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# **FEDERAL RESERVE BANK OF NEW YORK**



## **ANNUAL REPORT 1972**



**FEDERAL RESERVE BANK OF NEW YORK**

March 7, 1973

To the Member Banks in the  
Second Federal Reserve District:

I am pleased to present our fifty-eighth Annual Report, reviewing the major economic and financial developments of 1972.

The past year witnessed an impressive acceleration of the economy's recovery from the 1969-70 recession. Spurred by abundant monetary and fiscal stimulus, as well as by a dramatic improvement in consumer and business sentiment, real output and employment rose strongly during 1972. With the aid of the Phase Two controls of the Economic Stabilization Program, moreover, progress was made in reducing wage and price inflation.

The prospects for continued improvement in the economy seem good. The outlook is, however, clouded by a number of uncertainties. The United States experienced in 1972 the largest international trade deficit in its history which culminated in the exchange crisis of early 1973. Inflationary expectations, though somewhat reduced, have by no means been banished. And unemployment remains a serious problem among some minority groups and young persons.

Some steps have been taken to deal with these problems, but there is still much unfinished business. The realignment of international exchange rates must be supported by appropriate stabilization policies in the United States and by a sincere effort on the part of all nations to reduce the many remaining barriers that distort trading patterns. The Phase Three wage and price restraints will require vigorous surveillance as well as voluntary cooperation. Above all, it is imperative that monetary and fiscal policies become less stimulative than they were last year. The tightening of bank reserve positions in recent months and the restraint incorporated in the new Federal budget provide ground for encouragement.

*Alfred Hayes*

ALFRED HAYES  
President

*Federal Reserve Bank  
of New York*

**FIFTY-EIGHTH  
ANNUAL REPORT**

*For the Year  
Ended  
December 31, 1972*



*Second Federal Reserve District*



# Contents

	<i>Page</i>
<b>Introduction</b> .....	5
 <b>THE UNITED STATES ECONOMY IN 1972</b> .....	 11
<b>Business Conditions: Progress Against Inflation Amidst a Broadly Based Expansion</b> .....	 11
Consumer and business expenditures .....	11
Government expenditures and receipts .....	14
Employment, wages, productivity, and prices .....	15
<b>Monetary Policy and Credit Market Developments</b> .....	 19
Monetary policy seeks to support a noninflationary expansion .....	 21
Bank credit and capital market developments .....	24
 <b>THE UNITED STATES AND WORLD ECONOMY IN 1972</b> .....	 27
<b>Strains on the International Economy</b> .....	 27
<b>Persistence of Inflationary Pressures in Europe</b> .....	 33
<b>Improved Prospects for International Monetary Reform</b> .....	 34
<b>The United States Balance of Payments</b> .....	 35

	<i>Page</i>
<b>THIS BANK'S OPERATIONS</b> .....	40
<b>Volume and Trend of the Bank's Operations</b> .....	 40
<b>Financial Statements</b> .....	47
Statement of earnings and expenses..	47
Statement of condition .....	48
<b>Changes in Membership</b> .....	50
<b>Changes in Directors and Officers</b> ..	51
Changes in directors .....	51
Changes in officers .....	52
Member of Federal Advisory Council—1973 .....	56
<b>List of Directors and Officers</b> .....	57

## CHARTS

<i>Chart 1: Rising Output and Falling Unemployment</i> .....	12
<i>Chart 2: Wage Changes</i> .....	16
<i>Chart 3: Price Changes</i> .....	18
<i>Chart 4: Monetary Aggregates and Bank Credit</i> .....	20
<i>Chart 5: Interest Rates and Money Market Conditions</i> .....	23
<i>Chart 6: Bond and Stock Flotations by Major Sectors</i> .....	26
<i>Chart 7: Exchange Rates</i> .....	30
<i>Chart 8: Exchange Rates</i> .....	31
<i>Chart 9: United States Balance of Payments</i> .....	36



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

The United States economy made progress in 1972 in reducing unemployment and moderating inflation. On the international side, 1972 was much calmer than 1971. Nevertheless, continuing imbalances in the pattern of world trade contributed to intermittent strains in the foreign exchange markets. These strains intensified to crisis proportions in early 1973, precipitating a further devaluation of the dollar.

The domestic economy expanded in a remarkably vigorous and steady fashion during 1972. After a few lingering doubts about the strength of consumer demand in the opening weeks, the vitality of the expansion never again came into serious question. The resurgence in consumer confidence was reflected in the higher proportion of incomes spent for goods and services and the marked increase in consumer willingness to take on instalment debt. A parallel strengthening in business psychology was manifested in a stepped-up rate of plant and equipment spending and a gradual pickup in outlays for inventory. Confidence in the economy was also reflected in the strength of the stock market and in the stability of the bond market, where rates showed little net change over the year as a whole despite the vigorous economic upturn. On several occasions during the year, the financial markets responded to shifting appraisals of the outlook for peace in Vietnam. For the year as a whole, consumer and business sentiment benefited from rising public expectations that a resolution of the conflict was in prospect and that East-West tensions were easing.

