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ANNUAL REPORT 1968



FEDERAL RESERVE BANK OF NEW YORK

February 28, 1969

To the Member Banks in the
Second Federal Reserve District:

It is with great pleasure that I present our fifty-fourth Annual Report, reviewing the major economic and financial developments of 1968.

In the past year, some important steps were taken toward the solution of our domestic and international economic problems. However, real progress was modest. The passage at midyear of a program of fiscal restraint was the culmination of prolonged efforts to bring Federal tax and spending policies to bear on the country's increasingly dangerous inflationary situation. But fiscal restraint had been long delayed; inflation was already firmly entrenched and the fiscal package did not slow the pace of the economy as quickly as had been hoped.

Persistent inflation and excess demand in the United States resulted in an alarming drop in the country's trade surplus. Thus, although favorable capital flows helped bring the balance of payments into a slight surplus for the year, the country was still far from lasting international equilibrium. The international financial system was again subject to violent shocks. Early in the year a stampede into gold led to the halt of sales of monetary gold on the London market. Later in the year international cooperation among monetary authorities was instrumental in combating massive capital flows set in motion by rumors of changes in the parities of the French franc and the German mark.

Monetary policy tightened in the first five months of the year in response to the increasing domestic inflationary pressures and international developments. With the passage of the fiscal legislation in June, monetary restraint was relaxed somewhat, but in retrospect the wisdom of that move may be questioned. The unexpectedly strong momentum of the economy necessitated renewed tightening toward the year-end.

In 1969, we must continue to seek a reduction of inflationary pressures at home and an improvement of our trade position internationally. Monetary policy, as well as fiscal policy, can make a major contribution to the achievement of these goals.

A handwritten signature in cursive script, reading "Alfred Hayes", is positioned above the printed name and title.

ALFRED HAYES
President

*Federal Reserve Bank
of New York*

**FIFTY-FOURTH
ANNUAL REPORT**

*For the Year
Ended on
December 31, 1968*



Second Federal Reserve District

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*Fifty-fourth Annual Report
Federal Reserve Bank of New York*

1968: Inflationary Pressures Intensify

The economy moved through a record eighth year of expansion in 1968. However, prices and wages rose rapidly, as the growth of aggregate demand remained excessive throughout the year and the unemployment rate fell to the lowest level in fifteen years. Despite the beginning of negotiations for peace in Vietnam and a slower advance in military spending, total demand rose strongly as spending in other sectors accelerated. The strength of aggregate demand lent impetus to the wage-price spiral. Labor sought to maintain its purchasing power in the face of an accelerating rise in consumer prices by increasing its wage demands. And business sought by raising prices to maintain profit margins in the face of sharply rising costs. These developments reflected not only the pressures that had already emerged in the economy, but also expectations of continued strong advances in costs and prices. Indeed, inflationary expectations, which had been strengthening gradually for several years, spread throughout the economy in 1968, bolstering the spending of businesses and households and blunting the impact of the move toward fiscal restraint at midyear. A good part of the spending by all sectors was financed by borrowing, and demands on financial markets were heavy. Investors, however, tended to shift from securities yielding a fixed income to equities in an attempt to hedge against inflation. Thus, stock prices rose substantially, bond prices fell, and at the year-end interest rates were at the highest levels in forty years or more.

The inflationary pressures in the economy also spilled over into the United States balance of payments. Excessive domestic demand was in large measure responsible for a drastic decline in the United States export surplus. This surplus,

which is the key to lasting improvement of the United States external position, fell by about \$3½ billion to only \$100 million in 1968. Nevertheless, the overall United States payments position showed a small surplus in 1968, as massive capital inflows—in part resulting from the United States balance-of-payments program, the increased interest of foreign investors in the American stock market, and political disturbances abroad—helped to offset the deterioration in the trade surplus. Given the volatility of international capital, some of the 1968 inflows may prove to be temporary. Moreover, the overall balance benefited greatly from specially negotiated inflows of foreign official capital. Thus, the balance excluding these special transactions remained substantially in deficit in 1968, and the improvement in the overall balance largely reflected special and perhaps temporary capital inflows.

However, the swing to surplus in the overall balance during the year served to strengthen the dollar in the international financial markets. The improvement was not apparent soon enough to help avert the intense gold speculation that culminated in the dissolution of the Gold Pool in mid-March. The improvement did, however, help to insulate the dollar from the massive speculative flows that buffeted the French franc, sterling, and the German mark later in the year.

The formulation of monetary policy during 1968 was complicated by uncertainty regarding the application of fiscal restraint and by mounting pressures on the international financial system. As the year opened, the Federal Reserve was moving strongly toward monetary restraint. In the latter part of 1967 it had become apparent that the Congress was unlikely to enact, for some months at least, the income tax surcharge requested by the President and that in the interim monetary policy would have to bear the full burden of attempting to restrain the spreading inflationary forces in the economy. Given the bleak fiscal outlook and the need to defend the dollar in the international exchange markets, Federal Reserve Bank discount rates had been raised to 4½ percent from 4 percent the day after the devaluation of sterling on November 18, 1967. The discount rate increase was followed in mid-December by a shift to a firmer open market policy, and just before the year-end reserve requirements on demand deposits were increased, effective in January 1968.

As the pressure exerted by open market operations increased in the early months of 1968, member bank reserve positions tightened, but the growth of aggregate demand in the economy continued to be excessive, and the international financial markets were still unsettled in the wake of the sterling devaluation. The speculative demand for gold, which had subsided at the turn of the

year, heightened sharply late in February. Against this background, open market policy firmed again in early March, but the speculative demand for gold continued to swell, reaching massive proportions and forcing the closure of the London gold market on March 15. In response to the developments, Federal Reserve Bank discount rates were raised another $\frac{1}{2}$ percentage point to 5 percent. Despite the mid-March decision to abandon official Gold Pool operations and to allow the price of gold in the private market to find its own level, the gold and exchange markets remained tense. Moreover, domestic inflationary pressures seemed to be strengthening, while the outlook for fiscal restraint remained dim. Thus, open market policy was tightened further in early April and the discount rate was increased to $5\frac{1}{2}$ percent at midmonth, the highest this rate had been since 1929.

The continued firming of monetary policy was evident in a marked slowdown in the growth of bank credit: during the first half of 1968 bank credit increased at about a 6 percent seasonally adjusted annual rate, compared with a 12 percent rate of growth in the last half of 1967. The firming of policy was also reflected in rapidly rising interest rates. Indeed, by late May long-term interest rates had generally moved well above the late 1967 peaks as the prospect for fiscal action remained uncertain. However, when agreement between the Administration and the Congress on fiscal restraint finally seemed to be emerging at the end of the month, market sentiment changed sharply and rates began to recede. Legislation was enacted in June calling for a 10 percent income tax surcharge and a \$6 billion cut in budgeted Federal expenditures, and open market policy moved to accommodate the easing of money market conditions that had already emerged. In the latter part of August, Federal Reserve Bank discount rates were reduced to $5\frac{1}{4}$ percent, primarily as a technical measure designed to align the rate with the reduced rates prevailing in the money market. This Bank's directors did not believe that the economic situation warranted a reduction in the discount rate, but reluctantly lowered it late in the month in the interest of System-wide rate uniformity.

The policy actions taken by the Federal Reserve in the summer of 1968 represented a modest easing of the restrictive policy in force during the first half of the year, and coincided with a decisive shift toward fiscal restraint. In the early summer it was widely expected that the new fiscal package would promptly and significantly slow the growth of the economy. In retrospect, it is clear that this view underestimated the momentum of the economy and particularly the pervasive role of inflationary expectations in supporting business and

consumer spending in the face of higher taxes. Indeed, the surge in such spending during the third quarter began to raise doubts regarding the likelihood of a slow-down, and interest rates started to climb again in August. The demand for borrowed funds on both the capital markets and the banking system was heavy. The growth of bank credit and deposits accelerated in July and remained very rapid over the balance of the year. The flow of total credit neared record levels and helped to sustain the excessive demand in the economy. The growth of gross national product in the third and fourth quarters of the year fell only slightly below that in the first half and remained too rapid to produce any significant easing of inflationary pressures.

Thus, during the fall it became increasingly apparent that the previous modest reduction of credit restraint had not been warranted and that new action to dampen the growth of the economy was necessary. The president of this Bank sought such action, casting dissenting votes at the meetings of the Federal Open Market Committee in October and November when decisions were made to keep open market policy unchanged. In December, open market policy firmed and the discount rate was moved back to 5½ percent. In the wake of the discount rate action, commercial bank lending rates were raised and market rates increased sharply to close the year at levels well above the May peaks.

The combination of fiscal and monetary restraint in effect at the end of 1968 should dampen the economy significantly during 1969. The impact of the income tax surcharge during the current half year is being reinforced by the recent increase in social security taxes. In addition, the firming of monetary policy has brought considerable pressure on the banking system to moderate the growth of loans and investments. However, the experience of 1968 indicates how difficult it is to slow an economy in which inflationary price and wage expectations are a major driving force. These expectations must change if the economy is to return to a pattern of sustainable growth, but they are now so firmly entrenched that this is likely to prove a difficult task. The key to price stability lies in reducing increases in overall demand to a pace consistent with the growth of the economy's productive capacity. However, wages and prices will probably adjust only slowly to a reduction of demand pressures, and a fairly long period of relatively moderate growth will be needed to restore reasonable price stability. At the same time, determined efforts must be made in the area of manpower development to qualify for employment those persons who are unemployed because of inadequate training or motivation. Success in this area would go far to minimize the effects of slower economic growth on the employment of the disadvantaged, and would

play a major role in the continuing efforts to find much needed and lasting solutions to our most pressing social problems.

The international financial system was also subjected to major strains in 1968. The March gold crisis, the flight from the franc following the May-June political disturbances in France, intermittent pressures on sterling, and the massive speculative inflow to Germany in November all contributed to the tensions in the exchange markets that originally developed after the devaluation of sterling late in 1967. These tensions were heightened by the fact that the two principal reserve currency countries—the United States and the United Kingdom—were still laboring to achieve external equilibrium, although the improvement in the United States position during the year helped to insulate the dollar from the speculative onslaught that shook the European exchanges in November.

The intensity of the crises in 1968, along with the continued difficulties experienced by major countries in eliminating payments imbalances, has led to increasing public discussion of suggestions for changes in the international monetary system. Such discussions have focused on introducing greater exchange rate flexibility and, to a diminishing extent, on increasing the price of gold. While it is clear that massive speculative capital flows pose a threat to any system of fixed currency values and that the international adjustment process is not functioning as efficiently as it should, it is likely that the proposed remedies would worsen, rather than improve, the situation.

Greater exchange rate flexibility could in theory facilitate the adjustment of payments imbalances. However, if exchange rates are allowed to move enough to reduce payments imbalances significantly, they probably would have to swing so widely that the increased exchange risks involved would have seriously adverse effects on the volume of international trade and payments. Since the present system, which has evolved progressively, has served the world economy well for the past twenty years, the burden would seem to rest with those who advocate greater rate flexibility to demonstrate that it would produce better results. It is striking that, despite the financial crises of the past year, world trade continued to expand rapidly.

While an increase in the price of gold is still advocated in some quarters as a means of dealing with international financial problems, the new Secretary of the Treasury, David M. Kennedy, has rejected a change in the monetary price of gold, stating that there is “no need or reason for such action”. Indeed, an increase in the price of gold would enhance the inflationary pressures in the world economy while encouraging still further delay in the adjustment of payments imbal-

ances. Moreover, a rise in the gold price could trigger competitive exchange rate adjustments and do irreparable damage to confidence in the dollar as a reserve currency and perhaps to its standing as the chief currency used in international trade and investment as well. The special drawing rights facility currently being established in the International Monetary Fund will provide a superior mechanism for supplying additional international reserves as they are needed.

Neither of these proposed changes in the international monetary system would eliminate the possibility of speculative attacks on national currencies. International cooperation among monetary authorities must continue to play a major role in the defense of such currencies, given the huge volume of speculative funds that can be mobilized against them. It should be recognized that such cooperation has become increasingly close and that the volume of funds available to countries whose currencies come under attack is massive. For example, the Federal Reserve's network of swap arrangements with other central banks and the Bank for International Settlements was increased by almost \$3½ billion in 1968 to over \$10½ billion. The availability and use of such short-term credits were instrumental in repulsing speculative attacks on sterling and the French franc during the year.

Lasting equilibrium in the United States balance of payments would go far to restore confidence in the current international financial system. Further progress in improving the balance of payments depends in large measure on reducing the inflationary pressures in the American economy. The elimination of excessive domestic demand and the improvement of the United States competitive position in world markets are required to reverse the deterioration of the export surplus and to strengthen the overall United States balance of payments to the point where the present restraints on capital outflows are no longer necessary. Thus, both domestic and international considerations point to the same policy prescription for 1969: sufficient restraint to reduce inflationary distortions in the economy and to assure more even and sustainable growth.

THE UNITED STATES ECONOMY IN 1968

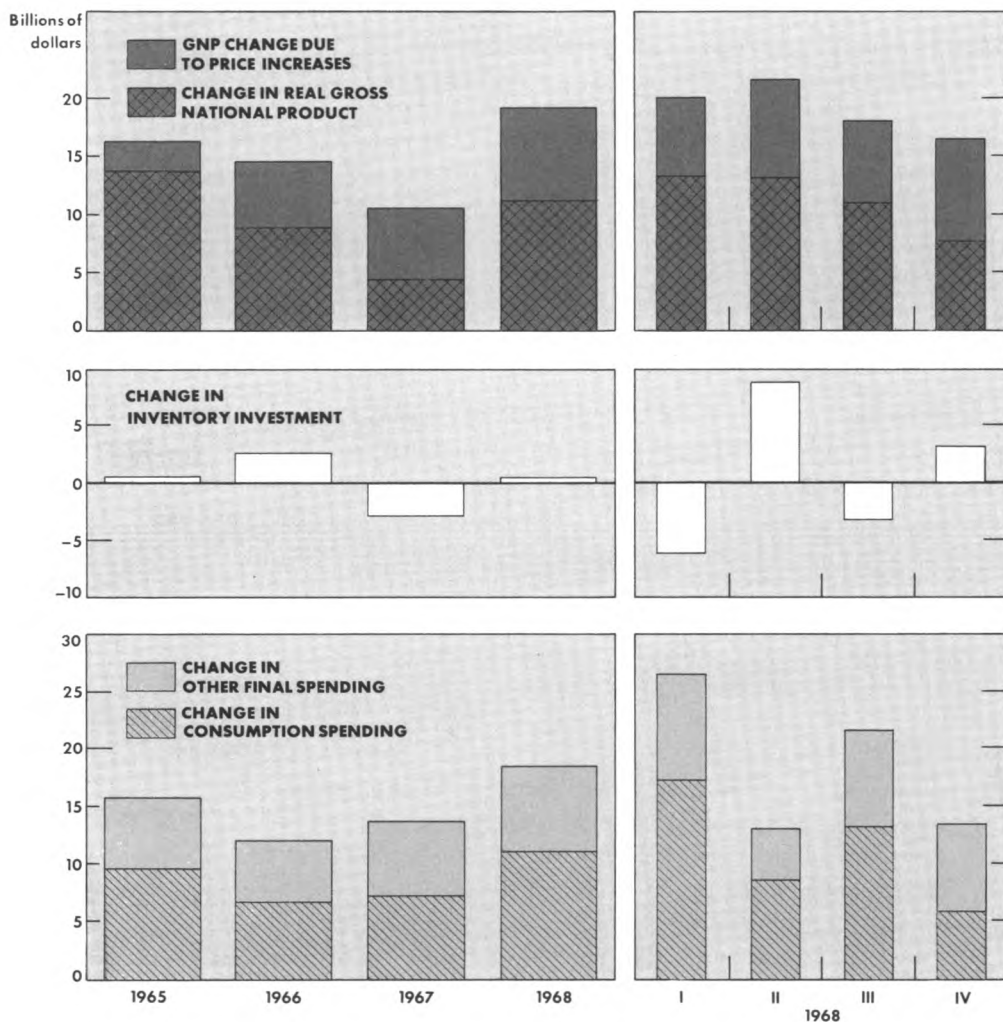
Business Conditions: Inflationary Growth Despite Efforts at Restraint

The problem of inflation intensified in 1968, as the economy moved through an unprecedented eighth consecutive year of expansion. Efforts through national stabilization policies to restore reasonable price stability at high employment were frustrated by powerful inflationary expectations. Thus, moves early in the year to increased credit restraint, and the imposition at midyear of higher taxes coupled with a program of selective Federal spending reductions, failed to prevent an excessive expansion of economic activity accompanied by an acceleration of price and wage pressures. Gross national product (GNP) totaled \$860 billion during the year and by the fourth quarter had reached a seasonally adjusted annual rate of \$887 billion, 9½ percent higher than in the fourth quarter of 1967. A much needed slowing in the growth of Federal spending as the year progressed was largely offset by widespread strength in private demand for goods and services that continued after the midyear tax increase. Price increases accounted for more than two fifths of the gain in GNP during the year, but real output still rose a large 5½ percent. Intensified pressures on the supply of labor were reflected in reduced unemployment; at the end of the year the overall unemployment rate was the lowest in fifteen years.

