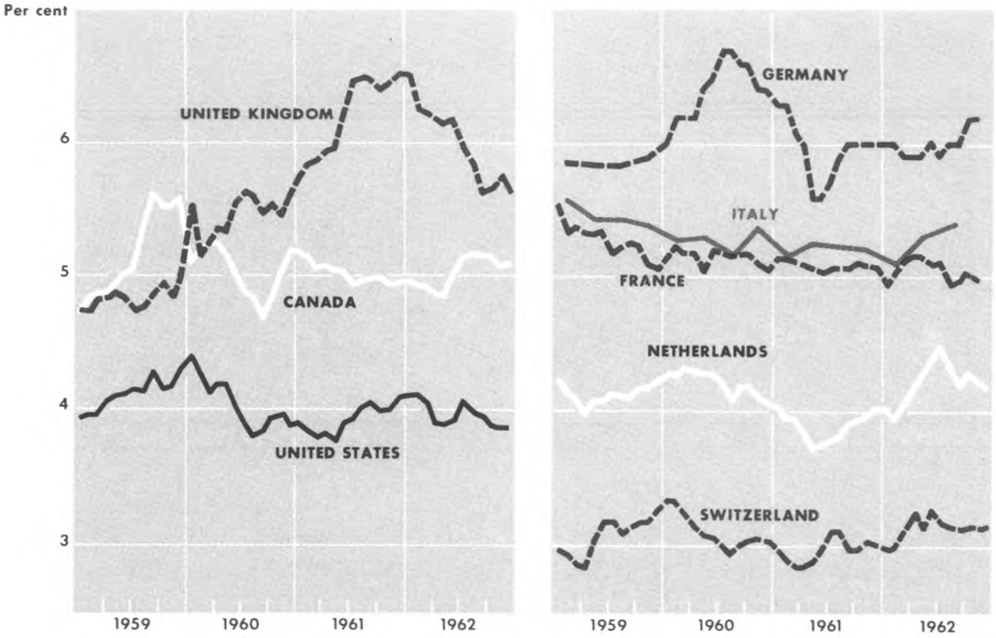


CHART 13

International Monetary Fund.

the two preceding years. The net flow of such funds to Canada slowed somewhat — probably as a consequence of the uncertainty prevailing during the first half of the year — and that to Latin America dried up completely as United States direct investment tended to be concentrated more and more in the expanding Western European market. Portfolio investment, on the other hand, again rose substantially and for the first time in the postwar period apparently equaled new direct investment, as the very large and efficient United States capital market continued to be liquid and thus a ready source of loan funds for borrowers around the world. Long-term borrowing costs were lower here than in most other principal capital markets (see Chart 13), and much larger amounts of funds could be obtained by foreign borrowers in this country than were available abroad, where foreign access to capital markets in many cases remained under official control.

In settlement of the payments deficit of about $2.2 billion the United States sold $0.9 billion of gold, slightly more than in 1961, while foreigners increased their holdings of liquid dollars by nearly $1.3 billion. Gold sales made up a slightly larger part of the settlement payments than in 1961, in part perhaps because a greater proportion of the deficit found its counterpart in surpluses of countries that traditionally maintain most of their reserves in gold. In addition, some countries had already built up their foreign exchange reserves to the point where they were reluctant to add substantially to their present dollar holdings. Indeed, the gold drain would have been larger except for large advance debt prepayments to the United States, large repayments in dollars of drawings on the IMF, and the effects of various United States foreign exchange operations which neutralized foreign official accumulations of dollars. Thus the need for further and more rapid progress toward a solution to the payments imbalances of the industrial countries became increasingly acute.

The Continuing Contrast Between Rich and Poor

During 1962 the economies of most of the industrial countries continued to expand. Few of the underdeveloped nations made any substantial progress, however. Most of these countries found it especially difficult to raise their levels of per capita income, despite further increases in bilateral and multilateral economic assistance. The gap in living standards between the developed and underdeveloped nations thus again widened in 1962.