The underpinnings of the business expansion were to be found in part in the



stimulative monetary and fiscal policies that had been pursued in 1971 and were continued in 1972. Moreover, the restoration in 1971 of sounder liquidity positions and tighter management control of production efficiency had also helped lay the groundwork for a strong expansion in 1972. In addition, the economic policy moves made by the President in August 1971 had served to renew optimism on the business outlook while boosting hopes that inflation would be brought under more effective control. Finally, of course, the economy was able to grow as vigorously as it did in 1972 because sufficient leeway existed in terms of idle men and machines.

At the same time that real output was expanding strongly and unemployment declining, progress was also being made against inflation. Advances in money wage rates moderated and, despite sharp increases in food costs, most broad measures of prices also showed improvement. In the final quarter, however, overall consumer prices were still rising at an annual rate in excess of 3 percent. On balance, the 1972 experience with the Phase Two program of wage and price controls represented a successful use of incomes policy to help moderate cost inflation after demand pressures have been brought under control.

The Federal Reserve again sought in 1972 to encourage growth in the monetary aggregates rapid enough to sustain the expansion of real economic activity, and thus help to lower unemployment, but not so rapid as to undermine efforts to reduce the rate of inflation. Over the twelve-month period as a whole, the narrowly defined money supply grew by 8.3 percent, more than 1½ points above the growth in 1971, while the broad money supply rose at about the same rapid rate as in the previous year and the growth of bank credit accelerated markedly. To some extent, the statistical record for the year with regard to the money supply was colored by the unexpected and undesired burst of growth registered in the final month. For example, the expansion of  $M_1$  in the twelve months ended in November was a slower 7.3 percent. Nevertheless, growth in the aggregates in 1972 was somewhat more rapid than would seem desirable, if a noninflationary environment is to be achieved and maintained.

In the opening months of 1972, the Federal Open Market Committee sought supplies of bank reserves and money market conditions sufficiently stimulative to ensure that a marked slowdown in monetary growth that had emerged in late 1971 did not continue into the new year. In view of this earlier shortfall, the very rapid growth of  $M_1$  that materialized in the first quarter, though greater than expected, was not by itself a source of serious concern. At the same time, however, it was clear that such rates should not be allowed to per-



sist for long, and the Committee did aim at more moderate growth for the second quarter. Given the underlying strength in the economy, this objective resulted in progressively firmer conditions in the money market, and the Federal funds rate moved generally higher beginning in early March.

The money supply leaped upward in early July for reasons that are still not clear and for the third quarter as a whole rose materially more rapidly than had been anticipated at the beginning of the quarter. Against this background and with continued strong growth in the economy, bank reserves were supplied less willingly and the Federal funds rate edged up further. During the final quarter of the year, growth in the aggregates was again more rapid than expected, reflecting a sharp rise in demand deposits during December. It was, however, encouraging that growth in the aggregates apparently slowed markedly in early 1973.

Sharp deviations of the monetary aggregates from the growth rates desired and expected, such as occurred in July and December, underscore the difficulties of exercising precise control over these aggregates. Largely with a view to improving its ability to regulate their behavior, the Open Market Committee began in February to experiment with the use of tolerance ranges for the growth rate of reserves available to support private nonbank deposits (RPD). During most of 1972, the Committee also formulated explicit target ranges for the money supply and bank credit proxy, using RPD tolerance ranges as a guideline to the volume of reserves that might be needed in meeting these money and credit objectives. The emphasis on RPD tolerance ranges in making day-to-day decisions on the volume of reserves to be supplied by open market operations varied somewhat over the course of the year. During most of the year, the behavior of RPD relative to the FOMC's prescribed tolerance ranges was a significant factor in formulating weekly objectives with respect to the volume of nonborrowed reserves and the associated expected behavior of such measures as the Federal funds rate and the volume of member bank borrowings from the Federal Reserve Banks. At times, however, the behavior of the money supply itself relative to FOMC target ranges also played a major role in the operating decisions of the Open Market Account Management. During most periods, moreover, the FOMC indicated upper and lower limits on the desired levels of the Federal funds rate as constraints on the pursuit of objectives for the behavior of RPD and the broader monetary aggregates. In some intervals, the Account Management's actions were also conditioned by the state of capital market pressures. International developments and considerations regarding Treasury financings were additional factors at times.

Like monetary policy, fiscal policy was stimulative in 1972. Although the Federal budget deficit for the calendar year was smaller than in 1971, it was still large. Concern over the possibility that fiscal policy might be getting out of control was heightened during the year by studies suggesting that the growth of existing programs alone would produce sizable deficits for some time to come unless new taxes were enacted. Although the Congress did not pass a proposed \$250 billion ceiling on spending for fiscal 1973, the President announced that he would nevertheless attempt to hold outlays to that level. Moreover, the Congress did initiate a study of ways to improve control of overall appropriations totals in future years. Certainly fiscal moderation will be a vital factor in holding the economy to a steadily expanding course that avoids rekindling demand inflation. Even apart from direct effects on spending, heavy Treasury borrowings associated with excessive fiscal stimulus may add to the difficulties of holding growth in the monetary aggregates to suitably moderate proportions without at the same time creating unwelcome upward pressures on interest rates. Conflicts between the need to facilitate heavy Treasury borrowings and the need to avoid excessive growth in bank credit have created problems in the past. Such conflicts could recur in the future if attempts to hold down the size of Federal deficits prove ineffective.