THE FIRST HALF OF THE YEAR: EXCESSIVE EXPANSION. The economy had already regained strong momentum before 1968 began. By late 1967 economic growth had recovered from a brief pause in the first half of that year, and total spending was again increasing across a broad front. Personal consumption outlays, which were limited partly by strike-caused shortages of new automobiles, were the only notable area of relative weakness. The economy's labor markets were already under pressure when the new year began; unemployment at the close of 1967 was down to 3.7 percent of the labor force.

In the opening months of 1968, consumer spending surged as the supply of new cars increased following settlement of labor disputes in the automobile

Chart 1. CHANGES IN GROSS NATIONAL PRODUCT AND SELECTED COMPONENTS: In 1968, GNP increased on average about \$19 billion from quarter to quarter, almost double the 1967 rate. Advances in the second half of 1968 were slightly below those in the first half. Aggregate spending was buoyed by sharp increases in consumer outlays in the first and third quarters and by sizable inventory accumulation in the second and fourth quarters.



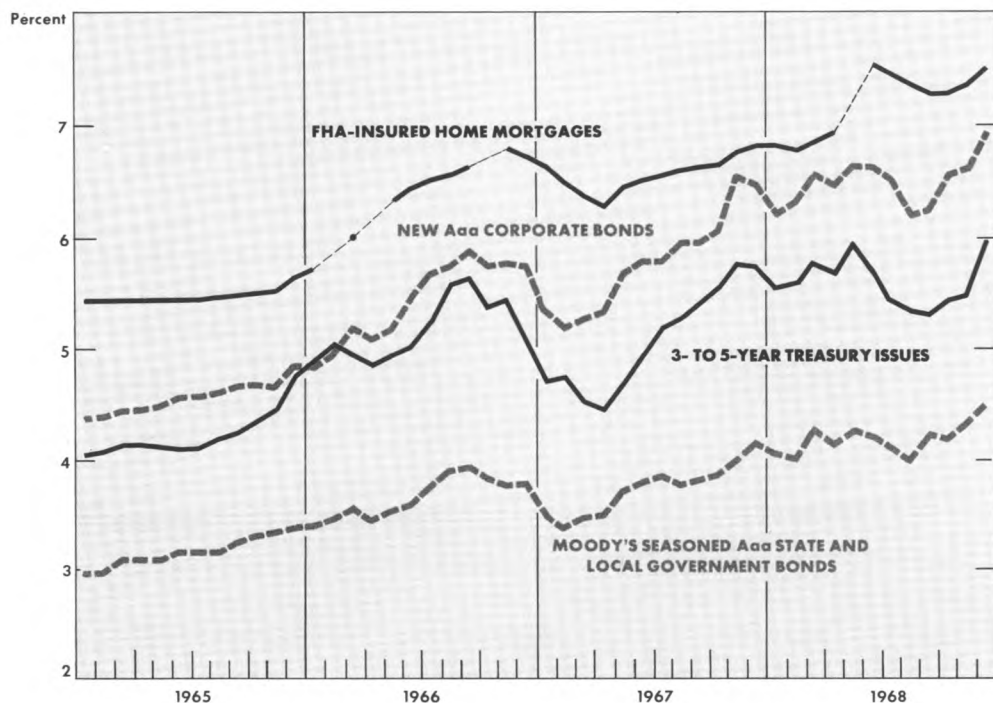
For comparability, annual changes for 1965 through 1968 are averages of quarterly changes during each year. Quarterly 1968 data reflect changes in seasonally adjusted annual rate levels.

industry, and purchases of household durables also strengthened. With other demands for goods and services generally continuing along the strong trend established earlier, GNP in the first quarter of the year registered a record gain of more than \$20 billion (see Chart 1), well above the rise in the preceding quarter. Moreover, the increase would have been considerably larger but for a sizable slackening in the rate of accumulation of business inventories by wholesale and retail trade firms, a drop-off related in all likelihood to stronger than expected consumer demand.

Interest rates in all financial markets were at high levels in the early months of the year (see Chart 2). Nevertheless, the private sector of the economy undertook near-record borrowing in the credit markets to finance growing expenditures. For instance, purchases of goods and services by state and local governments posted a record \$3.4 billion increase in the first quarter, supported in part by large amounts of funds borrowed in the capital markets at interest rates higher on average than those prevailing at the peak of the 1966 credit squeeze. Moreover, residential construction, an activity that in the past has been quite sensitive to tight financial conditions, continued to increase. Housing starts, which had fallen sharply in December 1967 amid fears of a drying-up of mortgage funds, recovered in January and increased further during the first quarter. Strong demands for new housing, due on the one hand to limited home building in recent years and on the other hand to a very rapid rate of household formation, undoubtedly contributed to the increased ability of residential building activity to resist high interest rates, an ability which was to remain in evidence throughout the year. However, another factor of key importance in sustaining home building was the striking improvement in the ability of the thrift institutions that supply the bulk of residential mortgage finance—mutual savings banks and savings and loan associations—to increase their deposits in the face of high and rising interest rates in the securities markets.

The cost of borrowed funds rose substantially further in the second quarter (see Chart 2), when continued heavy demand for credit met with greater restrictiveness on the part of the Federal Reserve System. Reoffering yields on new corporate bond issues reached an average of $6\frac{1}{2}$ percent in May and June, nearly $\frac{3}{4}$ percentage point above the peak rates of 1966. Nonetheless, economic activity continued to surge ahead in the second quarter. GNP increased nearly \$22 billion, quickly breaking the record dollar expansion that had just been set in the first quarter. The margin of extra gain was, however, due entirely to a faster increase in prices in the second quarter; the growth of real output, in

Chart 2. INTERMEDIATE- AND LONG-TERM INTEREST RATES: The upward movement of intermediate- and long-term interest rates, which began during the first half of 1967, persisted until late May 1968. Rates declined throughout most of the summer in response to passage of the fiscal restraint legislation. The final four months of 1968 again witnessed extensive increases in all areas, however, and the upward movement accelerated sharply in December, pushing most rates past their May peaks.



excess of an annual rate of 6 percent, was about the same as in the winter months. Consumer spending weakened in the second quarter, rising less than half as much as in the first quarter, but this source of moderation was fully offset by a sharp step-up in the rate of inventory accumulation. Part of the second quarter's increase in inventory spending reflected further building of steel supplies in anticipation of a possible strike in the steel industry at the end of July when labor contracts expired. However, there was also a buildup of inventories among wholesale and retail businesses, indicating that the weakening in con-

sumer demand may have led to some unplanned additions to stocks at the trade level—a reversal of the pattern of the first quarter when strong consumer demand apparently cut sharply into trade inventory accumulation.

Although GNP expanded strongly in the second quarter, it became apparent as the quarter progressed that an increasingly restrictive monetary policy was beginning to exert some restraint on economic activity. Borrowing in the capital markets by state and local governments dropped significantly in the spring, as rates on tax-exempt issues rose further. At the same time housing starts, after having risen to an annual rate of almost 1.6 million units in April, dropped to well below 1.4 million in May and June amid apprehension over an impending shortage of mortgage funds.

THE REVENUE AND EXPENDITURE CONTROL ACT OF 1968. As the first half of the year drew to a close the Congress passed, and the President signed into law, an act designed to restore reasonable balance to the Federal budget. The legislation established a 10 percent surcharge on income taxes retroactive to April 1 for individuals and to January 1 for corporations, with the surcharge in both cases scheduled to expire June 30, 1969 unless extended by new legislation. Higher tax-withholding rates for individuals were quickly placed in effect at mid-July, leaving much of the retroactive portion of the personal tax surcharge to be paid when final tax returns are filed in 1969. In addition, the bill provided for selective restraint in Federal spending. The Congress stipulated that \$6 billion be cut from the amounts previously proposed for fiscal 1969 spending on “non-essential” Federal programs. However, certain budget expenses, including Vietnam war costs and benefits under some welfare programs, were excluded from spending ceilings, and even as the bill was passed it was apparent that increases in the exempt budget items would provide a very substantial offset to the \$6 billion of mandatory cuts in fiscal 1969.

The passage of the Revenue and Expenditure Control Act of 1968 was the culmination of a prolonged struggle to bring fiscal restraint to bear on the inflationary problems at home and the weakening position of the dollar abroad. As early as the beginning of 1966, when the dimensions of our deepening involvement in Vietnam became discernible, prompt passage of a tax increase began to be urged from many sides. The need for a tax increase became even more urgent as Federal spending on domestic social programs also began to rise sharply. The impact on the Federal budget of the soaring of both defense and nondefense

spending was dramatic. Total Federal outlays rose a phenomenal \$61 billion over a short span of three fiscal years, an increase that was divided almost equally between defense and civilian programs. Federal outlays far outstripped tax revenues during this time. After achieving near balance in fiscal 1965, the budget moved progressively into deficit. The deficit reached almost \$9 billion in fiscal 1967 and then swelled to more than \$25 billion in fiscal 1968—higher than at any time except World War II. The financing of these deficits placed severe strains on financial markets and contributed directly to higher interest rates.

Despite these developments in the Federal budget and their obvious inflationary impact on the economy, action to raise income taxes continued to be delayed. In early 1967, a year and a half after the Vietnam war began to escalate, the Administration first proposed a 6 percent income tax surcharge. Then in August 1967 the Administration asked for a larger 10 percent surtax and reiterated this request in the January 1968 budget message to the Congress. Nevertheless, it was not until international speculation threatened the dollar that the margin of extra support needed to pass a tax bill developed.

THE SECOND HALF OF THE YEAR: A FAST PACE DESPITE FISCAL RESTRAINT. Following passage of the Revenue and Expenditure Control Act, general sentiment about the economic outlook changed sharply. The fiscal package was expected to bring the budget into reasonable balance, after years of deep deficits. Consequently, many observers came to the opinion that the pace of economic activity would slow markedly, especially in view of the impending downward adjustment of strike-hedge steel inventories following the contract settlement in the steel industry. Partly because the Congress had added spending restraint to the tax increase, there was also considerable feeling at the time that the new fiscal restraint package would result in “overkill”, leading to a recession in early 1969. However, the overkill view, which was never subscribed to by this Bank, soon came into question.

Consumer spending, which was expected to be one of the areas where the tax surcharge would be most quickly reflected, actually strengthened in the third quarter. Retail sales moved higher in both July and August, when purchases of nondurable goods, new automobiles, and other durable goods increased. Consumers cushioned the initial impact of the tax surcharge primarily by resorting to increased use of credit to finance purchases. As a result, the personal savings ratio—the percentage of personal disposable income saved—declined

sharply. The failure of the surtax to produce a perceptible near-term slowdown of consumer spending was one of the striking and unexpected features of the economy's behavior in the third quarter. A number of explanations have been offered for this performance. Consumer spending had been cautious, and personal savings exceptionally high, for almost two years prior to the tax increase. This had contributed to a sharp general improvement in both the debt and liquid asset positions of families, an improvement which left the way open for many to offset higher taxes by either increasing their borrowing or reducing their acquisitions of financial assets. Moreover, the tax increase did not apply to lower income families (those taxpayers with tax liabilities of \$290 or less), so that its primary incidence was on families who under any circumstances have the greatest flexibility to adjust their savings to offset small income changes. At the same time, large wage gains, and expectations of their continuance, undoubtedly also worked to undermine the restrictive effects of the tax increase on consumer behavior.

Thus, for a variety of reasons, consumer spending increased more than \$13 billion in the third quarter, accounting for a large share of the quarter's \$18 billion gain in GNP. To be sure, the third-quarter growth in GNP was smaller in dollar terms than that of the second quarter, but closer inspection revealed impressive strength rather than developing weakness. The slightly reduced GNP gain was almost fully accounted for by a \$3 billion decline in inventory spending, a decline largely related to the working-off of strike-hedge steel inventories. Final spending—the total of all GNP components other than inventory investment—accelerated considerably despite a somewhat slower rise in the GNP price deflator. Business fixed investment registered a very sizable increase following the second-quarter decline, and the growth of state and local government spending also exceeded the reduced second-quarter performance. The only major categories of final spending to show any significant slowing of growth in the third quarter were Federal Government purchases and residential construction. Residential construction spending was about unchanged in the July-September period, but the improvement in the mortgage market climate that accompanied enactment of the fiscal restraint program supported a sharp turnaround in housing starts. Total private housing starts rebounded in July to an annual rate of more than 1.5 million units and remained strong thereafter.

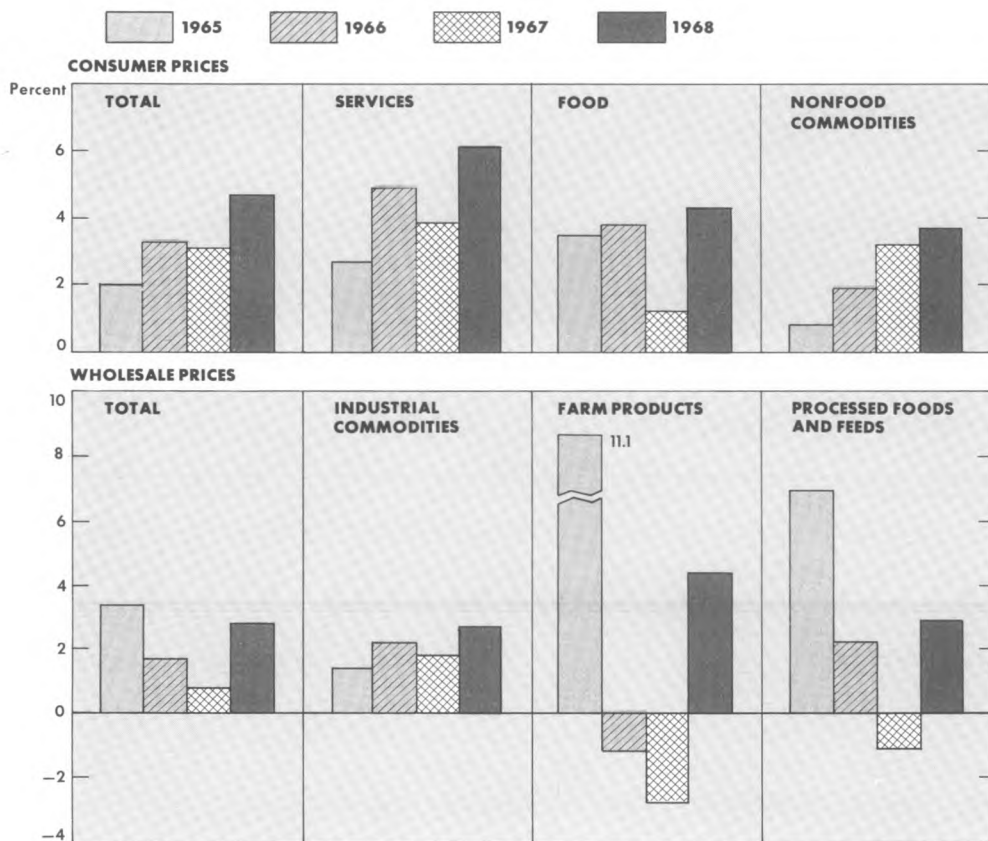
The much stronger than expected performance of the economy in the third quarter was associated with a reemergence of inflationary psychology as the summer progressed, a development that was reflected in the financial markets by a return to higher levels of interest rates accompanied by record credit demands

by private borrowers. Expectations of a continuation of inflationary growth were generally borne out by developments in the fourth quarter. GNP advanced \$16.4 billion, with more than half of the increase accounted for by higher prices. The pattern of spending in the fourth quarter was broadly similar to that of the second. A sharp slowing of the growth of consumption outlays limited the rise in final spending, but a substantial increase in inventory accumulation contributed to a large further gain in total output. At the same time, the weakness in consumption outlays in the final quarter was difficult to interpret. Retail sales showed no growth in October and November and dropped sharply in December to the level prevailing at midyear. This suggested that the personal tax increase was possibly beginning to have an important effect on consumer spending, but the very severity of the December decline indicated that the flu epidemic which swept the nation in that month also played a role in restraining consumption. Moreover, the weakness in total private final spending was limited almost entirely to consumption. Business fixed investment increased a record amount in the fourth quarter, while residential construction spending turned in its strongest increase for the year. Home-building activity was buoyed by a high rate of housing starts in the fourth quarter, the highest in nearly five years.