Many of the underdeveloped countries continued to be plagued by inflation and balance-of-payments problems, in good part because of their inability or unwillingness to adopt appropriate policies to mobilize and make effective use of domestic resources. In particular, efforts to achieve domestic financial stability, to improve administration, land use, education, and technology, and to adapt new production to changing demand conditions were not pursued with equal energy in the various parts of the underdeveloped world. At the same time, world prices of most major commodities continued weak until the last quarter of the year, thereby cutting into export earnings since volume did not rise enough to make up the difference. In these circumstances and with population pressures building up in many countries, foreign aid in its present forms often seemed able to accomplish little more in some countries than to help maintain existing levels of per capita income. At the end of the year, therefore, the United States Government undertook a general examination of its aid program in the hope of finding means to make its large contributions more effective in promoting economic growth.

The long decline in commodity prices — only partly arrested during 1962 — attracted increasing attention to the possibilities of stabilizing prices or export earnings through international agreements. In the past, most such commodity agreements had proved inadequate, partly because of the failure of some significant producers or major consuming nations to participate. The signing of the international coffee agreement by this country in September marked a major change in United States policy in this area. If the agreement is ratified by the Senate, it may well be a significant turning point for commodity stabilization agreements in general. Commodity agreements, of course, are no panacea for the development problems of the primary-producing countries. Indeed, at the year end it remained to be seen whether the coffee agreement would prove workable. Nevertheless, it was evident that even a partial solution to the problem of fluctuating commodity earnings would provide welcome assistance to many underdeveloped countries.

The Prospect

Where, then, did the international economy stand at the end of 1962? International monetary and exchange cooperation had proceeded to the point where the monetary system seemed able to cope with the effects of disequilibrating short-run capital flows. Underlying this success had been significant gains in reducing the payments imbalances among the industrial countries. The continued large deficit of the United States, however, coupled with the chronic payments problems of the underdeveloped countries, meant that the over-all situation remained significantly out of balance. Moreover, there was no assurance that the progress made in equilibrating payments among the industrial countries was secure. If continental European countries were to pursue policies that tended to preserve payments surpluses at a time when the United States, Canada, and the United Kingdom moved to stimulate domestic economic growth, prospects for ensuring the stability of the international payments mechanism would be seriously endangered.

This complex of interrelated problems obviously was not capable of any quick or easy solution, but clearly could be resolved most satisfactorily in the context of expanding economic activity and rising world trade. Domestic policies to stimulate growth in the United States might well have some adverse short-run effects on this country's payments position, principally because of their tendency to stimulate a rise in imports. In the longer run, however, a higher level of economic activity here would improve investment opportunities, thus significantly reducing the net outflow of private capital. Moreover, economic growth, if achieved in a noninflationary setting, very likely would contribute further to the competitive efficiency of United States business, already bolstered by four years of relative price stability. Measures to stimulate economic growth in the United States would have to be complemented by European steps to reduce tariffs and to remove remaining restrictions on imports and on capital movements, and by efforts to develop the capital markets on the continent. Then the growth and payments problems of this country and the inflationary pressures on the continent could be resolved in an environment of expanding common prosperity and of payments balance.

The growth of world trade that should result from reduced restrictionism and a higher level of economic activity in the industrial countries would also be of tremendous benefit to the underdeveloped nations. Although the underdeveloped countries have not fared very well in the most recent growth of trade

— which has occurred principally in the exchange of manufactured goods — an opening-up of the markets of the industrial countries probably would be of greater long-run benefit to the underdeveloped nations than an expansion of economic assistance or the establishment of commodity stabilization programs, however necessary they may be in the short run. The adjustments that such imports would require in the economies of the industrial countries would not be painless, but the economic benefits could well be as significant as trade adjustments among the industrial nations have been. Thus it was important to see that, in the course of the further development of economic cooperation in Western Europe and in the North Atlantic community in general, the industrial nations would not become inward looking, but rather would remain receptive to imports of all kinds. In this regard the Trade Expansion Act of 1962 provided the United States with a powerful and flexible instrument for working toward this country's long-standing goal of multilateral free trade. Coordinated moves in all these areas would not, of course, be easy. As the year ended, however, such moves — together with the pursuit of sound domestic policies in the major countries — seemed to offer the best hope for simultaneous progress toward an easing of inflationary pressures in Europe; more rapid economic growth in the United States, the United Kingdom, and the underdeveloped countries; and the achievement of balance in the world payments system.