The international financial scene remained troubled in 1972. The system of exchange rates worked out in the Smithsonian agreement of December 1971 generally survived the severe strains that were placed on it at times in 1972, and the dollar closed the year quite firm in the markets. Nevertheless, renewed pressures on the exchange rate structure developed early in 1973, leading to a further realignment of rates based on a second devaluation of the dollar. Early in 1972, when a widely anticipated reflow into dollars failed to materialize in significant volume, the dollar dropped sharply against most major currencies. Some foreign central banks began absorbing dollars to hold the exchange rates within the Smithsonian limits, while certain central banks also took direct actions to discourage dollar inflows. Given these visible demonstrations of support for the new rate structure, as well as passage by the Congress in March of the dollar devaluation bill, the dollar subsequently strengthened, some reflows to the United States did begin to appear, and for a time our official settlements account moved into surplus. The dollar weakened markedly again in late June and July, however, following the floating of the pound. With rumors circulating that the European currencies as a group might be floated jointly against the dollar, the Continental central banks had to take in large amounts of dollars

until market fears were quieted on July 17 by official reassurances that the Smithsonian agreement would be upheld.

Market confidence gained notably further on July 19 when the Federal Reserve resumed intervention in the foreign exchange markets. At the same time, Chairman Burns announced that Federal Reserve operations in defense of the Smithsonian agreement would be undertaken whenever advisable and that the suspension of the use of the swap network had been lifted. With the market's most pressing fears alleviated, attention turned to the longer run gains for the dollar that were expected to stem from the devaluation. The dollar remained generally stronger over the balance of the year, and only the Japanese yen among the major currencies held persistently at its ceiling. The situation continued delicate however, as was underlined by the speculative crisis that developed in early 1973, prompting a substantial further realignment of exchange rates.

The United States balance-of-payments deficit declined sharply in 1972 from the extraordinary 1971 level that had been swollen by the flight out of dollars in that year. Nevertheless, by any other test, the deficit remained very large, and there was actually a substantial deterioration in our trade account to a sizable deficit, almost two thirds of which was with Japan. It was to be expected that the immediate effect of devaluation would be a worsening in our trade accounts, with the benefits coming only later. In the event, the merchandise trade deficit did reach its peak in April, but the subsequent improvement was small and uncertain. While the overall trade performance in 1972 proved disappointing, there are still good reasons for expecting the delayed impact of devaluation and the further devaluation of February 1973, along with our relatively favorable price performance, to produce in time a significant strengthening in our trade picture. Given the size of the Japanese component of our trade deficit, however, the outcome will depend importantly on the extent of the corrective measures undertaken by Japan. Also important will be our own efforts in the United States to fashion internal policies consistent with an improvement in our external balance.

As 1972 ended, the underlying task of public policy for the year ahead—and indeed for the longer run—remained a familiar one: to strike the right balance between encouraging healthy economic growth and avoiding inflationary pressures. With the economy showing sustained and vigorous growth, and with the early 1973 currency crisis highlighting the need to improve our competitive posture internationally, the emphasis seemed to be shifting to the problem of

inflation. The Phase Three program of wage and price restraint can contribute to dampening inflation in 1973. Unless productivity growth is unexpectedly large, however, the expansion of real output must eventually begin to slow down to the economy's longer run growth potential if generalized demand pressures on prices are to be avoided. Indeed, while the unemployment rates of a bit over 5 percent that prevailed at the close of 1972 were still too high, it seems doubtful whether the much lower rates of 4 percent and below often cited as appropriate definitions of full employment do in fact represent feasible goals for the United States economy—unless there are improvements in the structure of labor and product markets and public policies influencing their operation. There is little doubt that overall unemployment rates can be brought down to 4 percent or less, for a time at least, by sufficient stimulation of aggregate demand. However, the resultant inflationary pressures have in the past proved exceedingly difficult to contain. After a point, moreover, it is questionable just how much, if any, additional reduction in unemployment can be permanently “bought” by accepting a stepped-up rate of inflation.

Our first requirement is to avoid overstimulative monetary and fiscal policies that sustain or add further to expectations of rising prices. Widely held expectations of inflation are by themselves an important source of actual inflation. The easing of such expectations would tend to raise the levels of employment compatible with price stability. Beyond encouraging public confidence in the prospects for stable prices, however, gains with respect to both inflation and unemployment can be achieved through appropriate changes in government programs and private practices affecting the function of labor and product markets. To be sure, improvements in this area are not always easy to implement. Nevertheless, they remain a major key to achieving better performances with respect to both prices and employment. Success in this effort would also do much over the longer run to enhance the country's competitive position in world markets.