INFLATION TIGHTENS ITS GRIP. The most disturbing aspects of the economy's performance in 1968 were the rapidity of actual price and wage increases and the spreading and deepening of the public's belief that further such increases could be expected for some time to come. Inflationary expectations in 1968 became a part of the economic environment to a greater extent than at any time in more than a decade. During the first half of the 1960's, prices and production costs in the United States had been generally stable in the face of rapid and sustained economic growth starting in early 1961. However, as the employment of productive resources approached full capacity, a process hastened after mid-1965 by this country's widening involvement in the Vietnam war, pressures on the price level became pronounced.

Prices increased about 4 percent in 1968 as measured by the implicit price deflator for GNP. Consumer prices were the most severely affected by inflation, rising 4.7 percent over the year (see Chart 3), the steepest one-year gain since the Korean war. Services led the advance in overall consumer prices, with increases in the costs of housing and medical care being especially sharp. However, consumer food prices also rose further after a modest advance in 1967,

Chart 3. CONSUMER AND WHOLESALE PRICES CONTINUE TO RISE: The consumer price index advanced more rapidly in 1968 than at any time since the Korean war. The advance in the costs of services was particularly sizable, but food prices rose much more rapidly than in the previous year and the rate of increase in nonfood commodity prices continued to accelerate. At the wholesale level the price indexes for all major product classifications increased substantially in 1968, following a mixed pattern the year before.



Data are percentage changes on a December-to-December basis.

and the prices of commodities other than food increased nearly 4 percent. The wholesale price level also moved higher during the year and by December was 2.8 percent above a year earlier (see Chart 3). Wholesale prices of industrial

commodities rose 2.7 percent, and in the fourth quarter their rate of advance appeared to be accelerating.

Strong demand conditions and a surge in production costs were both important stimulants to rising prices during 1968. The 5½ percent gain in the real output of goods and services during the year was well above the roughly 4 percent that is generally considered compatible with maintenance of a balance between aggregate demand and aggregate supply at full employment. Pressures on the economy's ability to produce were most apparent in the labor markets. Until late 1968 the unemployment rate remained generally stable, averaging a small 3.6 percent of the labor force and, in the final months of the year, declined still further to 3.3 percent, the lowest level since the Korean war. Reports of shortages of both skilled and semiskilled workers were widespread during the year, indicating that the demand for labor exceeded the supply of suitable workers. By the end of the year, the key unemployment rate for adult men was 1.8 percent, the lowest reading since the series first became available twenty years ago.

At the same time, increases in both union and nonunion wages in 1968 were well above both past and anticipated near-term gains in labor productivity. Negotiated wage settlements in private industry generally followed the pattern of the late 1967 settlement in the automobile industry, which provided increases in wage and fringe benefits averaging roughly 6 percent annually over a three-year contract life. However, major settlements in 1968 were more often above than below 6 percent per year, and the trend toward especially large increases in the first year of the new contract—increases designed to catch up with past rises in living costs—was much more evident than in earlier years.

Because of the steep gains in wages and fringe benefits, the 1968 increase in hourly compensation far outstripped the year's strong advance in productivity. Private output per man-hour increased more than 3 percent in 1968, about equal to the postwar trend. However, average compensation per man-hour in the private sector of the economy rose more than 7 percent, exceeding by a considerable margin the already substantial 6 percent advance recorded in 1967. Consequently, average labor costs per unit of output in the private sector rose about 4 percent in 1968.

The only indication of any slack in the economy's productive capacity was the relatively moderate 85 percent rate of capacity utilization prevailing in manufacturing, a rate well below the 93 percent that manufacturers on average state to be their preferred operating ratio. Nonetheless, much of this idle capacity may reflect facilities which have become uneconomical to operate at current wage

rates and difficult to staff given prevailing labor shortages. The further rise in the large backlog of unfilled orders at both durables and nondurables manufacturing firms and climbing imports indicated widespread difficulty during 1968 in meeting demands.

Monetary Policy: The Challenge of a Change in Policy Mix

In 1968, monetary policy was faced with the twofold task of restraining increasingly severe inflationary pressures at home and defending the position of the dollar in foreign exchange markets that were buffeted by a succession of massive speculative disturbances. Over the first five months of the year, this task was both magnified and complicated by the Congressional impasse on the President's request for a 10 percent surtax. Then, following passage of the tax bill in June, the Federal Reserve System was faced with the need to adjust monetary policy to a sharply changed fiscal policy stance which proved less immediately effective than hoped in slowing the economy. As always, policy decisions during the year reflected a balancing of a multitude of complex considerations, but uncertainties seemed to bulk larger than usual in 1968.

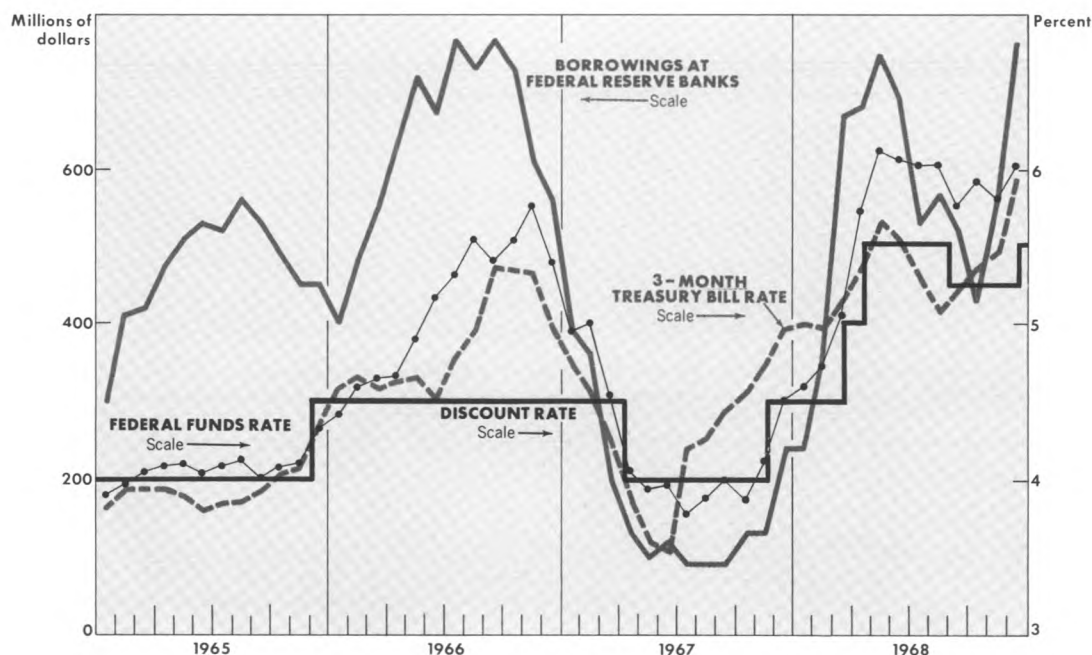
The balance of economic and financial considerations had already begun to shift in favor of a tightening of policy before 1968 began. The devaluation of the pound sterling in November 1967 was followed by a $\frac{1}{2}$ percentage point increase in the Federal Reserve discount rate to $4\frac{1}{2}$ percent (see Chart 4), an action taken in recognition of the growing inflationary problem in the United States and as a precautionary move to protect the dollar in foreign exchange markets. Open market policy firmed subsequently, and on December 27 the Board of Governors of the Federal Reserve System announced a $\frac{1}{2}$ percentage point increase in reserve requirements against demand deposits in excess of \$5 million at each member bank, to take effect in January.

As 1968 opened, there was increasing concern about inflationary pressures in the economy, the sharp decline in the nation's foreign trade surplus, and the continued rapid expansion of bank credit and money supply measures. Against this background, open market operations tightened further in late February, fol-

lowing successful completion of a succession of two large Treasury financings, and became still firmer in early March.

Massive speculative demands for gold reemerged in late February and early March, and the calm that had prevailed in foreign exchange markets in January and February was broken. Foreign confidence in the dollar was threatened by inflationary developments in the United States economy and continuing doubts about Congressional passage of a tax increase. Against this background, the

Chart 4. BORROWED RESERVES AND SHORT-TERM INTEREST RATES: Commercial bank borrowings at the Federal Reserve Banks rose sharply in early 1968 in response to a very rapid tightening of System open market policy. Borrowed reserves fell from around midyear until the fall, when they began to move up. Short-term interest rates reflected the varying degree of tightness in the money market over the year. The Treasury bill rate peaked in late May and declined through much of the summer in the easier atmosphere that followed the move to fiscal restraint. The increase toward the end of the year reflected the continued buoyancy of the economy and the retightening of monetary policy.



Board of Governors on March 14 unanimously approved actions by the directors of nine of the twelve Federal Reserve Banks increasing the discount rate at those Banks to 5 percent from $4\frac{1}{2}$ percent. Two of the remaining three Banks posted the new rate on March 15 and 18.

The Federal Reserve Bank of New York favored a larger increase, however, and for that reason did not adopt the 5 percent discount rate until later. Initially, at a special meeting held on March 14, the Board of Directors of this Bank unanimously voted to establish, subject to review and determination of the Board of Governors, a discount rate of 6 percent. An alternative rate of $5\frac{1}{2}$ percent was voted in the event the Board of Governors declined to approve the 6 percent rate. The directors felt that a decisive move was necessary as a demonstration of resolute determination to protect the dollar. The Board of Governors declined to approve either of these discount rate increases. Then, on March 21, the directors of this Bank, after reaffirming their belief that a discount rate increase of more than $\frac{1}{2}$ percentage point was called for, reluctantly voted to establish a 5 percent rate in the interest of harmony within the System and in order to avoid problems of discount window administration that might otherwise have arisen.

The international situation calmed somewhat in late March and early April but remained precarious, and intensifying inflationary developments at home continued to reflect the need for further monetary restraint in the absence of any discernible progress toward passage of a tax increase. Accordingly, on April 18 this Bank's Board of Directors again voted to increase the discount rate to $5\frac{1}{2}$ percent, subject to review and determination of the Board of Governors. The Board of Governors approved this action and similar increases at two other Banks, to take effect April 19. The higher rate was adopted by the remaining nine Federal Reserve Banks within a week.

On April 18 the Board of Governors also announced a liberalization of its Regulation Q ceilings on large-denomination certificates of deposit (CD's) of member banks, replacing the flat $5\frac{1}{2}$ percent ceiling that had been in effect since 1966 with a graduated scale ranging from $5\frac{1}{2}$ percent for the shortest maturities to $6\frac{1}{4}$ percent for maturities of 180 days or more. In the weeks prior to this action, the rise of competing short-term rates above the Regulation Q ceiling had already resulted in substantial losses of large CD's at banks, and the liberalization of the ceiling was necessary to prevent further sizable losses in the wake of the $\frac{1}{2}$ percentage point increase in the discount rate.

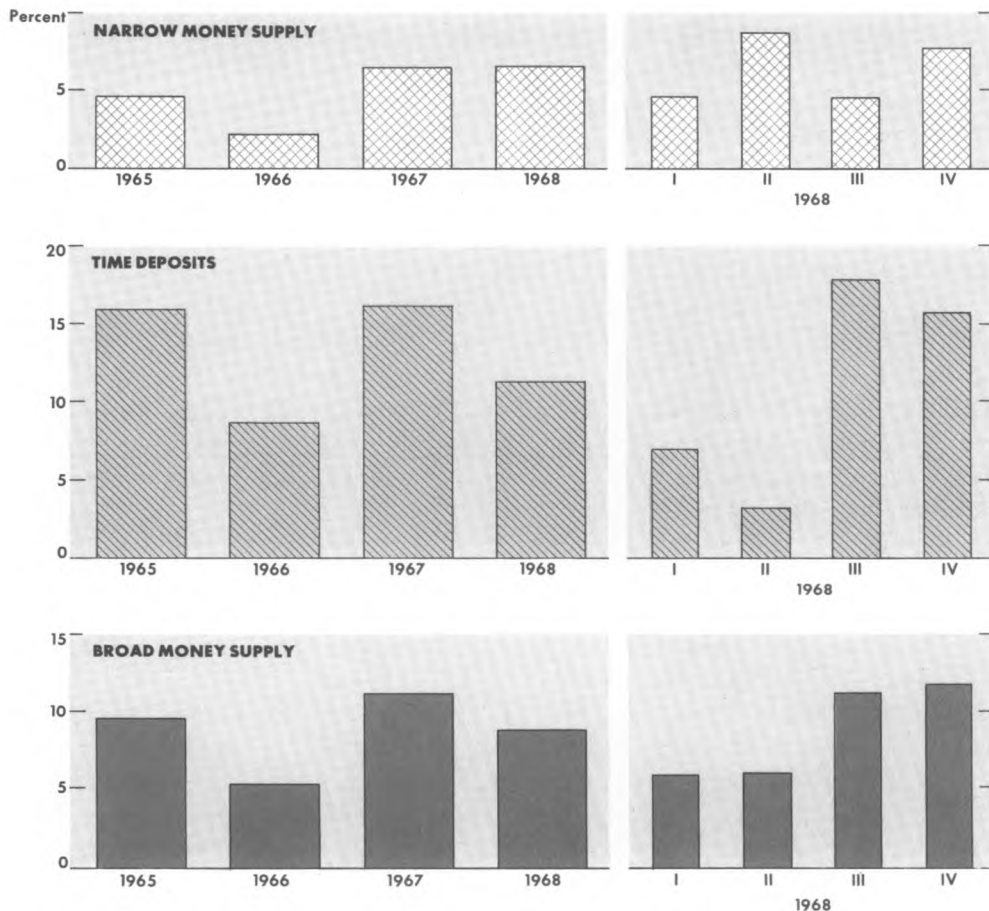
Open market policy had firmed somewhat further before the April 19 increase

in the discount rate, and pressures on bank reserve positions continued to mount through May and early June. The Federal funds rate averaged above 6 percent in the opening weeks of June, about 1½ percentage points higher than the average rate at the start of the year, and daily average member bank borrowings peaked in May at \$746 million, roughly equaling the highest levels in 1966. The upward movement of the various measures of money market pressures in the first five months of the year was one of the sharpest on record (see Chart 4).