THIS BANK'S OPERATIONS

Volume and Trend of the Bank's Operations

DOMESTIC OPERATIONS. With few exceptions, the volume of the Bank's activities in transferring funds on behalf of the public and as agent of the Treasury expanded appreciably during 1962.

The volume of checks processed (other than those of the United States Government) rose substantially in 1962. The rise is only partially reflected in the figures shown in the accompanying table because of a change in reporting procedures instituted during the year. The new procedures require that a processed check be counted only once, while under the old procedures checks handled by several departments within the Bank were counted more than once. According to the old counting procedures, the number of ("all other") checks handled by this Bank during 1962 amounted to 661 million, 6 per cent more than the comparable figure reported for 1961. After elimination of double counting, however, the 1962 number of checks processed amounted to 635 million, the figure shown in the accompanying table. The dollar volume on the new basis was $384 billion; on the old basis it was $393 billion, 9 per cent above the comparable figure for 1961.

The increase in check volume was accompanied by a substantial rise in the use of this Bank's wire transfer facilities (exclusive of Treasury transfers between Federal Reserve Districts). This dollar volume of transfers totaled $1.3 trillion in 1962 — a rise of 19 per cent over 1961, compared with an increase of 13 per cent in 1961 over 1960. The number of transfers handled in 1962 was about 777,000, up 11 per cent from the preceding year.

Coin received by this Bank in 1962 decreased by about 8 and 10 per cent in number and dollar volume, respectively, thus reversing the upward trend of several years in coin shipments from banks in the District. The 1962 reduction in the volume of coin received was principally due to the nation-wide coin shortage that resulted mainly from the fact that the Mint, at the scale of operations allowed under its present budget, was unable to produce enough coin to meet the public's increasing needs.

Continuation of the marked expansion, begun in 1959, in the Treasury's

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

Number of pieces handled (in thousands) *	**1962**	**1961**
Currency received	1,333,299	1,308,147
Coin received	1,999,074	2,184,729
Gold bars and bags of gold coin handled	221	327
Checks handled:		
United States Government checks	58,804	59,891
All other	635,073 †	625,354
Postal money orders handled	35,502	36,120
Collection items handled:		
United States Government coupons paid	4,284	4,685
Credits for direct sendings of collection items	334	403
All other	17,215	14,888
Issues, redemptions, exchanges by fiscal agency departments:		
United States savings bonds	27,084	27,466
All other obligations of the United States and Federal agencies	6,895	6,285
Obligations of the International Bank for Reconstruction and Development	119	43
Safekeeping of securities:		
Pieces received and delivered	8,105	7,208
Coupons detached	5,464	4,783
Wire transfers of funds ‡	777	702
Amounts handled (in millions of dollars)		
Discounts and advances §	5,353	4,054
Currency received	8,833	8,637
Coin received	228	252
Gold bars and bags of gold coin handled	3,181	4,586
Checks handled:		
United States Government checks	23,034	20,676
All other	384,135 †	360,715
Postal money orders handled	649	653
Collection items handled:		
United States Government coupons paid	2,511	2,517
Credits for direct sendings of collection items	646	733
All other	2,822	2,634
Issues, redemptions, exchanges by fiscal agency departments:		
United States savings bonds	1,635	1,739
All other obligations of the United States and Federal agencies	501,923	445,325
Obligations of the International Bank for Reconstruction and Development	419	308
Safekeeping of securities:		
Par value pieces received and delivered	720,577	604,678
Wire transfers of funds ‡	1,304,308	1,095,010

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

† Figures for 1962 are not directly comparable with those for preceding years because of a change in reporting procedures.