## **THE UNITED STATES ECONOMY IN 1972**

### **Business Conditions: Progress Against Inflation Amidst a Broadly Based Expansion**

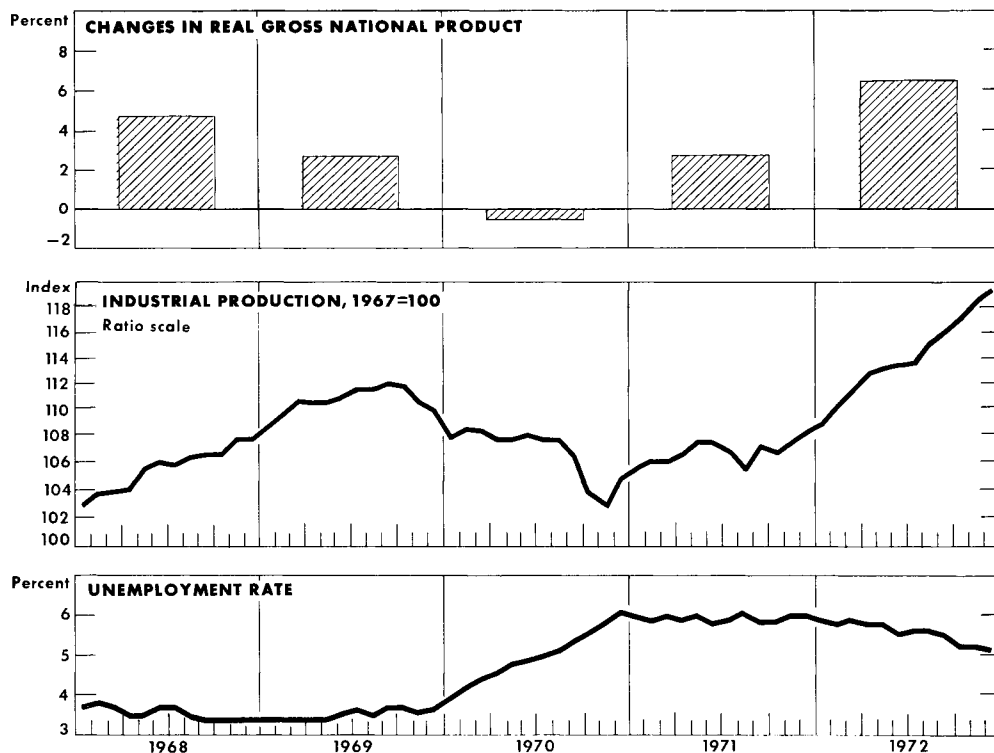
The breadth and balance of the economic expansion in 1972 were evident in the strong performance of virtually every component of aggregate demand. Overall, the nation's output of goods and services—measured by real gross national product (GNP)—rose 6.4 percent. This was the most rapid increase in output since 1966 and one of the largest on record. By December, industrial production had risen 6.5 percent above the pre-recession peak established in late 1969 (see Chart 1). The unemployment rate—which had hovered near 6 percent throughout 1971 and the first half of 1972—fell to 5.1 percent by the year-end, its lowest level since August 1970. At the same time, prices of most goods and services other than food and raw materials rose at rates significantly below those experienced in the months prior to the beginning of the wage-price control program in August 1971. Despite this improvement, the overall rate of inflation remained high when viewed in a broader historical context that includes the immediate pre-1965 period, and farm prices soared.

**CONSUMER AND BUSINESS EXPENDITURES.** Throughout the year, consumers and businessmen showed considerably greater willingness to spend than they had in the two preceding years. During 1970 and 1971, consumers had saved unusually large proportions of their incomes, as the combination of relatively high unemployment and rapid inflation prompted caution in planning outlays and in incurring debt. In 1972, consumer confidence improved dramatically in response to the rise in employment and personal income. In addition, public sentiment was buoyed by the progress toward the cessation of hostilities in Vietnam. Reflecting their emerging optimism, consumers increased their expenditures at an even faster rate than the substantial rise in personal disposable income. While purchases of nondurable goods and services were stepped up, the sharpest increase in spending was for the acquisition of durable

goods. About half of the rise in durable goods outlays was for automobiles. However, demand for furniture and household appliances was also strong as a result of the continuing boom in residential construction. This spending on durables was facilitated by a record increase in consumer debt.

As in the two preceding years, consumers in 1972 continued to channel a

**Chart 1. RISING OUTPUT AND FALLING UNEMPLOYMENT:** Real GNP rose strongly in 1972. In the industrial sector, production surpassed its previous peak by April. After slowing somewhat in late spring and early summer, it continued to advance sharply over the balance of the year. Despite the strength of the economic expansion, the unemployment rate remained about 6 percent until June as gains in employment were matched by rapid growth of the labor force. By the end of the year, however, the unemployment rate had fallen to 5.1 percent, its lowest level since August 1970.



All data are seasonally adjusted. GNP growth rates represent increases in annual averages.

large part of their savings into mortgage-specialized financial intermediaries. Attracted by yields that remained highly competitive with those on short-term market instruments, deposits at the nation's mutual savings banks and savings and loan associations increased by a record \$43 billion. These intermediaries, in turn, increased their residential mortgage holdings by a record amount. The terms on which home mortgage credit was extended were relatively comfortable during the year. To be sure, interest rates on home mortgages began to edge upward in the spring, but they still ended the year below the levels prevailing at its beginning. Moreover, the ratios of mortgage loans to the prices of the homes whose purchases they financed rose appreciably over the year.

With mortgage credit readily available and the underlying demand for housing remaining strong, the number of housing units started in 1972 totaled a record 2.4 million, well above the 2.1 million units begun in 1971 and the 1.4 million started in 1970. Overall expenditures on residential construction also rose to a new record. The progress toward meeting the nation's housing needs reflected in these figures was augmented by the continuing expansion of mobile home acquisitions for permanent residences as well as recreational purposes. During 1972, mobile home shipments totaled nearly 576,000 units, compared with 492,000 in 1971.