Early April marked a turn to a much more moderate rate of expansion of bank credit and deposits. In the first quarter of the year, bank credit and total deposits had expanded at a seasonally adjusted annual rate of 7 percent. However, in the succeeding spring months, record high market interest rates placed considerable pressure on banks' ability to attract and retain large CD's despite the higher Regulation Q ceilings. As a result, daily average deposits of member banks subject to reserve requirements—the "bank credit proxy"—actually contracted in April and rose little in May.¹ Over the entire second quarter the bank credit proxy grew at an annual rate of only 1.2 percent. Although growth of large CD's resumed late in June, after market interest rates eased in response to improved prospects for a tax increase and news of a limited deescalation of the Vietnam conflict, total time deposit growth at all commercial banks over the second quarter averaged only 3.2 percent at an annual rate, compared with 7.0 percent in the first quarter (see Chart 5). However, private demand deposits at banks grew at a 9 percent annual rate in the second quarter, more than double the first-quarter pace. As a result, the rate of growth of the money supply—private demand deposits plus currency outside banks—accelerated in the second quarter despite the general increase in interest rates. The supply of private deposits was augmented in this period by a steep rundown in Treasury deposits; such rundowns are frequently associated with short-run increases in privately held balances. Moreover, the demand for money in the second quarter was possibly strengthened by the surge in stock market transactions during the period.

¹The "bank credit proxy" is a measure used by the Federal Open Market Committee and the Trading Desk to gauge short-run trends in total bank credit. While the proxy is an indirect measure of total bank credit, the member bank deposit statistics on which it is based are available on a daily basis with a very short reporting lag, whereas total bank credit data are available only for the last Wednesday of each month. Since mid-1966, the Federal Open Market Committee in its directives to the Federal Reserve Bank of New York has made increased use of a proviso clause which generally calls for modifying open market operations when bank credit appears to be deviating significantly from current projections.

Chart 5. THE MONEY SUPPLY: The 6½ percent advance in the narrowly defined money supply during 1968 was about the same as the 1967 growth rate, although there were some substantial variations in the rate of expansion from quarter to quarter. Total time deposits grew slowly in the first two quarters, when Regulation Q ceilings on large certificates of deposit restricted the ability of banks to compete for these funds. The competitive disadvantage of large CD's was reversed around mid-1968, and thereafter time deposits expanded vigorously.



The narrow money supply is the sum of currency outside banks and the public's holdings of demand deposits at commercial banks.

The broad money supply consists of the narrow money supply plus time deposits held by the public at commercial banks.

The growth rates shown are computed from daily average levels in the final month of the preceding period and the final month of the period covered. Quarterly figures are seasonally adjusted annual rates.

Financial pressures eased greatly in June before and after passage of the fiscal restraint legislation. Open market operations accommodated the easing of money market rates arising from changing market forces, and this policy was continued in July. The passage of fiscal restraint legislation had, of course, confronted the System with a markedly changed policy environment. The larger than expected size of the fiscal package, resulting from the addition of a program of spending restraint, raised fears in many quarters that continuation of strong monetary restraint would slow the economy excessively, especially in view of the impending downward adjustment of strike-hedge steel inventories and the lagged effects on the economy of the very tight financial conditions earlier in the year. However, the overheated state of the economy, coupled with uncertainties about the restrictive effects in an inflationary environment of a tax increase that was intended to be temporary, dictated a cautious approach in probing for a new balance between fiscal and monetary policy.

On August 15 the Board of Governors announced its approval of a reduction to $5\frac{1}{4}$ percent from $5\frac{1}{2}$ percent in the discount rate of the Federal Reserve Bank of Minneapolis. The Board stated that the change was primarily technical to align the discount rate with the lower level of money market rates that had emerged largely in response to passage of fiscal legislation. The remaining eleven Reserve Banks adopted the lower rate by the end of the month, but the move provoked a lively debate within the System, reflecting differing assessments of current and prospective economic and credit developments. The directors of this Bank, meeting on August 15, reviewed in depth the question of whether a reduction in the discount rate was desirable; they were impressed by the evidence of continued substantial inflationary pressures in the economy and were unanimous in their conclusion that it would be most undesirable to reduce the discount rate. At their next regular meeting on August 29 they again reviewed the situation, and their assessment of the general economic situation and outlook was essentially unchanged. Nevertheless, in view of the mild reaction in the financial market to the reduction in the discount rate at other Reserve Banks and the overall advantage of having a uniform rate throughout the System, this Bank's directors voted to reduce the discount rate to $5\frac{1}{4}$ percent.

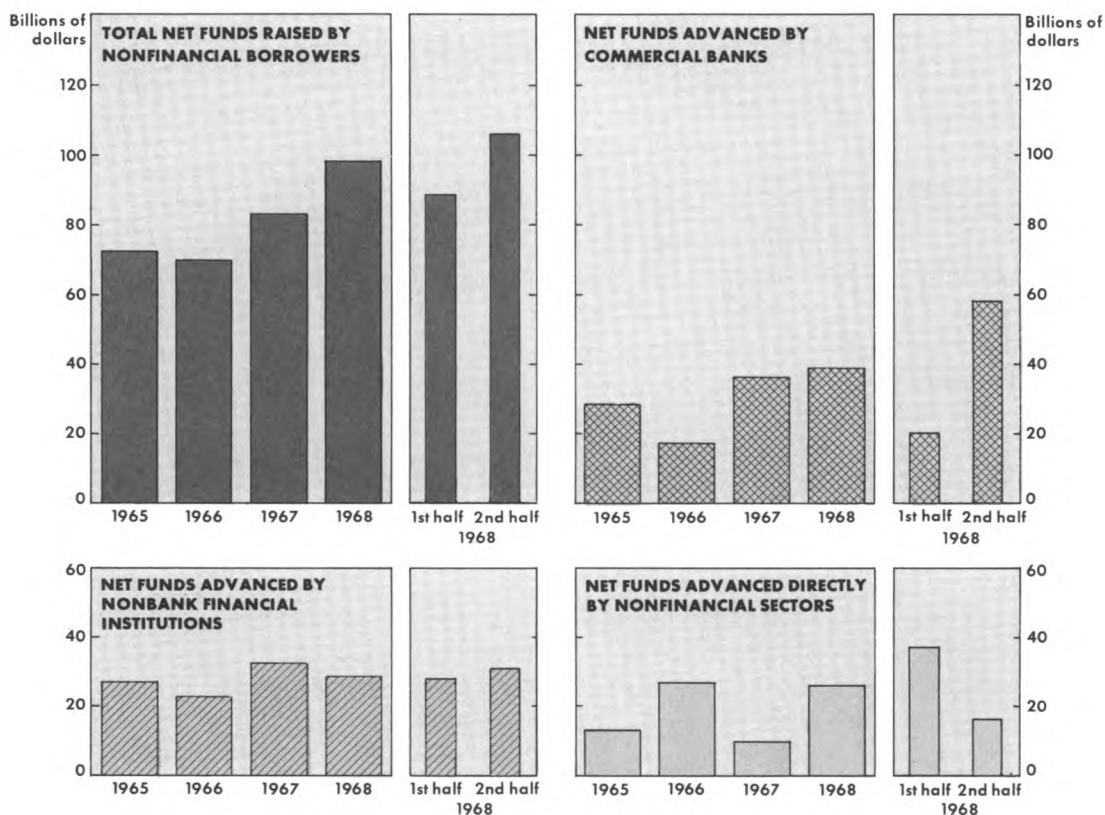
As the surprising strength of the economy in the summer continued into the fall, doubts about an economic slowing grew and strong inflationary sentiment reemerged. Widespread shifts of expectations among borrowers and lenders were apparent in a renewed general uptrend of longer term interest rates. At the same time, evidence of strong demands for credit and liquidity was being reflected in

a vigorous expansion of bank credit and deposits. Bank credit expanded very sharply in the third quarter on the strength of an 18 percent annual rate of increase in bank time deposits. While money supply growth moderated on balance in the third quarter (see Chart 5), this appeared to be related to a buildup of Treasury deposits at the expense of privately held balances, and money supply growth moved back up after September.

Against this background, the System became increasingly less concerned with accommodating the lower interest rates that had developed during the early summer, and began to focus attention on the rapid growth of bank credit. Reflecting this change of emphasis, the three-month Treasury bill rate, which had dropped below 5 percent in early August, moved back to around 5½ percent by late October. At the same time, some members of the Federal Open Market Committee began to urge a more restrictive System policy. At the committee's meeting on October 8, three Reserve Bank presidents opposed the majority decision to keep open market policy unchanged. This Bank's president, who was among those dissenting at this meeting, again cast a minority vote for a firmer policy at the October 29 meeting, and at the November 26 meeting joined with three other Reserve Bank presidents in a further dissent from the majority decision to keep open market policy unchanged. In early December, open market operations were firmed by the Trading Desk in response to the committee's directive to resist any tendency for bank credit to grow faster than projected. Then, on December 17, the Board of Governors announced that it had approved a discount rate increase to 5½ percent voted by the directors of nine of the Federal Reserve Banks, including New York. The remaining Reserve Banks quickly followed suit. At the same time, the Federal Open Market Committee voted unanimously for an intensification of pressures on member bank reserve positions through open market operations. Thus, at the year-end the financial markets were in the process of adjusting to this evidence of the Federal Reserve System's intention to pursue a policy of restraint conducive to a reduction of inflationary pressures, restoration of economic stability, and attainment of reasonable and sustainable equilibrium in the country's balance of payments.

BANK CREDIT AND THE FLOW OF FUNDS. The flow of funds through the credit markets reached a record volume in 1968 (see Chart 6). Total funds raised by all nonfinancial borrowers amounted to nearly \$100 billion, with the Federal Government claiming more than one sixth of the total. Private bor-

Chart 6. FLOWS OF FUNDS IN CREDIT MARKETS: Nonfinancial borrowers raised a record volume of funds in 1968. Credit provided by commercial banks in 1968, while about the same amount as the previous year, was a smaller share of total funds advanced. Direct (unintermediated) credit flows increased sharply, while funds supplied by nonbank financial institutions slipped a little from the 1967 volume.



Semiannual data are seasonally adjusted annual rates.

rowing was very strong despite high interest costs. Enlarged consumer credit demands subsequent to the tax increase contributed to an accelerated growth of private credit from midyear onward. State and local governments continued to place very heavy demands on the capital markets in 1968, and their borrowing also increased after midyear, reflecting curtailment of financial aid from the Fed-

eral Government and stepped-up sales of industrial revenue bonds in advance of the removal at the year-end of the tax-exempt status of issues greater than \$5 million.

Commercial and industrial corporations were the only major class of non-financial borrowers to reduce their credit demands in 1968, a development related to the improved flow of internally generated funds and the stronger liquidity positions achieved in 1967. New corporate bond issues fell below the 1967 pace and, because a higher proportion was placed directly with institutional investors, supply pressures on the corporate bond market were more moderate than in 1967. Nevertheless, offering rates on new corporate bonds posted record levels this past year, at times reaching as much as 7 percent on the highest grade issues.

Despite record or near-record high interest rates throughout the financial markets, credit flows in 1968 remained reasonably well balanced. There was no abrupt curtailment of credit availability to any major class of borrowers, and financial intermediaries were generally able to attract a good share of the record 1968 volume of savings. High and rising levels of market interest rates did, however, continue to exert some pressure on depository financial intermediaries. Many potential depositors found marketable securities to be more attractive investments than time or savings accounts. Consequently, an enlarged share of credit flows took the form of direct lending and borrowing in the securities markets, and the share of intermediated credit fell substantially. Roughly \$25 billion of credit in 1968 bypassed financial intermediaries, nearly three times as much as in 1967 when rates of interest in the securities markets were much lower relative to rates available on time and savings deposits. Among the major deposit-issuing institutions, savings and loan associations and mutual savings banks felt the competition of high market interest rates more strongly than did commercial banks.

Apart from those periods when the Regulation Q ceilings curtailed inflows of large CD's, bank time and savings deposits expanded strongly. As a result, commercial banks were able to advance a total of \$39 billion of credit in 1968, a bit more than the amount supplied in 1967 (see Chart 6). Banks were active in all their traditional credit markets in 1968. They supplied funds in volume to consumers and state and local governments, and both directly and indirectly helped to finance some of the massive credit needs of the Federal Government. Banks also supplied an enlarged share of residential mortgage credit and thus were important in helping to promote growth of home building. Business loan demand

was only moderately strong in 1968, in part because of the increased reliance by corporations on the commercial paper market to accommodate shorter term financing needs, and this development possibly contributed to the continued good availability of bank funds to other borrowers.

The pressures on mutual savings banks and savings and loan associations in 1968 were reflected in an expansion of their savings accounts which was only about two-thirds as great as in 1967. Their growth had slowed in late 1967, when market interest rates moved up, but higher market rates in 1968 failed to produce any further slowing, suggesting that the interest-sensitive funds that flowed out of these intermediaries in 1966 had not returned to any major extent in 1967. Despite their smaller savings inflows during 1968, total lending in the mortgage markets by these institutions was little changed from 1967. This development was made possible by reducing acquisitions of liquid financial instruments and by an increase in the borrowings of savings associations at the Federal Home Loan Banks, following sizable net repayment of such loans in 1967. Mutual savings banks continued to divert a large share of their deposits into the corporate bond market but began to increase their mortgage lending activity around midyear, following an increase in the Federal Housing Administration's ceiling rate on insured home mortgages and the relaxation of usury ceilings on home mortgage rates in several populous Eastern states.

The orderly financing of 1968's record total credit demands in an environment of high interest rates stands out as one of the year's major accomplishments. That this was done without severe distortions arising in the flows of funds underscored the increased resiliency of financial markets and institutions which has developed in recent years. Thus, 1968 contrasted sharply with 1966 when massive financial dislocations occurred under circumstances which in many ways were less severe than those in 1968.

THE INTERNATIONAL ECONOMY

The year 1968 was marked by a succession of major disturbances in the gold and foreign exchange markets. For many years, the international monetary system had been subject to recurrent strains generated mainly by large and prolonged balance-of-payments deficits in the United States and in the United Kingdom, but in 1968 pressures emerged with almost unprecedented intensity from other sources as well. Early in the year, in the uncertainty that followed the sterling devaluation of November 1967, the stability of the international monetary system was shaken by a violent speculative rush into gold through the London and other foreign markets. The atmosphere of crisis quickly faded after mid-March, when the central bank governors of the Gold Pool countries agreed to terminate official intervention in the London market. In subsequent months the position of the dollar in the exchange markets improved considerably.

However, as sentiment turned in favor of the dollar, speculation focused on various European currencies. The eruption of widespread civil disorders in France in May and June touched off a flight from the French franc. Later in the year, the exchange markets were rocked by a massive movement of short-term funds into Germany in anticipation of a revaluation of the German mark. As funds moved across the exchanges into Germany, reaching flood proportions around mid-November, confidence in the very survival of the international monetary system was badly shaken, and the French franc and the pound sterling—already under pressure—were particularly hard hit. In the face of this threat, the Group of Ten countries convened an emergency meeting in Bonn, Germany, on November 20, to consider steps to restore calm in the markets. At about the same time, each of the principal countries involved in the crisis—France, Germany, and the United Kingdom—introduced a variety of measures designed to defend established currency parities, and in the closing weeks of the year the tensions in the exchange markets abated.