‡ Excludes Treasury transfers between Federal Reserve Districts.

§ The number of discounts and advances handled in 1962 was 910, compared with 993 in 1961.

financing operations caused the Bank's fiscal agency operations to increase significantly during 1962. The dollar volume of Government obligations (other than United States savings bonds) processed in 1962 was $502 billion, an increase of 13 per cent from 1961, compared with a rise of only 1 per cent in 1961 over 1960. In contrast, issues, redemptions, and exchanges of United States savings bonds processed by this Bank in 1962 were in number and dollar volume about 1 and 6 per cent lower, respectively, than in 1961. This was the fifth consecutive decline for the dollar volume of savings bonds handled.

There were also significant rises in the Bank's noncash collections and in its securities safekeeping activities. The number of noncash collection items handled (other than United States Government coupons) rose in 1962 over 1961 by 15 per cent, compared with a 10 per cent rise in 1961 over 1960. In number and dollar volume, securities received and delivered in conjunction with safekeeping operations rose in 1962 by 12 and 19 per cent, respectively, reversing a two-year downward trend in these activities.

To cope with the steadily growing volume of the Bank's operations, two electronic computers were acquired in the spring of 1962, and a third computer has been ordered for delivery in early 1963. One of the machines is a general purpose computer for the processing of ordinary banking operations, such as payrolls, member bank reserve balance reports, and securities safekeeping records. A second computer is being used by the Research and the Market Statistics Departments to process data for recurring reports and statistical analyses, and also for more complex research projects related to the performance of member banks and the nation's economy. The third computer is scheduled primarily for processing checks and should enable the Bank to increase the volume of checks handled on high-speed equipment to about ½ million items per day, compared with about ⅓ million items per day at the end of 1962.

The aggregate volume of Second District member bank borrowings during 1962 increased nearly one third but remained well below the Second District postwar high of $29.4 billion reached in 1957. The proportion of member banks that borrowed at least once during the year declined to 39 per cent in 1962 from 45 per cent in 1961.

Over the year as a whole, a substantially heavier volume of work was carried out by a slightly larger number of employees. The average number of employees at the Bank during 1962 was 2.4 per cent larger than in 1961.

FOREIGN AND INTERNATIONAL OPERATIONS. Gold, dollar, and other assets held for foreign and international account increased for the fifth consecutive year, establishing another all-time peak of $26.8 billion as the year ended.

Assets held for foreign account by this Bank on behalf of all Federal Reserve Banks rose by $1.6 billion to a new high of $18.7 billion. While dollar deposits declined by $32 million and miscellaneous securities (including bankers' acceptances) dropped $56 million, gold earmarked for foreign account rose $681 million, and United States Government securities (including securities payable in foreign currencies) increased by $984 million. The accounts of the international organizations rose $894 million to a new high of $8 billion at the year end. New accounts were opened during the year in the names of the central banks of Jamaica, Spain, Laos, and Syria.

Gold operations declined in number and dollar volume primarily because of a drop in transfers between individual accounts and a reduction in releases of earmarked gold for export. Credits against gold collateral, aggregating $96 million, were made available to monetary authorities in six foreign countries to assist them in meeting seasonal and other temporary dollar requirements. Each of these credits was utilized entirely or in part, but repayments reduced the aggregate outstanding at the year end to only $1 million.

Due to the resumption in February of System Open Market Account operations, the scope and volume of foreign exchange transactions increased substantially. In addition, the Bank continued to conduct foreign exchange transactions on behalf of the United States Treasury.