Spending on plant and equipment rose 9 percent in 1972, slightly less than had been anticipated early in the year but still markedly above the 2 percent growth of 1971. An important turnabout took place in the manufacturing sector of the economy, where plant and equipment spending rose about 4 percent following a sharp decline during the preceding year. With a relatively high proportion of capacity in manufacturing remaining idle during much of the year, a large part of the increase in investment was concentrated in cost-reducing machinery and pollution-control devices.

Inventory investment, which had been somewhat sluggish during 1971 and early 1972, strengthened markedly later in the year. To some extent, the earlier sluggishness of inventory accumulation reflected the mildness of the inventory correction undertaken during the 1969-70 recession. In contrast to previous cyclical contractions, businessmen continued to add to their inventories throughout the latest recession. Although the rate of inventory accumulation tapered somewhat in 1971, the generally sluggish rise in economic activity caused the ratios of inventories to sales to remain relatively high in many sectors. As business sales rose in 1972, however, the inventory-sales ratios dropped sharply, prompting an acceleration of inventory accumulation as the year progressed.



**GOVERNMENT EXPENDITURES AND RECEIPTS.** The vigorous growth of private spending in 1972 was both stimulated and augmented by a highly expansionary fiscal policy. To be sure, the Federal Government deficit, measured on a national income accounts basis, narrowed to \$18.5 billion in the calendar year 1972 from \$21.7 billion in 1971. However, it still remained extremely high by comparison with other post-World War II years. Federal outlays rose by a near-record amount in 1972, as a large increase in purchases of goods and services was accompanied by continued growth of transfer payments to individuals and a sharp rise in grants-in-aid to state and local governments. Additional fiscal stimulus was provided by tax cuts. As a result of the passage of the Revenue Act of 1971, a number of personal tax reductions scheduled originally to take effect in 1973 were accelerated to January 1, 1972. The act also provided for the repeal of the excise tax on automobile purchases, established a retroactive 7 percent tax credit on business investment in equipment, and liberalized tax depreciation allowances. To some extent, however, these tax reductions were offset by increased social security tax payments resulting from the increase in the social security tax base that went into effect during the year.

The stimulative effect of the increased Federal outlays and tax reductions was also mitigated somewhat by unusually large overwithholding of personal income taxes. In addition to the tax reductions, the Revenue Act of 1971 instituted new withholding schedules which established higher withholding rates in an effort to correct the underwithholding that many taxpayers had experienced in the past. Although provision was made for the claiming of withholding exemptions in addition to the standard exemptions, relatively few taxpayers took advantage of this possibility, and several billion dollars was withheld from paychecks in excess of accruing personal tax liabilities. The enlargement of the tax base as the economy expanded also contributed significantly to higher Federal Government receipts.

State and local governments in 1972 enjoyed an overall budgetary surplus of \$12.6 billion on a national income accounts basis, up sharply from \$4.8 billion in the preceding year. Expenditures advanced at about the same rate as in 1971, but revenues of state and local governments rose considerably faster. This revenue gain stemmed both from the rise in tax receipts associated with the recovery of the economy and from the large increase in Federal grants-in-aid. With the disbursement of \$2.7 billion in revenue-sharing payments in December, these grants rose to a level more than double that which had prevailed as

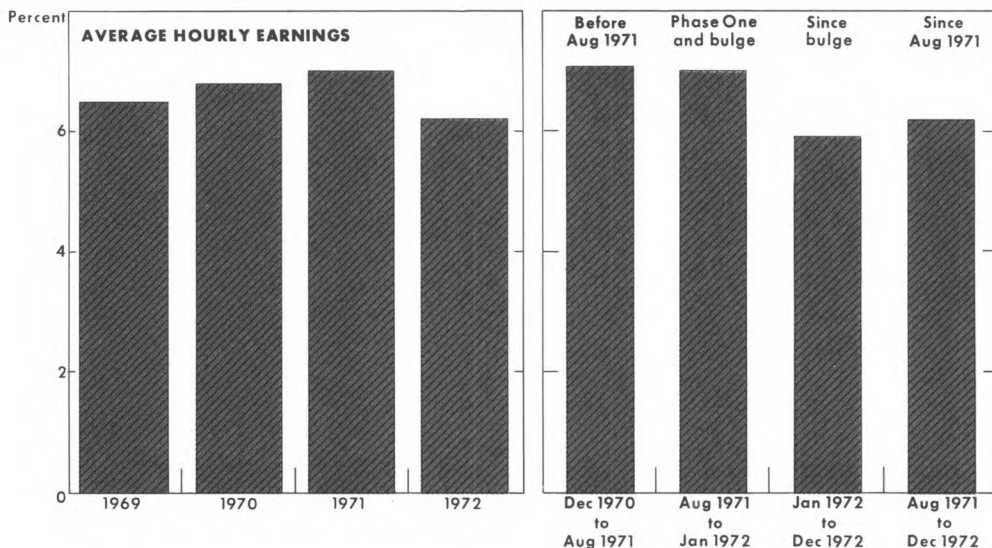
recently as 1968. The increased reliance of state and local governments on Federal grants may help partially to insulate their finances and expenditures from the effects of fluctuations in credit availability in the future.