Despite these disturbances, the volume of world trade and payments continued to expand throughout the year, as each shock was contained through cooperative efforts on several fronts by the major industrial countries to support the international monetary system. These cooperative efforts, based in large part on a further substantial expansion in the network of central bank credit arrangements,

helped to dissipate speculative forces while corrective programs were under way in both surplus and deficit countries. In addition to the strengthening of central bank defenses against destabilizing capital movements, further progress was made in 1968 toward the establishment within the International Monetary Fund (IMF) of the special drawing rights facility, which will provide a means by which existing international reserve assets may be supplemented over the longer run on a systematic basis. Nevertheless, as the year drew to a close, it was clear that many of the underlying adjustments required to restore enduring confidence in currency parities had yet to be completed. More than one year after the devaluation, the United Kingdom's external accounts were still in large deficit; serious imbalances in trade and payments persisted elsewhere in Europe; and the United States payments position, despite some improvement in 1968, was still vulnerable to setbacks over the near term.

The Gold Crisis and its Aftermath

The devaluation of the pound sterling on November 18, 1967 was a major shock to the world's financial system. Fears that the change in the sterling parity might touch off a wider, and perhaps disorderly, round of currency readjustments swept through the gold and foreign exchange markets. Within a week after the devaluation, the private demand for gold surged to record levels in the London and other foreign markets, as confidence in exchange parities was badly shaken. The potentially disruptive effects of these disturbances were countered initially by a statement issued in Frankfurt of solidarity among the major central banks and of their determination to defend the existing exchange structure. At the same time, the United States again unequivocally reaffirmed its commitment to maintain the official price of gold at \$35 an ounce, and acting jointly with the other active members of the Gold Pool—Belgium, Germany, Italy, the Netherlands, Switzerland, and the United Kingdom—it continued to stabilize the market price through sales of gold in the London market.

Following President Johnson's announcement on January 1, 1968 of a comprehensive and drastic set of new measures designed to bring the United States external accounts much closer to balance, speculative activity in gold subsided

still further, but only for a few weeks. Before these measures had begun to yield results, accumulating evidence that the United States payments deficit had widened considerably in 1967 added to market uncertainties, despite official assurances that the dollar price of gold would not be changed. The underlying private demand for gold remained large through January and February and, with smaller offers of newly mined gold from South Africa and other sources of supply, the Gold Pool countries sustained further losses. Toward the end of February, moreover, heavy speculative demands reemerged once again, and in early March quickly swelled to massive proportions on widespread rumors of an imminent change in United States gold policy. As the rush into gold gathered momentum, confidence in currencies weakened generally, but the selling pressure on the pound sterling, in both the spot and forward markets, was particularly heavy.

Throughout this period, market participants became increasingly skeptical about the readiness of the Gold Pool members to continue to deplete their holdings of monetary gold in the amounts required to keep the market price close to the official price. When the Gold Pool was set up in October 1961, it was designed to help maintain orderly conditions in the gold market and thereby facilitate the flow of newly mined gold into official holdings. On numerous occasions, the Pool's intervention in the market as a seller—most notably in 1962, during the Cuban missile crisis, and again in 1963, at the time of the assassination of President Kennedy—had clearly helped to maintain confidence in the international financial structure. In fact, until the sterling devaluation, the Pool had been a net buyer of gold, on balance. After the devaluation, however, the Pool's intervention in the private market entailed a massive and relentless drain on official gold holdings. Under these circumstances, the effect of the Pool's sales (of which the United States share amounted to 59 percent following France's withdrawal from the Pool in June 1967) was to undermine rather than reinforce the credibility of the United States commitment to maintain the official price of gold. The Pool had outlived its usefulness.

On Sunday, March 17, the central bank governors of the Gold Pool countries, meeting in Washington, announced that the Pool would no longer supply gold to the London or any other private market and that it was no longer necessary, in view of the prospective supply of special drawing rights (SDR's) as a new source of international liquidity, to buy gold from the market for additions to the stock of monetary gold. These decisions, which were quickly supported by a vast majority of other central banks, in no way altered the commitment of the United

States to maintain the official price of gold at \$35 an ounce for transfers among monetary authorities, but allowed the price in the private market to be determined by private demands and available supplies. In effect, the decision to terminate official intervention separated the circuit of monetary gold movements from private trading, and thereby insulated the stock of monetary gold from speculative and industrial demands. At the same time, the governors reaffirmed their determination to maintain the network of fixed parities embodied in the Bretton Woods Agreement and anchored in the existing official price of gold. This expression of international solidarity was promptly reinforced by a further expansion in the network of central bank short-term defenses against currency speculation. The total of credits immediately available to the United Kingdom was raised to \$4 billion. As part of this increase, the Federal Reserve System's swap facility with the Bank of England was raised by \$500 million to \$2 billion, while the System's reciprocal currency arrangements with seven other central banks and with the Bank for International Settlements (BIS) were enlarged by a total of \$1,775 million, thus increasing the entire Federal Reserve swap network to \$9.4 billion.

The following day, March 18, gold traded at a premium above the official price, as expected, in the continental European markets, with the price in Zurich at a high of \$41.50 an ounce, but the earlier tensions in the gold market quickly disappeared. By April 1, when the London gold market was reopened after having been closed for two weeks, the price had receded to \$37.70 an ounce. Thereafter, the price fluctuated within a relatively narrow range, as continuing industrial and other demands were easily accommodated largely through liquidations of inflated private hoards. On the other hand, the supply of newly mined gold available to the market after mid-March fell off considerably as a result of the South African government's decision to discontinue large-scale sales of gold abroad—a decision made possible by a favorable turn in South Africa's balance of payments during the year. Despite the reduced availability of gold from this single most important source of market supplies, the absence of an assured floor on the market price introduced a new element of risk into gold speculation and, in fact, private speculative purchases subsided considerably in the course of the year. Even around mid-November, when the European exchange markets were shaken by a new major speculative upheaval, conditions in the gold markets remained relatively calm.

Both before and after the dissolution of the Gold Pool, substantial progress was made toward the establishment of the machinery for SDR's in the IMF. As al-

ready noted, the Gold Pool countries' decision not to rely on new gold production as a significant source of additions to monetary reserves was based in part on their confidence that the machinery for the creation of SDR's would soon be set in place. A major step in that direction had already been taken in September 1967, when the governors of the IMF unanimously approved the outline plan for the creation, distribution, and use of SDR's. The plan, which was prepared by the Group of Ten countries after four years of intensive study and negotiations, was then incorporated in proposals for amendments to the IMF Articles of Agreement, and at a meeting in Stockholm in late March 1968 the ministers and central bank governors of the Group of Ten reached nearly unanimous agreement on the final text of the proposed amendments. Once these final differences were resolved, the amendments were approved by the governors of the IMF in May, and then submitted to all the member governments for ratification—a process that could be completed in the near future. When the facility is ratified and activated, it will provide the means by which gold, dollars, and other international reserve assets can be supplemented regularly at a rate rationally geared to the need for reserves. Nevertheless, the provision of SDR's will not remove the need for the adoption of more effective adjustment policies in both deficit and surplus countries; so long as the pattern of international payments remains severely unbalanced, the exchange markets will continue to be vulnerable to sudden bursts of speculation.

The European Exchange Crisis

During the first half of 1968, a variety of adverse forces converged on the newly established parity for the pound sterling. At the time of the devaluation, the British authorities had introduced a number of measures, including severe restrictions on credit to the private sector, designed to ensure that the benefits of devaluation were reflected in a substantial improvement in the balance of payments rather than dissipated in increases in internal costs and prices. Unfortunately, the full range of the government's program of restraint was delayed until March 1968, when a budget providing for heavy tax increases was introduced, and in the interim the underlying balance-of-payments deficit widened considerably.

Partly in anticipation of new sales taxes, consumer demand surged throughout the winter months and lifted the level of merchandise imports to new peaks. Thus, despite some acceleration of exports, the trade balance continued in substantial deficit during the first quarter of the year. For a while, the trade deficit was offset by large inflows of short-term funds, but toward the end of February these inflows tapered off. At the same time, and amid the climactic rush into gold, British portfolio investment abroad increased considerably, mainly as the result of purchases of shares in mining companies in other sterling area countries. With confidence in sterling at a low ebb, the discount on forward sterling widened sharply, and high interest rates in London failed to attract foreign funds.

The resultant pressures on British reserves, which persisted well into the spring, were aggravated by substantial reductions in sterling reserve balances held by overseas sterling area countries. Over a period of many years, several sterling area countries, while broadening their trading and financial links with the nonsterling world, had diversified the composition of their international reserves by adding dollars to their sterling holdings. However, during the first half of 1968, a number of sterling area countries, having suffered an exchange loss on their reserves as a result of the devaluation, gradually switched relatively large amounts of officially owned sterling into dollars and other international reserve assets. These withdrawals were much larger than could be accommodated by further reductions in Britain's own gold and dollar holdings. Thus they posed a threat, not only to the stability of sterling but also to the international monetary system as a whole, which could be contained only through multilateral efforts.

Early in July, after a series of informal discussions at the regular monthly central bank meetings at the BIS, the Bank of England announced that general agreement had been reached on a new central bank credit facility, amounting to \$2 billion and covering a ten-year period, with the specific purpose of offsetting further declines in official sterling balances. Subsequently, the British authorities concluded a series of agreements with other sterling area governments, under which the latter undertook to maintain specific proportions of their total reserves in sterling. Once these agreements were concluded, the final arrangements for the central bank facility were completed early in September. The July announcement by the Bank of England had already helped to improve market confidence in sterling.

In the meantime, the French franc had become subject to severe speculative pressure. Although France's international reserves totaled nearly \$7 billion at the end of April, confidence in the stability of the franc was badly shaken by

the eruption of widespread civil disorders in May and June. On May 17, student rioting broke out and was quickly followed by strikes in Paris and similar disturbances elsewhere in France. Within a matter of days, more than 10 million wage and salary earners, out of a total of some 15 million, stopped work for three weeks or longer and almost completely paralyzed the economy. Even though banks were closed in France, speculative outflows to Switzerland and into the Euro-dollar market grew to substantial volume as the political crisis deepened. After having sustained a \$307 million reserve loss during May, the French authorities at the end of the month imposed exchange controls over resident capital transfers abroad.

Around mid-June, the government and the Employers Association agreed to grant very substantial wage and benefit increases to all segments of the French labor force. As a result, fears mounted that the prospective rise in prices and costs might seriously impair France's competitive position internationally, particularly in other Common Market countries. Although the sweeping victory of the Gaullist forces in the national elections at the end of June removed one source of uncertainty, the flight from the franc continued. In order to cushion the reserve impact of these outflows, the Bank of France drew the full \$100 million then available under its swap line with the Federal Reserve, the first drawing by that bank since the inception of the arrangement in March 1962. In addition, France drew \$885 million from the IMF, representing its gold tranche and other automatic drawing rights resulting from previous Fund use of French francs. The cost of official support for the franc in May and June alone came to almost \$1.5 billion equivalent.

Exchange controls were tightened in July, and the French authorities broadened their defense of the franc by raising the discount rate on July 3. Shortly after the discount rate increase, the Bank of France announced a \$1.3 billion package of new credits from the Federal Reserve, the central banks of Belgium, Germany, Italy, the Netherlands, and the BIS. United States participation took the form of a \$600 million increase in the Federal Reserve swap line with the Bank of France. Despite these measures in support of the franc, market pressures continued during the summer months. Throughout most of this period, the flight from the franc resulted in little upward pressure on other European currencies, as funds were shifted largely into the Euro-dollar market. In August, however, rumors of revaluation of the German mark added another element of uncertainty to the international monetary situation, and French funds began to move in increasingly heavy volume into Germany.

Following a prolonged slowdown that began in the spring of 1966, Germany had begun a strong economic recovery toward the end of 1967, as the economy responded to the stimulus of special investment programs and a continuing policy of monetary ease. The earlier pause in economic activity was accompanied—and to some extent cushioned—by the emergence of an enormous trade surplus, as imports declined sharply while exports continued to rise. With the further advance in economic activity in 1968, German imports increased sharply, but exports also rose, partly in response to inflationary conditions in the United States and in other countries.

Despite the emergence and persistence of a huge trade surplus, Germany's reserve gains were only moderate through the first half of 1968, as the effects of an active policy of monetary ease induced large outflows of capital. A continuing outflow of short-term funds was accompanied by a substantial increase in outflows of long-term capital, as German lenders absorbed large amounts of both dollar- and mark-denominated bonds issued by the United States and other foreign borrowers in the Euro-bond market. The resultant net outflow of capital, in combination with net payments for services and outflows of government capital, more than offset the trade surplus, and during the second quarter of 1968 the overall balance shifted into small deficit.

Nevertheless, toward the end of August, there was a sudden outbreak of speculative demand for German marks, and the German Federal Bank absorbed very sizable amounts of dollars once the spot rate for the mark reached its ceiling. In order to reduce official reserve accruals, the German Federal Bank reoffered these dollars to the commercial banks on a swap basis, selling dollars spot for repurchase later, at forward rates designed to provide the banks with an incentive to place funds in the Euro-dollar market. For a while, these swap operations helped to blunt speculative expectations and at the same time to avert a massive reserve buildup. Early in November, however, the inflow of funds snowballed to massive proportions with unprecedented speed. Indeed, around mid-November, in an extremely apprehensive atmosphere, nearly \$1.8 billion in short-term funds moved into Germany within a three-day period.

Under these circumstances, earlier moves toward monetary restraint in France failed to stem the drain on French reserves. Moreover, the pressure on sterling intensified considerably just as the volume of British exports and imports had begun to respond to the devaluation. Thus, the finance ministers and the central bank governors of the Group of Ten countries convened in an emergency meeting in Bonn on Wednesday, November 20, to consider steps to restore calm to world

financial markets. To insulate official reserves from the uncertainties that arose during the meeting, steps were taken to curtail trading in the French franc, German mark, and pound sterling, while measures were being adopted in each of the countries involved in the crisis to reduce imbalances in merchandise trade.

Although the German trade surplus had been largely offset by capital outflows during most of 1968, the sheer size of the surplus and the corresponding deterioration in other countries' trade balances were generally destabilizing. Rather than revalue the German mark, the German authorities decided to reduce, for a sixteen-month period, both tax rebates on exports (thus raising export prices) and certain border charges on imports (thus lowering import prices). To help avert further inflows of "hot" money, on November 21 the German Federal Bank decided to introduce a 100 percent reserve requirement against additional foreign deposits with German commercial banks. In France, the government rejected a devaluation of the French franc as a remedial measure but immediately adopted a far-reaching and drastic program of fiscal restraint, designed to moderate significantly any further rise in costs and prices and to yield a substantial improvement in the country's trade balance. In order to contain the immediate pressures on reserves, the French authorities reintroduced the exchange controls that had been removed on September 4 and tightened the regulations governing payments for imports. Concurrently, the British government announced a series of measures to reduce the level of domestic consumption and imports.

In support of the French measures, the other members of the Group of Ten made available a new \$2 billion credit facility, in which the United States share amounted to \$500 million. The United States participation included a \$300 million increase in the Federal Reserve swap facility with the Bank of France, bringing the arrangement with that institution to \$1 billion and the entire swap network with fourteen central banks and the BIS to slightly more than \$10.5 billion. In subsequent weeks, once it became apparent that each of the major countries involved in the crisis was not prepared to change established currency parities in the face of massive movements of hot money, the tensions in the exchange market abated. As the year drew to a close, there was some reversal of previous flows, as market participants adjusted positions taken earlier for speculative purposes or for protection against changes in parities. Nevertheless, it was clear that the underlying adjustments necessary to restore confidence in the existing pattern of exchange rates remained to be completed.

United States Balance of Payments: A Precarious Improvement

The accumulated strains placed on the international monetary system by more than a decade of large deficits in the United States balance of payments erupted in the closing months of 1967, when the dollar was subject to a severe speculative attack in the gold and foreign exchange markets. The intensity of the pressures, together with a surge in imports, made it abundantly clear that the United States would have to undertake strong action to reduce the balance-of-payments deficit, and on New Year's Day, 1968, President Johnson announced a drastic set of corrective measures. Above all, the President called upon the Congress to approve the tax surcharge in order to restrain domestic inflationary pressures and at the same time arrest the erosion in the trade surplus that had occurred in the previous three years. As part of the program, the Federal Reserve System announced a number of revisions in the guidelines for banks and nonbank financial institutions under its voluntary foreign credit restraint program, making them considerably more restrictive. Similarly, the Commerce Department's program for restraint of direct investment outflows was substantially tightened and placed on a mandatory basis.