Financial Statements

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1962 AND 1961 (In thousands of dollars)

	1962	1961
Total current earnings	261,931	235,242
Net expenses	36,115	32,776
Current net earnings	225,816	202,466
Additions to current net earnings:		
Profit on sales of United States Government securities (net)	492	859
All other	120	11
Total additions	612	870
Deductions from current net earnings	408	4
Net additions	204	866
Net earnings available for distribution	**226,020**	**203,332**
Dividends paid	7,419	7,043
Paid United States Treasury (as interest on Federal Reserve notes)	210,886	182,396
Transferred to surplus	7,715	13,893
Surplus Account		
Surplus—beginning of year	242,996	229,103
Transferred from net earnings for year	7,715	13,893
Surplus - end of year	**250,711**	**242,996**

STATEMENT OF CONDITION
(In thousands of dollars)

Assets	**DEC. 31, 1962**	**DEC. 31, 1961**
Gold certificate account	3,394,817	3,479,129
Redemption fund for Federal Reserve notes	302,818	278,306
Federal Reserve notes of other Banks	94,866	107,774
Other cash	42,078	54,645
Total cash	3,834,579	3,919,854
Discounts and advances	15,474	105,600
Acceptances	110,254	51,523
United States Government securities	7,868,600	7,262,246
Total loans and securities	7,994,328	7,419,369
Other assets:		
Cash items in process of collection	1,604,892	1,643,694
Bank premises	8,413	8,898
All other	90,286	58,640
Total other assets	1,703,591	1,711,232
Total Assets	**13,532,498**	**13,050,455**

STATEMENT OF CONDITION
(In thousands of dollars)

Liabilities	**DEC. 31, 1962**	**DEC. 31, 1961**
Federal Reserve notes	7,234,647	6,751,488
Deposits:		
Member bank reserve accounts	4,643,682	4,516,757
United States Treasurer — general account	117,026	129,236
Foreign *	58,121	88,059
Other	289,176	229,209
Total deposits	5,108,005	4,963,261
Other liabilities:		
Deferred availability cash items	795,421	955,610
All other	18,358	15,602
Total other liabilities	813,779	971,212
Total Liabilities	**13,156,431**	**12,685,961**
Capital Accounts		
Capital paid in	125,356	121,498
Surplus	250,711	242,996
Total Capital Accounts	**376,067**	**364,494**
Total Liabilities and Capital Accounts	**13,532,498**	**13,050,455**
Contingent liability on acceptances purchased for foreign correspondents †	24,464	36,004
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	30.0%	32.1%

* After deducting participations of other Federal Reserve Banks amounting to	188,760	190,800
† After deducting participations of other Federal Reserve Banks amounting to	61,057	90,000

Changes in Membership

During 1962 the total number of commercial banks in this District that are members of the Federal Reserve System declined from 475 to 449. The net decrease of 26 banks was the result of mergers of 28 member banks with other members and of three member banks with nonmembers, the conversion of one national bank to a nonmember bank, two new member banks, two new national banks, and the conversion of one nonmember and one industrial bank into national banks. The 449 banks constitute 85 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)

	DECEMBER 31, 1962			DECEMBER 31, 1961		
Type of Bank	**Members**	**Non-members**	**Per cent members**	**Members**	**Non-members**	**Per cent members**
National banks *	310	0	100	328	0	100
State banks and trust companies	139	80	63	147	80	65
Total *	**449**	**80**	**85**	**475**	**80**	**86**

* Includes one national bank located in the Virgin Islands.

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1962

Total membership beginning of year	**475**
Increases:	
Newly organized State member banks	2
Newly organized national banks	2
Conversion of nonmember to national bank	1
Conversion of industrial bank to national bank	1
Decreases:	
Member banks combined with other members	28
Member banks combined with nonmembers	3
Conversion of national bank to nonmember	1
Total membership at the year end	**449**

Changes in Directors and Officers

CHANGES IN DIRECTORS. In November 1962, member banks in Group 2 elected Ralph H. Rue as a Class A director of the Federal Reserve Bank of New York for a term of three years beginning January 1, 1963. Mr. Rue, who is Chairman of The Schenectady Trust Company, Schenectady, N. Y., succeeded César J. Bertheau, Chairman of the Board of Peoples Trust Company of Bergen County, Hackensack, N. J., whose term expired December 31, 1962.

At the same time, member banks in Group 2 re-elected Kenneth H. Hannan as a Class B director for the three-year term beginning January 1, 1963. Mr. Hannan is an Executive Vice President of Union Carbide Corporation, New York, N. Y.