**EMPLOYMENT, WAGES, PRODUCTIVITY, AND PRICES.** The vigorous growth of the economy brought about a marked improvement in the employment situation. Total employment increased over the year by 3.4 percent, a rate well in excess of the long-run historical trend of about 1.7 percent. The most dramatic improvement was in the manufacturing sector, where a substantial number of workers had been laid off during the two preceding years. Toward the end of 1971 and in the early months of 1972, the number of employees on manufacturing payrolls rose significantly while the rate of layoffs dropped sharply. During 1972, close to 900,000 workers were added to manufacturing payrolls, and there was also substantial improvement in the cyclically sensitive measures of average number of factory hours worked and hours of overtime.

The unemployment rate remained close to 6 percent until June, as the gains in employment were matched by unusually rapid growth of the civilian labor force. The latter, in turn, stemmed from the larger than average expansion of population of labor-force age, as well as from the growing reentry into the labor force of individuals who had previously ceased looking for employment. The civilian labor force was also increased by the continued reduction of the armed forces and the resultant entry of Vietnam veterans into the labor force. The growth of the civilian labor force slowed somewhat during the second half of the year, but the increase over the entire year was still above historical standards. While unemployment at the year-end remained a serious social problem, much of it was concentrated among reentrants and younger workers. At the same time, the unemployment rate for workers twenty-five years of age or more had fallen to 3.2 percent, its lowest level since the spring of 1970 when the overall unemployment rate was about 4.5 percent.

The gains in employment were accompanied by encouraging, albeit uneven, progress toward the abatement of wage and price inflation. Despite a post-freeze bulge of wage increases in December 1971 and January 1972, average hourly earnings, adjusted for the effects of overtime in manufacturing and shifts of employment among industries, rose at a slower rate during 1972 than in any year since 1967. Over the last eleven months of 1972, adjusted average hourly earn-

**Chart 2. WAGE CHANGES:** After a sharp but brief bulge following the wage freeze, average hourly earnings grew at a considerably slower rate over most of 1972 than they had during the first eight months of 1971.



Average hourly earnings of production and nonsupervisory workers in the private nonfarm economy. Data are adjusted for seasonal variation, for interindustry shifts of employment, and in manufacturing for overtime.

Annual data represent net changes over the year. Other data are expressed at annual rates of change from the first to the last month cited in each case.

ings rose at a 5.8 percent annual rate, substantially less than the 7.2 percent rate of increase in the eight months of 1971 preceding the freeze (see Chart 2). However, while the rate of increase in earnings fluctuated widely from month to month, there was a tendency toward larger increases as the year progressed.

Aside from the controls administered by the Pay Board, the more moderate rise in wages reflected the relatively light collective bargaining calendar in 1972. Major contract settlements involving only 2.8 million workers were negotiated in the year. By comparison, major contracts involving some 4.7 million workers are scheduled to expire during 1973. A light volume of contract negotiations tends to hold down the rate of wage increase, since the first-year increases called

for in settlements are generally greater than those that become effective in subsequent years.

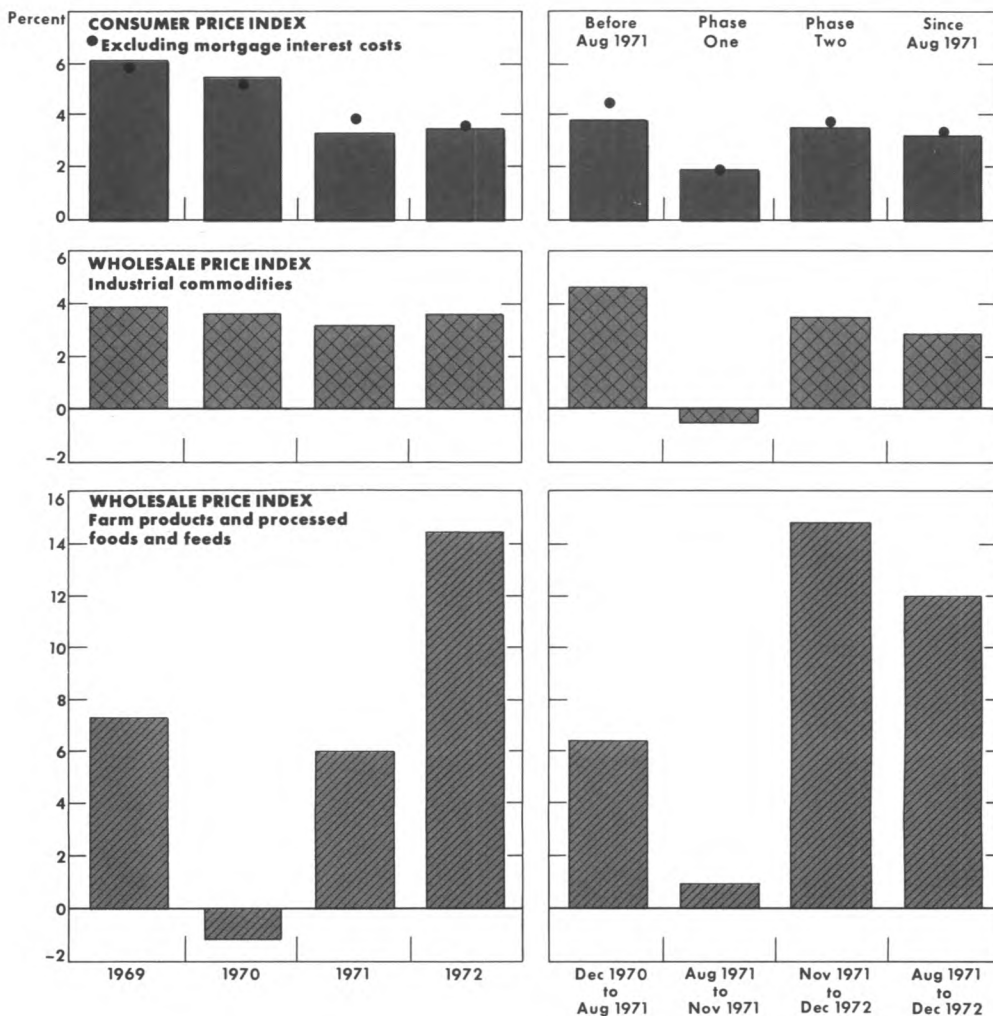
The slowing in the pace of advance in money wages helped to restrain price inflation by moderating upward pressures on costs of production. An even more important factor in holding down these costs was the 5 percent increase in output per hour of work. As a result of this rapid gain in productivity, which is typical of the early phase of an economic expansion, unit labor costs in the private economy increased at their slowest rate since 1965.