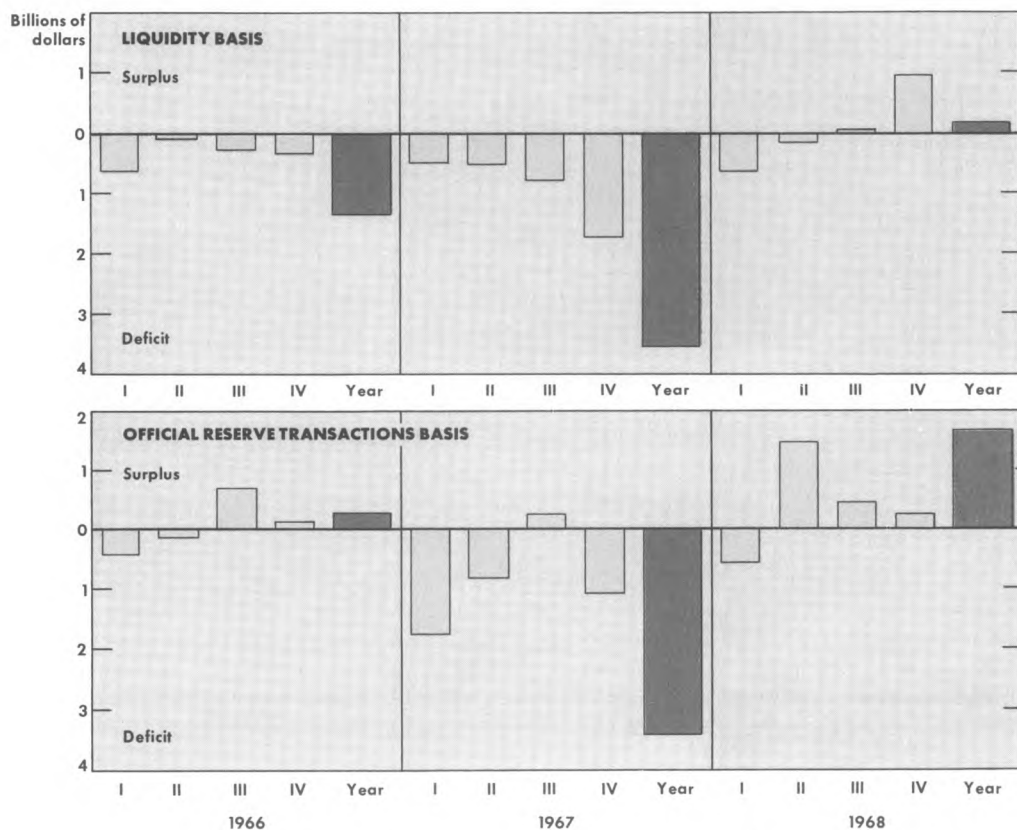
As the year progressed, these measures began to produce results—dramatically so in the closing weeks of the year when United States corporations repatriated an extraordinary amount of funds previously borrowed abroad, and several United States banks sold large amounts of loans to their foreign branches. Indeed, the inflow of funds at the year-end was large enough to swing the overall balance on the liquidity basis into a surplus of almost \$1 billion for the fourth quarter and thereby convert the balance into an estimated \$150 million surplus for the year as a whole.² Measured on the official reserve transactions basis, the improvement was even more pronounced, as the balance shifted from a massive \$3.4 billion deficit in 1967 into a \$1.7 billion surplus in 1968 (see Chart 7).

However, the overall improvement—on either basis—was uneven and to some extent reflected fortuitous factors rather than an underlying recovery in the

² The balance on the "liquidity basis" is measured by changes in the United States reserve assets and in liquid dollar liabilities to all foreigners, while the balance on the "official reserve transactions basis" is measured by changes in United States reserve assets and in liquid and certain non-liquid liabilities to foreign official institutions, mainly monetary authorities.

United States competitive position. While the flow of private capital quickly responded to the various restraint programs, the tax surcharge was introduced too late to exert much visible effect on overall domestic spending in 1968. Along with the continued increase of merchandise imports, the trade surplus narrowed almost to the vanishing point, and thus partially offset the gains on capital

Chart 7. UNITED STATES BALANCE OF PAYMENTS: The payments balance on the liquidity basis shifted from a massive deficit in 1967 into slight surplus in 1968, on the strength of a marked improvement in the fourth quarter of the year. Measured by official reserve transactions, the year-to-year improvement was even more pronounced as the balance swung into a surplus of about \$1.7 billion in 1968.



Quarterly data are seasonally adjusted.

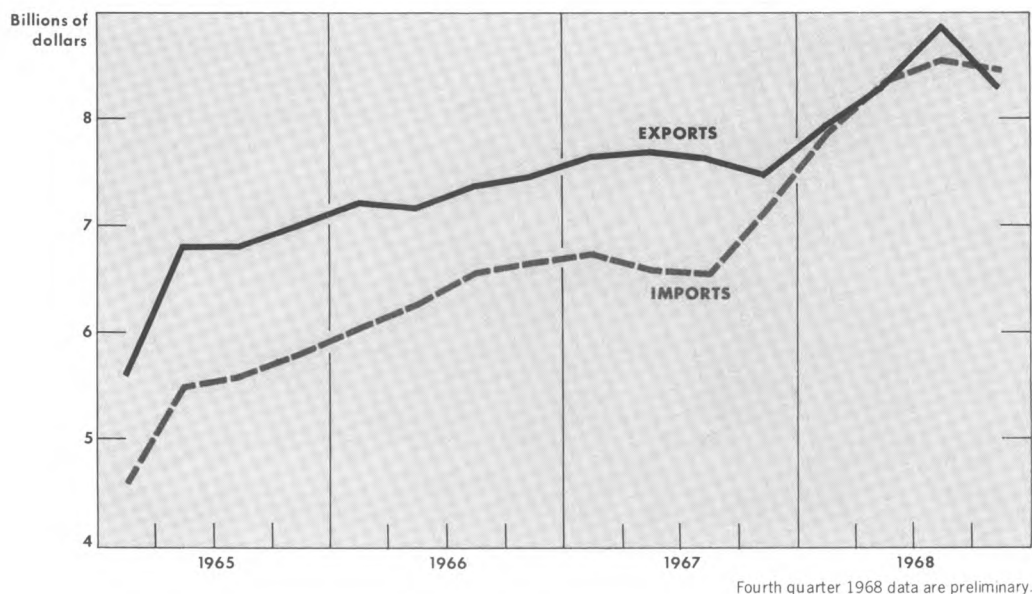
accounts. The disturbances in France and the Soviet Union's intervention in Czechoslovakia—with their reminder of latent political instabilities elsewhere in Europe—accelerated the movement of private foreign capital into long-term dollar investments, which helped to reduce the deficit. Moreover, the recorded liquidity balance would have shown a deficit of over \$2 billion were it not for very sizable shifts from liquid into nonliquid dollar investments by foreign monetary authorities. In addition, relatively high interest rates in this country, combined with easier credit policies in certain foreign countries, led to a massive rise in short-term borrowings by United States banks through the Euro-dollar market. While these borrowings did not affect the liquidity balance, they clearly contributed to the improvement in the official reserve transactions balance in 1968.

CURRENT-ACCOUNT SURPLUS NARROWS SHARPLY. The most ominous development in the United States payments accounts in 1968 was the continued shrinkage in the surplus on goods and services, which took place as a result of a substantial increase in merchandise imports (see Chart 8). The acceleration of imports, which occurred throughout the whole range of manufactured products, was a natural concomitant of the rapid growth in domestic economic activity and accompanying pressures on domestic supplies of goods and resources. Part of the surge in imports during the first half of the year resulted from actual or anticipated strikes in the copper, steel, and aluminum industries. Once these were settled, the growth of imports slowed down somewhat but, for the year as a whole, imports rose to a record \$33.3 billion, or about 23 percent higher than the 1967 total and more than twice the rate of growth of gross national product.

Exports rose by around 10 percent in 1968 to \$33.4 billion. After midyear, United States exports were probably stimulated by the implementation in the European Common Market countries of accelerated reductions in import duties under the first stages of the Kennedy round of tariff cuts. More fundamentally, the year-to-year advance in exports reflected a cyclical upswing in continental European countries, following a pronounced slowdown in 1966-67. While exports to the United Kingdom and Canada leveled off as the year progressed, sales to the continental European countries continued to rise throughout the year.

The deterioration in the trade balance was only partially mitigated by gains in nonmerchandise current-account transactions. United States tourist expenditures

Chart 8. TRADE BALANCE DETERIORATES: Because of the surge in domestic economic activity in 1968, merchandise imports rose much more rapidly than exports (including exports financed by Government programs) and the trade balance weakened seriously.



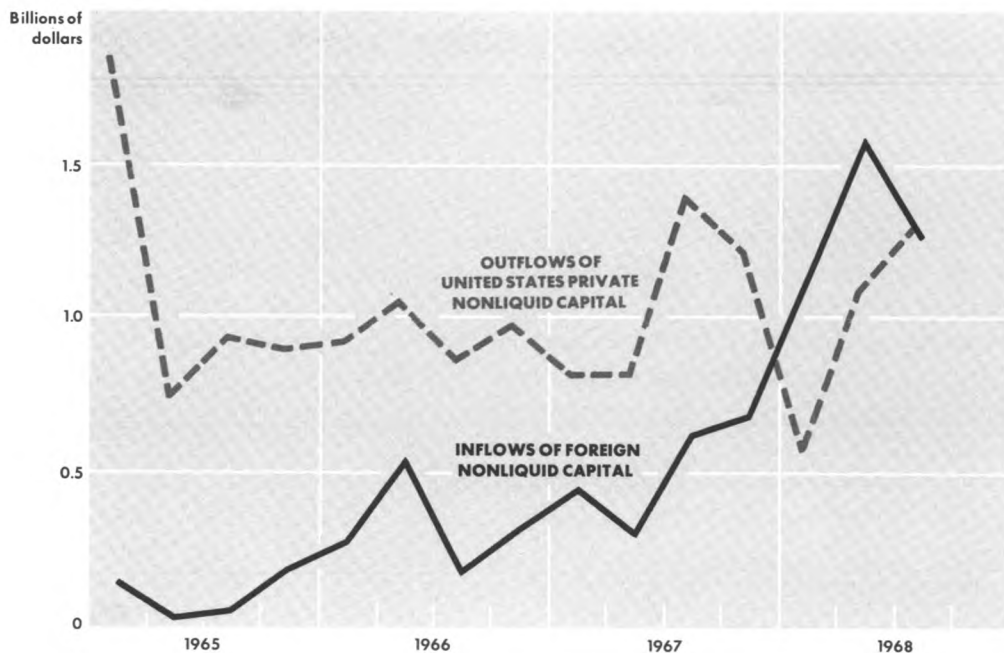
abroad, which had been swollen considerably in 1967 by the enormous interest in the Canadian centennial exposition, declined somewhat in 1968, in part because of the disturbances in France and perhaps also because of the Administration's appeal on January 1, 1968 to limit nonessential travel outside the Western Hemisphere. Net receipts of investment income rose somewhat in 1968, reflecting increased repatriation of profits by United States corporations. However, with the substantial deterioration in the trade surplus, the overall surplus on goods and services (excluding military transactions) narrowed considerably in 1968.

CAPITAL ACCOUNTS IMPROVE. The outflow of United States funds for lending and investment abroad was very sharply curtailed by the various restraint programs. This factor, together with a substantial increase in foreign investment

in the United States, contributed to a major improvement in the balance of long-term private capital transactions (see Chart 9).

Under the Commerce Department's program, net transfers of funds by United States investors for direct investment abroad were subject to severe restrictions during 1968. In addition, United States investors were required to reduce further their liquid foreign balances in the course of the year. Although the outflow of investment funds from the United States was thus sharply reduced, foreign affiliates of United States corporations were able to increase their real investment in plant and equipment in 1968 by relying to a far greater degree than before on foreign sources of funds and, within allowable limits, on retained earnings.

Chart 9. LONG-TERM CAPITAL FLOWS: The outflow of United States capital into long-term loans and investments abroad was curtailed in 1968 by various restraint programs. Inflows of foreign capital, on the other hand, rose sharply during the year, reflecting substantial foreign purchases of shares in United States companies and investments in bonds issued by United States borrowers through the Euro-bond market.



Seasonally adjusted quarterly data.

In response to the program, affiliates and subsidiaries of United States corporations borrowed heavily overseas, in part through the issue of dollar-denominated bonds in the Euro-bond market, which in recent years has emerged as the principal market for international bond issues. Indeed, United States corporations and their foreign affiliates borrowed about \$2.3 billion through the Euro-bond market alone and, toward the year-end, repatriated a large part of the proceeds of these issues. The total outflow for direct investment abroad—net of the portion financed by Euro-bond issues and other overseas sources of funds—was about \$1.2 billion in 1968, compared with \$2.7 billion the year before.

The outflow of bank capital dropped sharply and more than required by the Federal Reserve System's voluntary credit restraint program. In 1968, for the first time since the guidelines were introduced, the banks were requested to achieve a net inflow of funds, of at least \$400 million, mainly through a reduction in outstanding credits to the developed countries of continental Europe. In fact, the banks reduced their foreign assets covered by the program by over \$600 million in the course of the year, a reduction which represented an improvement (by comparison with 1967 outflows) of roughly \$1.0 billion. Similarly, foreign assets held by nonbank financial institutions, after having been built up in 1967, were reduced in 1968 by an amount greater than the guidelines required.

To an important extent, however, the improvement in the overall flow of private capital occurred quite independently of the specific balance-of-payments measures taken. Foreign investors, in addition to purchasing large amounts of dollar-denominated bonds issued by United States corporations in the Euro-bond market, also acquired United States equities in extraordinary volume in 1968. Over most of the postwar period, net foreign purchases of United States corporate stocks were maintained on a relatively small scale and infrequently exceeded \$200 million annually. Such purchases rose markedly in 1967, partly in response to more favorable tax treatment accorded under the Foreign Investors Tax Act of 1965, and in 1968 net foreign purchases of United States equities reached a record \$1.8 billion.

RESERVE POSITION IMPROVES. The overall liquidity surplus was reflected in a buildup in the United States reserve assets, which were only partially offset by a rise in liquid liabilities to foreigners. United States reserve assets rose by \$880 million, as a reduction in the gold stock of almost \$1.2 billion was more than offset by an increase in holdings of convertible currencies and by the full recon-

stitution of the United States gold tranche position with the IMF. Almost all the reduction in the gold stock occurred in the first quarter of the year, when the United States sustained heavy losses in settlement of its share of the Gold Pool's sales in the London market. After midyear, the Treasury was able to recoup some of its earlier gold losses, as the Bank of France and other foreign monetary authorities sold gold to the United States to reconstitute their dollar balances. In addition, the United States holdings of convertible currencies, acquired mainly as the counterpart of drawings of dollars by France and the United Kingdom under swap facilities with the Federal Reserve and the United States Treasury, increased substantially during the year.

All the increase in the United States liquid liabilities reflected a rise in private holdings. Foreign official holdings of liquid dollar assets declined, on balance, as reserve losses in France and the United Kingdom were only partially offset by accumulations in other countries. The political and economic disturbances in Europe, together with relatively easy money market conditions in certain continental European countries, generated large movements of funds into the Euro-dollar market, where they were absorbed in large part by United States banks through their foreign branches. While these shifts of liquid liabilities from official to private holders did not affect the balance on the liquidity basis, they contributed to the emergence of a large surplus on the official reserve transactions basis.