In November 1962, the Board of Governors of the Federal Reserve System reappointed Philip D. Reed as a Class C director for the three-year term beginning January 1, 1963, and redesignated him as *Chairman* of the Board of Directors and *Federal Reserve Agent* for the year 1963. Mr. Reed is a former Chairman of the Board of General Electric Company, New York, N. Y. At the same time, the Board of Governors reappointed James DeCamp Wise as *Deputy Chairman* for the year 1963; Mr. Wise is a former Chairman of the Board of Bigelow-Sanford, Inc., New York, N. Y.

At the Buffalo Branch of the Federal Reserve Bank of New York, in June 1962, John M. Galvin, Chairman of the Executive Committee of The Marine Trust Company of Western New York, Buffalo, N. Y., was appointed by the Board of Directors of the Federal Reserve Bank of New York as a director of the Buffalo Branch for the unexpired portion of the term ending December 31, 1963. Mr. Galvin succeeded Francis A. Smith, President of The Marine Trust Company of Western New York, Buffalo, N. Y., who died on May 8, 1962. In November 1962, the Board of Directors of this Bank designated Thomas E. LaMont as *Chairman* of the Board of Directors of the Buffalo Branch for the year 1963. Mr. LaMont is engaged in farming in Albion, Orleans County, N.Y. At the same time, the Board of Directors of this Bank appointed J. Monroe Hodges as a director of the Branch for the three-year term beginning January 1, 1963. Mr. Hodges, who is President of The Exchange National Bank of Olean, Olean, N. Y., succeeded Howard N. Donovan, President of the Bank of Jamestown, Jamestown, N. Y., whose term expired December 31, 1962. In December 1962, Maurice R. Forman, President of B. Forman Co., Rochester, N. Y., was appointed by the Board of Governors of the Federal Reserve

System as a director of the Buffalo Branch for the three-year term beginning January 1, 1963. Mr. Forman succeeded Raymond E. Olson, President of Taylor Instrument Companies, Rochester, N. Y., whose term expired December 31, 1962.

CHANGES IN OFFICERS. Since February 1962, no officers have retired and one officer has terminated his service with the Bank.

Merlyn N. Trued, Assistant Vice President assigned to the Foreign function, was appointed Deputy Assistant Secretary of the Treasury, effective January 28, 1963. His service with the Bank terminated the preceding day.

The following additional changes in official staff, including the appointment of three new officers, have taken place since February 1962:

Robert G. Rouse, Vice President, formerly assigned to the Open Market Operations and Treasury Issues function, was appointed Vice President and Senior Adviser, effective May 15, 1962. Mr. Rouse resigned as Manager of the System Open Market Account, effective at the close of business May 14, 1962. In his new position, Mr. Rouse has broad responsibilities for advising the directors, the President of the Bank, and other officers with respect to monetary and other matters.

Robert W. Stone, formerly Assistant Vice President in the Open Market Operations and Treasury Issues function, was appointed Vice President effective May 15, 1962, and assigned to the Open Market Operations and Treasury Issues function, succeeding Mr. Rouse. Mr. Stone was also appointed by the Federal Open Market Committee of the Federal Reserve System to succeed Mr. Rouse as Manager of the System Open Market Account, effective May 15, 1962.

Thomas J. Roche, formerly Manager of the Foreign Department, was appointed Senior Foreign Exchange Officer (a position equivalent in rank to that of Assistant Vice President), effective May 15, 1962.

Edwin S. Rothman, formerly Chief of the Foreign Operations Division, Foreign Department, was appointed an officer with the title of Manager, effective May 15, 1962, and assigned to the Foreign Department.

George Garvy, formerly Adviser in the Research and Statistics function, was appointed Economic Adviser, effective September 24, 1962. In his new position, which is equivalent in rank to that of Vice President, Mr. Garvy has responsibility for advice and special studies with respect to economic affairs and monetary policy.