Price inflation also moderated somewhat in 1972. While consumer prices rose at about the same rate during 1972 as a whole as they had in 1971, the inclusion of the three-month price freeze in late 1971 conceals the slowing that occurred in 1972 relative to the pre-freeze performance. Moreover, the use of current mortgage interest rates in the consumer price index tends to distort the comparison between the past two years. In early 1971 mortgage rates fell sharply, thereby moderating somewhat the rise in the overall consumer price index. In 1972, in contrast, mortgage costs had little effect on the overall rate of price increase. Consequently, a better picture of the slowing of inflation is obtained by comparison of the performance of the consumer price index excluding mortgage interest costs during the post-freeze period—the thirteen months ended December 1972—with the pre-freeze performance during the first eight months of 1971 (see Chart 3). Viewed in this way, the 3.6 percent post-freeze annual rate of rise did represent a noticeably slower advance than the 4.5 percent rate of increase in the pre-freeze months of 1971.

A somewhat greater slowdown in inflation occurred among the wholesale prices of industrial commodities. These prices rose at an annual rate of 3.5 percent during the thirteen-month period ended December 1972, down from the 4.7 percent rate of increase during the pre-freeze period of 1971. There was, moreover, a gradual though irregular diminution in the rate of increase in industrial wholesale prices as 1972 progressed. For example, during the final quarter of the year, these prices rose at an annual rate of only 2 percent.

Food prices, however, rose sharply last year, particularly at the wholesale level. Wholesale prices of farm products and processed foods and feeds rose at an annual rate of nearly 15 percent during the thirteen months ended December 1972, up from 6.5 percent during the first eight months of 1971. Moreover, advances in agricultural prices tended to accelerate during the year, even before an extraordinary jump in December. These rises, as well as the continued increases in other wholesale and consumer prices, made it clear that inflation still

**Chart 3. PRICE CHANGES:** Except for food prices, the rate of price inflation, at both the wholesale and the retail levels, was slower during Phase Two than it had been in the first eight months of 1971. However, food prices skyrocketed, particularly at the wholesale level.



All data are seasonally adjusted. Annual data represent net changes over the year. Other data are expressed at annual rates of change from the first to the last month cited in each case.

remained a serious problem as 1972 ended, despite sixteen months of price and wage controls.

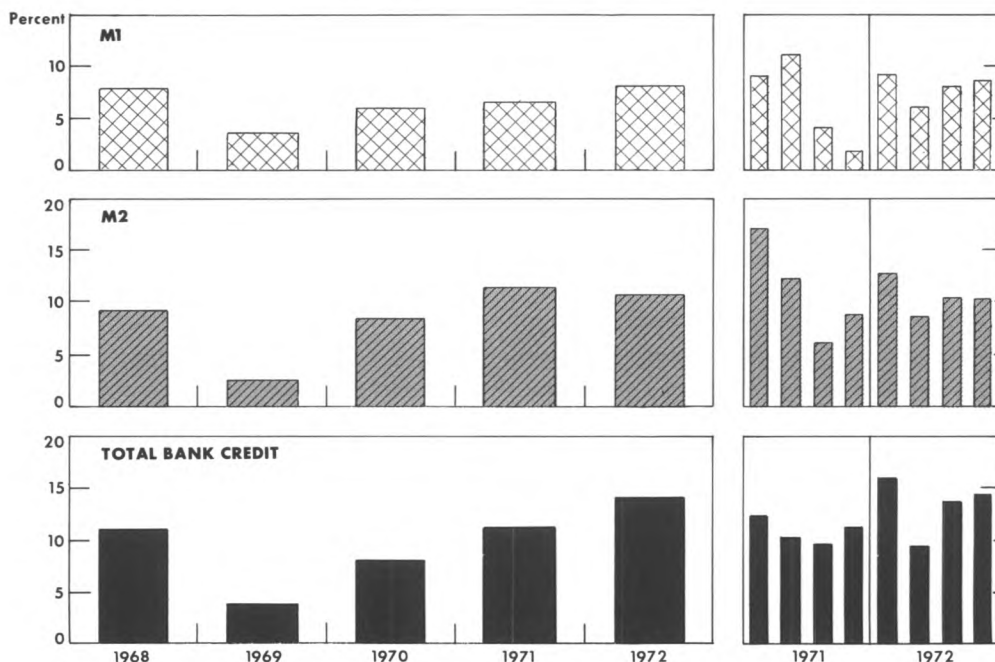
## **Monetary Policy and Credit Market Developments**