However, in view of the uneven character of the improvement in the overall balance, it was necessary to extend the various restraint programs, in slightly modified form, into 1969. Over the longer run, equilibrium in the United States external accounts must encompass the removal of restrictions on capital flows. But, until the nation brings domestic inflationary pressures under control and rebuilds a durable trade surplus, some restrictions on capital outflows will in all likelihood remain necessary. The events of 1968 underscored, more than ever, the need for a further and lasting improvement in the United States payments position.

THIS BANK'S OPERATIONS

Volume and Trend of the Bank's Operations

The volume of operations in most departments of the Bank continued to expand in 1968. As in recent past years, the sustained growth of business and financial activity resulted in a further step-up of the Bank's work in transferring funds for the public and as agent of the Treasury.

Indeed, the volume of money transfers processed by this Bank through the Federal Reserve System's leased wire network reached record levels by a wide margin in 1968. The number of wire transfers rose 11 percent to 1.4 million, while the dollar volume of such transfers (excluding Treasury transfers between Federal Reserve Districts) advanced 19½ percent to \$2,857 billion. These increases in the number and value of wire transfers were considerably larger than the 1967 gain of 8½ percent and 12½ percent, respectively.

Check processing by this Bank also reached record levels in 1968. The dollar amount of United States Government checks processed advanced 3½ percent, while the number of such checks climbed 9½ percent to 74 million. Some 847 million other checks were also processed during the year, an increase of 5 percent. Moreover, the dollar volume of these other checks swelled 32 percent in 1968. This relatively wide discrepancy between the number and total amount of checks handled in part reflected some increase of checks processed in packaged form. Regardless of the number or amount of checks contained in a package, each package processed as a unit is counted as only one item in tallying the number of checks handled. However, most of the relatively greater expansion in dollar volume was due to a substantial rise in the dollar amount of individual checks.

During 1968, coin receipts (other than shipments of new coin from the Mint) fell significantly, reversing the upward trend of the previous two years. This Bank received 1,508 million pieces of coin during the year, a decrease of 5 percent from 1967, and the dollar volume also declined 4 percent to \$177 million. The greatest decrease was in one cent coins, and for two weeks in August the Bank was required to ration these coins. The receipt of clad dimes and quarters was also limited, causing the Bank to draw upon its stock of coins

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

| Number of pieces handled (In thousands)* | 1968 | 1967 |
|--|-------------|-------------|
| Currency received | 1,692,055 | 1,568,138 |
| Coin received† | 1,508,125 | 1,590,763‡ |
| Gold bars and bags of gold coin handled | 461 | 240 |
| Checks handled: | | |
| United States Government checks | 73,728 | 67,299 |
| All other | 846,895 | 805,555 |
| Postal money orders handled | 27,458 | 27,939 |
| Collection items handled: | | |
| United States Government coupons paid | 3,238 | 3,507 |
| Credits for direct sendings of collection items | 309 | 324 |
| All other§ | 30,642 | 23,989 |
| Issues, redemptions, exchanges by fiscal agency departments: | | |
| United States savings bonds and notes | 32,606 | 31,042‡ |
| All other obligations of the United States | 10,597 | 9,395 |
| Obligations of Federal agencies | 175 | 142 |
| Obligations of international organizations | 177 | 114 |
| Safekeeping of securities: | | |
| Pieces received and delivered | 10,499 | 8,997 |
| Coupons detached | 4,468 | 8,760 |
| Wire transfers of funds¶ | 1,354 | 1,219 |
| Amounts handled (In millions of dollars) | | |
| Discounts and advances** | 29,690 | 12,331 |
| Currency received | 11,401 | 10,828 |
| Coin received† | 177 | 184‡ |
| Gold bars and bags of gold coin handled | 6,072 | 3,341 |
| Checks handled: | | |
| United States Government checks | 31,583 | 30,586 |
| All other | 995,479 | 752,946 |
| Postal money orders handled | 606 | 595 |
| Collection items handled: | | |
| United States Government coupons paid | 3,113 | 3,400 |
| Credits for direct sendings of collection items | 1,331 | 1,054 |
| All other§ | 5,169 | 3,884 |
| Issues, redemptions, exchanges by fiscal agency departments: | | |
| United States savings bonds and notes | 1,727 | 1,687‡ |
| All other obligations of the United States | 810,253 | 668,493 |
| Obligations of Federal agencies | 11,835 | 7,625 |
| Obligations of international organizations | 2,111 | 1,499 |
| Safekeeping of securities: | | |
| Par value pieces received and delivered | 1,069,254 | 845,143 |
| Wire transfers of funds¶ | 2,857,456 | 2,395,915 |

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

† Excludes shipments of new coin from the Mint.

‡ Revised.

§ These figures include food stamps redeemed.

|| Savings notes are not eligible for redemption until one year after issue date.

¶ Excludes Treasury transfers between Federal Reserve Districts.

** The number of discounts and advances handled in 1968 was 2,194, compared with 937 in 1967.

with some silver content. The Bank had been withholding these coins since July 1967, when the Treasury requested that all deposits of dimes and quarters containing a mixture of clad and silver coins be accumulated pending the availability of equipment to segregate them. The drop in coin receipts appears to reflect a return to a more normal level; coin receipts had risen to high levels in 1966 and 1967 when alleviation of the earlier coin shortage resulted in dishoarding by both banks and the public. In contrast to the decline of coin receipts in 1968, paper currency received by this Bank increased moderately during 1968: the dollar volume rose nearly 5½ percent and the number of bills by 8 percent.

This past year, Second District member bank borrowings from this Bank increased 141 percent to \$29.7 billion, while the number of discounts and advances rose 134 percent, from 937 to 2,194. Forty-five percent of District member banks relied on the discount window at least once in 1968, as against 40 percent in 1967. The increased reliance of member banks on the discount window last year reflected the relatively firm posture of monetary policy.

The Bank's fiscal agency operations expanded markedly in 1968. The dollar amount of all obligations handled for the United States Government (other than United States savings bonds and notes), Federal agencies, and international organizations increased by 21½ percent to \$824 billion, while the number of such items handled rose 13½ percent to almost 11 million.

Following last year's slight increase after three years of declines, average employment at the Bank rose by 4 percent, essentially reflecting the growing workload.

The public continued to display strong interest in the Federal Reserve. In 1968, 12,831 persons visited this Bank, nearly 900,000 copies of the Bank's publications were distributed, and 216 speeches were delivered by members of the Bank's staff to various business and educational groups.

Total holdings of gold, dollar balances, and other assets for foreign and international accounts amounted to \$29.9 billion at the end of 1968, a decline of \$800 million from the record level reached a year earlier. Holdings for foreign accounts rose somewhat higher during the year to \$21.8 billion, but holdings for international organizations dropped by a substantial amount—largely reflecting International Monetary Fund (IMF) gold sales to finance member currency drawings—and at the year-end stood at \$8.1 billion. Foreign authorities and international organizations held \$14.2 billion of their assets in United States Government securities, \$13.0 billion in gold, and \$2.7 billion in other investments largely denominated in dollars.

During the first quarter, this Bank was involved in the operational aspects of the large gold transactions for the United States Treasury in connection with United States participation in the Gold Pool. The Pool operations were ended in March, and gold transactions diminished sharply thereafter. Among the more or less routine transactions during the year, several countries purchased small amounts of gold from the United States in order to increase their subscriptions at the IMF in connection with higher quotas. As in the past, when such transactions were larger, the Fund offset their effect on the United States gold stock through deposits of gold with the Federal Reserve Bank of New York. This year, for the first time, the IMF also drew on these offsetting deposits in connection with its gold sales to finance member drawings. As of December 31, 1968, the Bank held for United States Treasury account \$230 million of gold deposited by the Fund, a small decrease from the amount held at the end of 1967.

Financial Statements

STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1968 AND 1967 (In thousands of dollars)

| | 1968 | 1967 |
|--|---------|---------|
| Total current earnings | 696,373 | 556,220 |
| Net expenses | 50,213 | 44,392 |
| Current net earnings | 646,160 | 511,828 |
| Additions to current net earnings: | | |
| Profit on sales of United States Government securities (net) | 192 | 190 |
| All other | 2,085 | 381 |
| Total additions | 2,277 | 571 |
| Deductions from current net earnings: | 10 | 3 |
| Net additions or deductions (—) | 2,267 | 568 |
| Net earnings available for distribution | 648,427 | 512,396 |
| Dividends paid | 9,473 | 9,093 |
| Payments to United States Treasury (interest on Federal Reserve notes) | 633,195 | 497,337 |
| Transferred to surplus | 5,759 | 5,966 |
| SURPLUS ACCOUNT | | |
| Surplus — beginning of year | 154,314 | 148,348 |
| Transferred from net earnings for year | 5,759 | 5,966 |
| Surplus—end of year | 160,073 | 154,314 |

STATEMENT OF CONDITION

(In thousands of dollars)

| Assets | DEC. 31, 1968 | DEC. 31, 1967 |
|--|----------------------|----------------------|
| Gold certificate account | 2,812,519 | 2,320,058 |
| Redemption fund for Federal Reserve notes* | — | 471,599 |
| Federal Reserve notes of other Banks | 162,261 | 173,044 |
| Other cash | 20,431 | 43,380 |
| Total cash | 2,995,211 | 3,008,081 |
| Discounts and advances | 74,425 | 48,480 |
| Acceptances | 57,715 | 164,197 |
| Federal agency obligations | 0 | 37,800 |
| United States Government securities | 12,687,264 | 12,450,175 |
| Total loans and securities | 12,819,404 | 12,700,652 |
| Other assets: | | |
| Cash items in process of collection | 2,663,115 | 2,083,443 |
| Bank premises | 9,702 | 9,681 |
| All other† | 877,161 | 730,489 |
| Total other assets | 3,549,978 | 2,823,613 |
| Total Assets | 19,364,593 | 18,532,346 |

* The Act of March 18, 1968 (82 Stat. 50) abolished the requirement for the maintenance of the redemption fund. Accordingly, the balance in the fund was transferred to the gold certificate account.

† Includes assets denominated in foreign currencies and IMF gold deposited.

STATEMENT OF CONDITION

(In thousands of dollars)

| Liabilities | DEC. 31, 1968 | DEC. 31, 1967 |
|---|----------------------|----------------------|
| Federal Reserve notes | 10,511,438 | 9,853,951 |
| Deposits: | | |
| Member bank reserve accounts | 5,897,265 | 5,994,388 |
| United States Treasurer — general account | 681,157 | 233,050 |
| Foreign* | 52,506 | 31,835 |
| Other† | 516,138 | 463,763 |
| Total deposits | 7,147,066 | 6,723,036 |
| Other liabilities: | | |
| Deferred availability cash items | 1,291,836 | 1,569,631 |
| All other | 94,107 | 77,100 |
| Total other liabilities | 1,385,943 | 1,646,731 |
| Total Liabilities | 19,044,447 | 18,223,718 |
| Capital Accounts | | |
| Capital paid in | 160,073 | 154,314 |
| Surplus | 160,073 | 154,314 |
| Total Capital Accounts | 320,146 | 308,628 |
| Total Liabilities and Capital Accounts | 19,364,593 | 18,532,346 |
| Contingent liability on acceptances purchased for foreign correspondents‡ | 28,062 | 40,064 |
| Ratio of gold certificate reserves to Federal Reserve note liability.... | § | 28.3% |
| ★ After deducting participations of other Federal Reserve Banks amounting to | 163,460 | 103,600 |
| † Includes IMF gold deposit. | | |
| ‡ After deducting participations of other Federal Reserve Banks amounting to | 81,136 | 115,810 |
| § Gold certificate reserve requirements against Federal Reserve notes were abolished on March 18, 1968. | | |

Changes in Membership

During 1968, the total number of member banks of the Federal Reserve System in this District declined from 383 to 374. The decrease in the number of member banks resulted from the organization of two new member banks, the merger of ten member banks, and the withdrawal from membership of one bank. The 374 banks constitute 81 percent of all commercial banks and trust companies in this District and hold 96 percent 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 banks, and industrial banks)

| Type of Bank | DECEMBER 31, 1968 | | | DECEMBER 31, 1967 | | |
|---------------------------------|-------------------|-------------|-----------------|-------------------|-------------|-----------------|
| | Members | Non-members | Percent members | Members | Non-members | Percent members |
| National banks* | 265 | 0 | 100 | 273 | 0 | 100 |
| State banks and trust companies | 109 | 90 | 55 | 110 | 87 | 56 |
| Total | 374 | 90 | 81 | 383 | 87 | 81 |

*Includes one national bank located in the Virgin Islands.

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1968

| | |
|--|------------|
| Total membership at beginning of year | 383 |
| Increases: | |
| New national bank | 1 |
| New state bank | 1 |
| Decreases: | |
| Member banks merged into other members | 8 |
| Member banks merged into nonmembers | 2 |
| State member bank withdrawn from membership | 1 |
| Total membership at the year-end | 374 |

Changes in Directors and Officers

CHANGES IN DIRECTORS. In December, member banks in Group 2 elected Charles E. Treman, Jr., a Class A director and reelected Milton C. Mumford a Class B director, each for a three-year term beginning on January 1, 1969. Mr. Treman, President of the Tompkins County Trust Company, Ithaca, N. Y., succeeded Robert G. Cowan, Chairman of the Board of the National Newark & Essex Bank, Newark, N. J., who served for the three-year term that ended on December 31, 1968. Mr. Mumford, Chairman of the Board of Lever Brothers Company, New York, N. Y., has been a Class B director since January 1966.

Also in December, the Board of Governors of the Federal Reserve System appointed Albert L. Nickerson a Class C director for the unexpired portion of a term ending December 31, 1969, and designated him *Chairman* of the Board of Directors and *Federal Reserve Agent* for the year 1969. Mr. Nickerson, Chairman of the Board of the Mobil Oil Corporation, New York, N. Y., formerly served as a Class B director of this Bank from August 1961 to the end of 1966. He succeeded Everett N. Case, former President of the Alfred P. Sloan Foundation, New York, N. Y., who resigned as a Class C director effective December 31, 1968. Mr. Case served as a Class C director since January 1961; he was *Deputy Chairman* in 1965 and *Chairman* and *Federal Reserve Agent* in the years 1966 through 1968.

At the same time, the Board of Governors appointed James M. Hester *Deputy Chairman* for the year 1969. Dr. Hester, President of New York University, has been serving as a Class C director since January 1965. As *Deputy Chairman*, he succeeds Kenneth H. Hannan, Executive Vice President of the Union Carbide Corporation, New York, N. Y., whose term as *Deputy Chairman* and as a Class C director expired December 31, 1968. Mr. Hannan served as a Class B director from January 1960 through 1965. In 1966, he was appointed a Class C director for a three-year term and served as *Deputy Chairman* in the years 1966 through 1968.

In December, the Board of Governors also appointed Roswell L. Gilpatric a Class C director for the three-year term beginning on January 1, 1969. Mr. Gilpatric is a partner in the New York law firm of Cravath, Swaine & Moore. Mr. Gilpatric succeeds Mr. Hannan as a Class C director.

At the Buffalo Branch, the Board of Governors in December reappointed Norman F. Beach a director of the Branch for a three-year term beginning on January 1, 1969. Mr. Beach, who is Vice President of Eastman Kodak Company,

Rochester, N. Y., has been a director of the Branch since January 1968. In December, the Board of Directors of this Bank appointed James I. Wyckoff a director of the Branch for a three-year term beginning on January 1, 1969. Mr. Wyckoff, who is President of The National Bank of Geneva, Geneva, N. Y., succeeded Arthur S. Hamlin, President of The Canandaigua National Bank and Trust Company, Canandaigua, N. Y. At the same time, the Board of Directors of this Bank designated Gerald F. Britt as *Chairman* of the Branch Board for the year 1969. Mr. Britt, who is President of L-Brooke Farms, Inc., Byron, N. Y., has been a director of the Branch since January 1967.