Alan R. Holmes, formerly Assistant Vice President, was appointed Vice President, effective September 24, 1962, and assigned to the Research and Statistics function where he has the responsibility for the administration of the function.

Leonard I. Bennetts, formerly Manager of the Collection Department, was appointed Assistant General Auditor, effective September 24, 1962.

Martin W. Bergin, Manager, formerly assigned to the Savings Bond Department, was assigned to the Public Information Department, effective September 24, 1962.

Ernest E. Blanchette, formerly Special Representative in the Bank Relations Department, was appointed an officer with the title of Manager, effective September 24, 1962, and assigned to the Bank Relations Department.

Karl L. Ege, formerly Assistant General Auditor, was appointed Manager, effective September 24, 1962, and assigned to the Savings Bond Department.

Robert C. Thoman, Manager, formerly assigned to the Bank Relations Department, was assigned to the Collection Department, effective September 24, 1962.

Peter Fousek, formerly Senior Economist, was appointed Manager, effective October 4, 1962, and assigned to the Foreign Department.

Thomas O. Waage, formerly Assistant Vice President assigned to the Public Information function, was appointed Vice President, effective January 3, 1963, and assigned to the Public Information function where he has the responsibility for the administration of the function.

A. Thomas Combader, formerly Building Superintendent, Building Operating Department, was appointed an officer with the title of Manager, effective January 3, 1963, and assigned to the Building Operating Department.

Paul Meek, Manager, formerly assigned to the Public Information Department, was assigned to the Securities Department, effective January 4, 1963. His appointment as Assistant Secretary was continued.

MEMBER OF FEDERAL ADVISORY COUNCIL—1963. The Board of Directors of this Bank selected George A. Murphy to serve during 1963, for the third 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

DIRECTORS	Term expires Dec. 31	Class	Group
GEORGE CHAMPION Chairman of the Board, The Chase Manhattan Bank, New York, N. Y.	1964	A	1
RALPH H. RUE Chairman, The Schenectady Trust Company, Schenectady, N. Y.	1965	A	2
A. LEONARD MOTT President, The First National Bank of Moravia, Moravia, N. Y.	1963	A	3
B. EARL PUCKETT Former 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.	1965	B	2
ALBERT L. NICKERSON Chairman of the Board, Socony Mobil Oil Company, Inc., New York, N. Y.	1963	B	3
PHILIP D. REED, *Chairman, and Federal Reserve Agent* Former Chairman of the Board, General Electric Company, New York, N. Y.	1965	C	
JAMES DECAMP WISE, *Deputy Chairman* Former Chairman of the Board, Bigelow-Sanford, Inc., New York, N. Y.	1964	C	
EVERETT N. CASE President, Alfred P. Sloan Foundation, New York, N. Y.	1963	C	

DIRECTORS — BUFFALO BRANCH

THOMAS E. LAMONT, *Chairman* Farmer, Albion, Orleans County, N. Y.	1963
JOHN M. GALVIN Chairman of the Executive Committee, 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
MAURICE R. FORMAN President, B. Forman Co., Rochester, N. Y.	1965
J. MONROE HODGES President, The Exchange National Bank of Olean, Olean, N. Y.	1965

MEMBER OF FEDERAL ADVISORY COUNCIL — 1963

GEORGE A. MURPHY Chairman of the Board, Irving Trust Company, New York, N. Y.	1963

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*
GEORGE GARVY, *Economic Adviser*
MARCUS A. HARRIS, *Vice President*
ALAN R. HOLMES, *Vice President*
HERBERT H. KIMBALL, *Vice President*
ROBERT G. ROUSE, *Vice President and Senior Adviser*
WALTER H. ROZELL, JR., *Vice President*
HORACE L. SANFORD, *Vice President*
ROBERT W. STONE, *Vice President*
TODD G. TIEBOUT, *Vice President and General Counsel*