CHANGES IN OFFICERS. Since February 1968, six officers have retired and three have resigned:

Gerald E. Beach, Manager, Accounting and Management Information Departments, resigned effective April 1, 1968 to become an Assistant Vice President of the Franklin National Bank.

John P. Jensen, General Auditor, retired on special service retirement effective September 1, 1968. Mr. Jensen joined the Bank's staff in October 1926 and became an officer in January 1955.

Robert Meyer, Assistant Counsel, resigned effective November 11, 1968 to accept a position with Payment Systems, Inc., a financial consulting organization.

Harold A. Bilby, Vice President and Senior Adviser, retired effective January 1, 1969, after completing over forty-one years of service with the Bank. Mr. Bilby joined the Bank's staff in July 1927 and became an officer in July 1938. He had reached retirement age in 1967, but his appointment was extended through 1968. Since January 1, 1969, Mr. Bilby has been serving as a part-time consultant to the Federal Reserve System, primarily on matters relating to the discount mechanism.

John F. Allen, formerly Special Representative, Bank Relations Division, Bank Relations Department, was appointed an officer with the title of Manager effective July 3, 1968 and assigned to the Personnel Department. Mr. Allen resigned from the Bank effective January 31, 1969 to accept a position as an Assistant Vice President with the Charter New York Corporation.

William E. Marple, Assistant Vice President assigned to Loans and Credits, retired on special service retirement effective February 1, 1969. Mr. Marple joined the Bank's staff in June 1943 and became an officer in May 1953.

Felix T. Davis, Vice President in charge of Government Bond and Safekeeping

of Securities, retired effective March 1, 1969, after serving over thirty-five years as an officer of the Bank. Mr. Davis joined the Bank as an officer in November 1933.

Lawrence E. Quackenbush, Assistant Vice President assigned to Bank Supervision and Relations, and Administration of Regulations G, T, and U, retired on special service retirement effective March 1, 1969. Mr. Quackenbush joined the Bank's staff in October 1937 and became an officer in September 1952.

Arthur H. Noa, Manager, Service Department, retired effective March 1, 1969. Mr. Noa joined the Bank's staff in September 1934 and became an officer in January 1951.

The following additional changes in the official staff, including the appointment of eleven new officers, have been made since February 1968:

John Chowansky, formerly Administrative Assistant, Administrative Services function, was appointed an officer with the title of Manager on April 4, 1968 and assigned to the Management Information Department.

Chester B. Feldberg, formerly Attorney, Legal Department, was appointed an officer with the title of Assistant Counsel on April 4, 1968. On July 3, Mr. Feldberg was appointed Assistant Secretary, continuing as Assistant Counsel. On January 2, 1969, he was appointed Secretary, continuing as Assistant Counsel.

John E. Flanagan, formerly Chief, Auditing Division, Auditing Department, was appointed an officer with the title of Manager on April 4, 1968 and assigned to the Accounting Department. On July 3, Mr. Flanagan was appointed Assistant General Auditor.

Leopold S. Rassnick, formerly Attorney, Legal Department, was appointed an officer with the title of Assistant Counsel on April 4, 1968.

Richard G. Davis, formerly Assistant Vice President, was appointed Adviser on July 3, 1968, his assignment to Research and Statistics continuing.

Karl L. Ege, formerly Manager, Check Department, was appointed Assistant Vice President on July 3, 1968 and assigned to Cash and Collections, with responsibility for the Check and Collection Departments.

Martin French, formerly Manager, Government Bond and Safekeeping Department, was appointed Assistant Vice President on July 3, 1968 and assigned to Government Bond and Safekeeping of Securities.

Leonard Lapidus, formerly Manager, Bank Examinations Department, was appointed Assistant Vice President on July 3, 1968 and assigned to Bank Supervision and Relations, and Administration of Regulations G, T, and U.

Frederick C. Schadrack, Jr., formerly Manager, Domestic Research Department, was appointed Assistant Vice President on July 3, 1968 and assigned to Research and Statistics.

William M. Schultz, formerly Assistant General Auditor, was appointed Assistant Vice President on July 3, 1968 and assigned to Personnel.

James O. Aston, formerly Chief, Coupon Division, Collection Department, was appointed an officer with the title of Manager on July 3, 1968 and assigned to the Cash Custody Department and the Collection Department.

Leonard I. Bennetts, Manager, formerly assigned to the Cash Custody and Collection Departments, was assigned to the Check Department on July 3, 1968.

Armond J. Braiger, formerly Chief, Personnel Relations Division, Personnel Department, was appointed an officer with the title of Manager on July 3, 1968 and assigned to the Savings Bond Department.

Ralph H. Gelder, Manager, formerly assigned to the Personnel Department, was assigned to the Bank Examinations Department on July 3, 1968.

Matthew J. Hoey, formerly Special Assistant, Government Bond and Safekeeping of Securities function, was appointed an officer with the title of Manager on July 3, 1968 and assigned to the Government Bond and Safekeeping Department.

James H. Oltman's appointment as Assistant Secretary was terminated on July 3, 1968. He continues as Manager assigned to the Bank Examinations Department.

A. Marshall Puckett, formerly Senior Economist, was appointed Manager on July 3, 1968 and assigned to the Domestic Research Department.

Walter S. Rushmore, Manager, formerly assigned to the Savings Bond Department, was assigned to the Accounting Department on July 3, 1968.

Ruth Ann Tyler, formerly Chief, Personnel Services Division, Personnel Department, was appointed an officer with the title of Manager on July 3, 1968 and assigned to the Personnel Department.

George C. Smith, formerly Assistant Vice President assigned to Cash and Collections (Check and Collection Departments), was appointed General Auditor effective September 1, 1968.

John T. Keane, formerly Assistant Vice President and Cashier, Buffalo Branch, was appointed Assistant Vice President at the Head Office effective September 23, 1968 and assigned to the Administrative Services function, with responsibility for the Accounting, Management Information, and Planning Departments. Mr. Keane's transfer to the Head Office was a rotational assignment

for a period of about six months.

Ronald B. Gray, formerly Assistant Cashier, Buffalo Branch, was appointed Acting Cashier of the Branch effective September 23, 1968. On January 2, 1969, Mr. Gray was appointed Cashier of the Branch.

Charles A. Coombs, formerly Vice President, was appointed Senior Vice President on January 2, 1969, continuing in Foreign as the officer in charge of that function.

Marcus A. Harris, formerly Vice President, was appointed Senior Vice President on January 2, 1969, continuing in Cash and Collections as the officer in charge of that function.

Alan R. Holmes, formerly Vice President, was appointed Senior Vice President on January 2, 1969, continuing in Open Market Operations and Treasury Issues as the officer in charge of that function.

Richard A. Debs, formerly Secretary, and Assistant Counsel, was appointed Vice President on January 2, 1969 and was assigned responsibility for Government Bond and Safekeeping of Securities. He was also assigned to Loans and Credits, where he has supervisory responsibility for the operations of the function under Thomas M. Timlen, Jr., Vice President.

Mr. Timlen's assignment to Personnel was terminated effective January 3, 1969; he continues as the officer in charge of Loans and Credits.

Peter Fousek, Vice President, Personnel, was assigned as the officer in charge of that function effective January 3, 1969.

Louis J. Conroy, formerly Special Assistant, Government Bond and Safekeeping of Securities function, was appointed an officer with the title of Manager on January 2, 1969 and assigned to the Service Department.

Richard H. Hoenig was appointed Assistant Secretary on January 2, 1969, his appointment as Manager and assignment to the Public Information Department continuing.

John C. Houhoulis, formerly Special Assistant, Payments Mechanism and Communications Development function, was appointed an officer with the title of Manager on January 2, 1969 and assigned to the newly established Payment Systems Department.

William H. Wetendorf, formerly Chief, Methods and Systems Division, Planning Department, was appointed an officer with the title of Manager on January 2, 1969 and assigned to the newly established Protection Department.

MEMBER OF FEDERAL ADVISORY COUNCIL—1969. The Board of Directors of this Bank selected George S. Moore to serve during 1969, for the second successive year, as the member of the Federal Advisory Council representing the Second Federal Reserve District. Mr. Moore is Chairman of the Board of the First National City Bank, New York, N. Y.

Directors of the Federal Reserve Bank of New York

| DIRECTORS | <i>Term expires Dec. 31</i> | <i>Class</i> | <i>Group</i> |
|---|-----------------------------|--------------|--------------|
| R. E. MCNEILL, JR. Chairman of the Board, Manufacturers Hanover Trust Company, New York, N. Y. | 1970 | A | 1 |
| CHARLES E. TREMAN, JR. President, Tompkins County Trust Company, Ithaca, N. Y. | 1971 | A | 2 |
| EUGENE H. MORRISON President, Orange County Trust Company, Middletown, N. Y. | 1969 | A | 3 |
| ARTHUR K. WATSON Chairman of the Board, IBM World Trade Corporation, New York, N. Y., and Vice Chairman of the Board, International Business Machines Corporation, Armonk, N. Y. | 1970 | B | 1 |
| MILTON C. MUMFORD Chairman of the Board, Lever Brothers Company, New York, N. Y. | 1971 | B | 2 |
| MAURICE R. FORMAN President, B. Forman Co., Inc., Rochester, N. Y. | 1969 | B | 3 |
| ALBERT L. NICKERSON, <i>Chairman, and Federal Reserve Agent</i> Chairman of the Board, Mobil Oil Corporation, New York, N. Y. | 1969 | C | |
| JAMES M. HESTER, <i>Deputy Chairman</i> President, New York University, New York, N. Y. | 1970 | C | |
| ROSSELL L. GILPATRICK Partner, Cravath, Swaine & Moore, Attorneys, New York, N. Y. | 1971 | C | |

DIRECTORS—BUFFALO BRANCH

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| GERALD F. BRITT, <i>Chairman</i> President, L-Brooke Farms, Inc., Byron, N. Y. | 1969 | | |
| E. PERRY SPINK Chairman of the Board, Liberty National Bank and Trust Company, Buffalo, N. Y. | 1969 | | |
| ROBERT S. BENNETT General Manager, Lackawanna Plant, Bethlehem Steel Corporation, Buffalo, N. Y. | 1970 | | |
| WILMOT R. CRAIG Chairman of the Board, Lincoln Rochester Trust Company, Rochester, N. Y. | 1970 | | |
| CHARLES L. HUGHES President, The Silver Creek National Bank, Silver Creek, N. Y. | 1970 | | |
| NORMAN F. BEACH Vice President, Eastman Kodak Company, Rochester, N. Y. | 1971 | | |
| JAMES I. WYCKOFF President, The National Bank of Geneva, Geneva, N. Y. | 1971 | | |

MEMBER OF FEDERAL ADVISORY COUNCIL—1969

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|--|------|--|--|
| GEORGE S. MOORE Chairman of the Board, First National City Bank, New York, N. Y. | 1969 | | |
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Officers of the Federal Reserve Bank of New York

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

CHARLES A. COOMBS, *Senior Vice President* MARCUS A. HARRIS, *Senior Vice President*
ALAN R. HOLMES, *Senior Vice President*

WILLIAM H. BRAUN, JR., *Vice President*
JOHN J. CLARKE, *Vice President and
Special Legal Adviser*
RICHARD A. DEBS, *Vice President*
PETER FOUSEK, *Vice President*
GEORGE GARVY, *Economic Adviser*
EDWARD G. GUY, *Vice President and
General Counsel*

ROBERT G. LINK, *Vice President*
BRUCE K. MACLAURY, *Vice President*
SPENCER S. MARSH, JR., *Market Adviser*
FRED W. PIDERIT, JR., *Vice President*
PETER D. STERNLIGHT, *Vice President*
THOMAS M. TIMLEN, JR., *Vice President*
THOMAS O. WAAGE, *Vice President*

THOMAS C. SLOANE, *Assistant General Counsel*

DAVID E. BODNER, *Assistant Vice President*
A. THOMAS COMBADER, *Assistant Vice President*
ROBERT J. CROWLEY, *Assistant Vice President*
RICHARD G. DAVIS, *Adviser*
KARL L. EGE, *Assistant Vice President*
MARTIN FRENCH, *Assistant Vice President*
EDWARD J. GENG, *Assistant Vice President*
JOHN T. KEANE, *Assistant Vice President*
PETER P. LANG, *Adviser*
LEONARD LAPIDUS, *Assistant Vice President*

MADELINE H. MCWHINNEY, *Assistant Vice President*
PAUL MEEK, *Assistant Vice President*
DONALD C. NILES, *Assistant Vice President*
EVERETT B. POST, *Assistant Vice President*
FREDERICK C. SCHADRACK, JR., *Assistant Vice President*
WILLIAM M. SCHULTZ, *Assistant Vice President*
KENNETH E. SMALL, *Assistant Vice President*
FREDERICK L. SMEDLEY, *Assistant Vice President*
ROBERT C. THOMAN, *Assistant Vice President*

JOHN T. ARNOLD,
Manager, Foreign Department
JAMES O. ASTON,
*Manager, Cash Custody Department, and
Manager, Collection Department*
IRVING M. AUERBACH,
Manager, Statistics Department
LEONARD I. BENNETTS,
Manager, Check Department
ARMOND J. BRAIGER,
Manager, Savings Bond Department
LOUIS J. BRENDLE,
Manager, Planning Department
JOHN CHOWANSKY,
*Manager, Management Information
Department*
LOUIS J. CONROY,
Manager, Service Department
ROBERT L. COOPER,
*Manager, Acceptance Department, and
Manager, Securities Department*
JOSEPH R. COYLE,
Securities Trading Officer
HOWARD F. CRUMB,
Manager, Computer Services Department
FREDERICK W. DEMING,
Manager, Securities Department
ADAM R. DICK,
Manager, Bank Relations Department
MATTHEW C. DREXLER,
Manager, Building Operating Department
MRS. EDNA E. EHRLICH,
Senior Economist
CHESTER B. FELDBERG,
Secretary, and Assistant Counsel
FREDERICK L. FREY,
Chief Examiner
RALPH H. GELDER,
Manager, Bank Examinations Department
RICHARD H. HOENIG,
*Manager, Public Information Department,
and Assistant Secretary*

MATTHEW J. HOEY,
*Manager, Government Bond and
Safekeeping Department*
JOHN C. HOUHOULIS,
Manager, Payment Systems Department
FRED H. KLOPSTOCK,
Manager, International Research Department
JAMES H. OLTMAN,
Manager, Bank Examinations Department
SCOTT E. PARDEE,
Manager, Foreign Department
EDWIN R. POWERS,
Manager, Foreign Department
CHARLES R. PRICHER,
Manager, Cash Department
A. MARSHALL PUCKETT,
Manager, Domestic Research Department
LEOPOLD S. RASSNICK,
Assistant Counsel
FRANCIS H. ROHRBACH,
Manager, Personnel Department
EDWIN S. ROTHMAN,
Manager, Foreign Department
HERBERT H. RUESS,
Manager, Credit and Discount Department
WALTER S. RUSHMORE,
Manager, Accounting Department
MRS. BETTY JEAN SHEA,
Assistant Counsel
BENJAMIN STACKHOUSE,
Manager, Bank Examinations Department
ALOYSIUS J. STANTON,
Manager, Security Custody Department
RUTH ANN TYLER,
Manager, Personnel Department
PHILIP VAN ORMAN,
Assistant Counsel
WILLIAM H. WETENDORF,
Manager, Protection Department
ROBERT YOUNG, JR.,
Assistant Counsel

GEORGE C. SMITH, *General Auditor*
JOHN E. FLANAGAN, *Assistant General Auditor*

OFFICERS — BUFFALO BRANCH

ANGUS A. MACINNES, JR., *Vice President*

RONALD B. GRAY, *Cashier*

HARRY A. CURTH, JR., *Assistant Cashier*

GERALD H. GREENE, *Assistant Cashier*

ARTHUR A. RANDALL, *Assistant Cashier*

THE SECOND FEDERAL RESERVE DISTRICT