THOMAS O. WAAGE, *Vice President*

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

FELIX T. DAVIS, *Assistant Vice President*
NORMAN P. DAVIS, *Assistant Vice President*
JOHN P. JENSEN, *Assistant Vice President*
PETER P. LANG, *Adviser*
ROBERT G. LINK, *Assistant Vice President*
ANGUS A. MACINNES, JR., *Assistant Vice President*
SPENCER S. MARSH, JR., *Assistant Vice President*
FRED W. PIDERIT, JR., *Assistant Vice President*
LAWRENCE E. QUACKENBUSH, *Assistant Vice President*
THOMAS J. ROCHE, *Senior Foreign Exchange Officer*
FREDERICK L. SMEDLEY, *Assistant Vice President*

MARTIN W. BERGIN, *Manager, Public Information Department*
ERNEST E. BLANCHETTE, *Manager, Bank Relations Department*
WILLIAM H. BRAUN, JR., *Assistant Counsel*
A. THOMAS COMBADER, *Manager, Building Operating Department*
ROBERT L. COOPER, *Manager, Securities Department*
ROBERT J. CROWLEY, *Assistant Counsel*
KARL L. EGE, *Manager, Savings Bond Department*
PETER FOUSEK, *Manager, Foreign Department*
MARTIN FRENCH, *Manager, Cash Custody Department*
FRED H. KLOPSTOCK, *Manager, Research Department*
HAROLD W. LEWIS, *Manager, Security Custody Department*
ROBERT LINDSAY, *Senior Economist*
WILLIAM E. MARPLE, *Manager, Credit and Discount Department*
MADELINE H. MCWHINNEY, *Manager, Market Statistics Department*
PAUL MEEK, *Manager, Securities Department, and Assistant Secretary*
DONALD C. NILES, *Manager, Accounting Department*
ARTHUR H. NOA, *Manager, Service Department*
JOHN F. PIERCE, *Chief Examiner*
EVERETT B. POST, *Manager, Planning Department*
CHARLES R. PRICHER, *Manager, Personnel Department*
JOHN P. RINGEN, *Manager, Bank Examinations Department*
EDWIN S. ROTHMAN, *Manager, Foreign Department*
WALTER S. RUSHMORE, *Manager, Government Bond and Safekeeping Department*
FRANK W. SCHIFF, *Manager, Research Department*
FRANCIS H. SCHOTT, *Manager, Foreign Department*
WILLIAM M. SCHULTZ, *Manager, Personnel Department*
THOMAS C. SLOANE, *Assistant Counsel*
KENNETH E. SMALL, *Manager, Cash Department*
GEORGE C. SMITH, *Manager, Check Department*
ALOYSIUS J. STANTON, *Manager, Check Mechanization Department*
PETER D. STERNLIGHT, *Manager, Securities Department*
ROBERT C. THOMAN, *Manager, Collection Department*
THOMAS M. TIMLEN, JR., *Secretary, and Assistant Counsel*
ROBERT YOUNG, JR., *Assistant Counsel*

DONALD J. CAMERON, *General Auditor*
LEONARD I. BENNETTS, *Assistant General Auditor*

OFFICERS — BUFFALO BRANCH

INSLEY B. SMITH, *Vice President*

HAROLD M. WESSEL, *Assistant Vice President*

GEORGE J. DOLL, *Cashier*

GERALD H. GREENE, *Assistant Cashier*

JOHN T. KEANE, *Assistant Cashier*

M. MONROE MYERS, *Assistant Cashier*


THE SECOND FEDERAL RESERVE DISTRICT
CANADA
NEW YORK
PLATTSBURG
OGDENSBURG
WATERTOWN
GLENS FALLS
OSWEGO
UTICA
SYRACUSE
SCHENECTADY
ALBANY
ROCHESTER
BUFFALO
JAMESTOWN
ELMIRA
BINGHAMTON
POUGHKEEPSIE
BRIDGEPORT
NEW YORK
NEWARK
NEW BRUNSWICK
MICH.
OHIO
PA.
N.J.
MD.
W. VA.
VA.
DEL.
VT.
N.H.
ME.
MASS.
CONN.
R.I.
HEAD OFFICE TERRITORY
BUFFALO BRANCH TERRITORY