Monetary policy in 1972 sought to achieve growth in the money and credit aggregates at rates that would support the economic recovery without undermining efforts to reduce inflation. Early in the year the pursuit of this objective entailed strenuous efforts to stimulate the money supply's growth in the wake of a period of sluggishness in late 1971. However, the immediate objective of System policy soon shifted to the attainment of moderate money supply growth. This change in focus was motivated initially by the somewhat more rapid advance of  $M_1$  in the first quarter than had been anticipated; however, its appropriateness over the balance of the year was reinforced by the mounting evidence of the strengthening recovery in economic activity.

Over the year as a whole, the narrowly defined money supply ( $M_1$ )—currency outside commercial banks and private demand deposits adjusted—grew 8.3 percent, up from 6.6 percent in 1971 (see Chart 4). The broad money supply ( $M_2$ )—which adds to  $M_1$  savings accounts and time deposits at commercial banks other than large certificates of deposit (CDs)—rose 10.8 percent in 1972, slightly less than in the preceding year. While the growth of consumer-type time accounts and savings accounts at commercial banks slowed slightly during 1972, large-denomination CDs grew at approximately the same rapid rate as in 1971. Total bank credit rose very strongly during 1972. Adjusted to include loans sold by banks to their affiliates, bank credit rose 14 percent in 1972, up from 11.3 percent in 1971.

The nation's credit markets experienced greater stability in 1972 than they had for several years. To be sure, money market rates displayed pronounced movement in the first quarter, first declining, as the System—in its attempt to stimulate  $M_1$  growth—made reserves abundant, and then reversing course as the System became less generous in supplying nonborrowed reserves (see Chart 5). Afterward, rates drifted mildly upward, except for a more brisk advance in December. The rise in short-term rates put little upward pressure on bond yields,

**Chart 4. MONETARY AGGREGATES AND BANK CREDIT:** The growth of M1 accelerated in 1972 for the third consecutive year. M2, however, grew at a slightly slower rate than in the preceding year, as savings accounts and time deposits other than large-denomination CDs increased somewhat less than in 1971. Bank credit, spurred by strong demand for loans, rose substantially.



M1=Currency plus adjusted demand deposits held by the public. M2=M1 plus commercial bank savings and time deposits held by the public less negotiable certificates of deposit issued in denominations of \$100,000 or more. Total bank credit=commercial bank investments and loans adjusted for transactions with affiliates.

The growth rates of M1 and M2 are computed from daily average levels in the final month of the preceding period and the final month of the period covered. The bank credit growth rates are based on levels as of the close of the period covered and the close of the preceding period. Quarterly figures are expressed at seasonally adjusted annual rates.

however, since the capital markets were buoyed by a lessening of inflationary expectations as well as by some moderation in the demand for long-term funds. Reflecting the overall healthy tone of the capital markets and investor confidence regarding the durability of the economy's growth, the major stock indexes



reached record highs in early December, although anxiety regarding the Vietnam situation prompted some price retreat in the last three weeks of the year.

**MONETARY POLICY SEEKS TO SUPPORT A NONINFLATIONARY EXPANSION.** As the year opened, the Federal Open Market Committee (FOMC) was concerned about the slow expansion of  $M_1$  that had occurred during the last few months of 1971 despite a substantial easing of money market conditions. It was feared that a continuation of this trend could prove harmful to the emerging recovery. Against this background, and in view of the very slow growth of reserves during the fourth quarter of 1971, the Committee majority voted at both the January and February meetings to place greater emphasis on reserve growth objectives, in addition to money market conditions, as a means of achieving the desired increase in the money supply. At the February meeting, and over the balance of the year, the FOMC's instruction with regard to reserves was specified in terms of reserves available to support private nonbank deposits (RPD).

This Bank's President dissented from the decisions taken at the January and February meetings. He felt that it was undesirable to place primary emphasis upon reserves as an operating target, believing that reserves were much less meaningful than other money and credit aggregates in working toward the Committee's fundamental economic objectives. Moreover, he was reluctant to issue directives that could lead to a further relaxation of money market conditions at a time when such conditions had already eased significantly and when there was some evidence that the economy was improving. He was concerned that a further easing of money market conditions could fuel inflationary anticipations, in addition to having potentially serious consequences internationally.

Pursuant to the Committee's directive, reserves were supplied generously through late February. In providing reserves, outright purchases were conducted in United States Treasury coupon obligations and Federal agency securities, with purchases of Treasury bills generally confined to repurchase agreements. This operational procedure reflected both the Federal Reserve System's ongoing concern for the markets for long-term funds and the need for the Trading Desk to maintain a portfolio position that would permit absorption of Treasury bills in the event foreign central banks sold substantial volumes of their holdings. These holdings had been built up heavily in 1971 with dollars accumulated in

efforts to support the pre-December 1971 exchange rates. The sale of these bills might have ensued on a large scale if the sizable reflow of dollars from abroad that had been widely expected in the wake of the Smithsonian currency realignments in December had materialized. As it turned out, only a small amount of bill sales by foreign central banks emerged, and these institutions' holdings actually increased modestly on balance over the year.

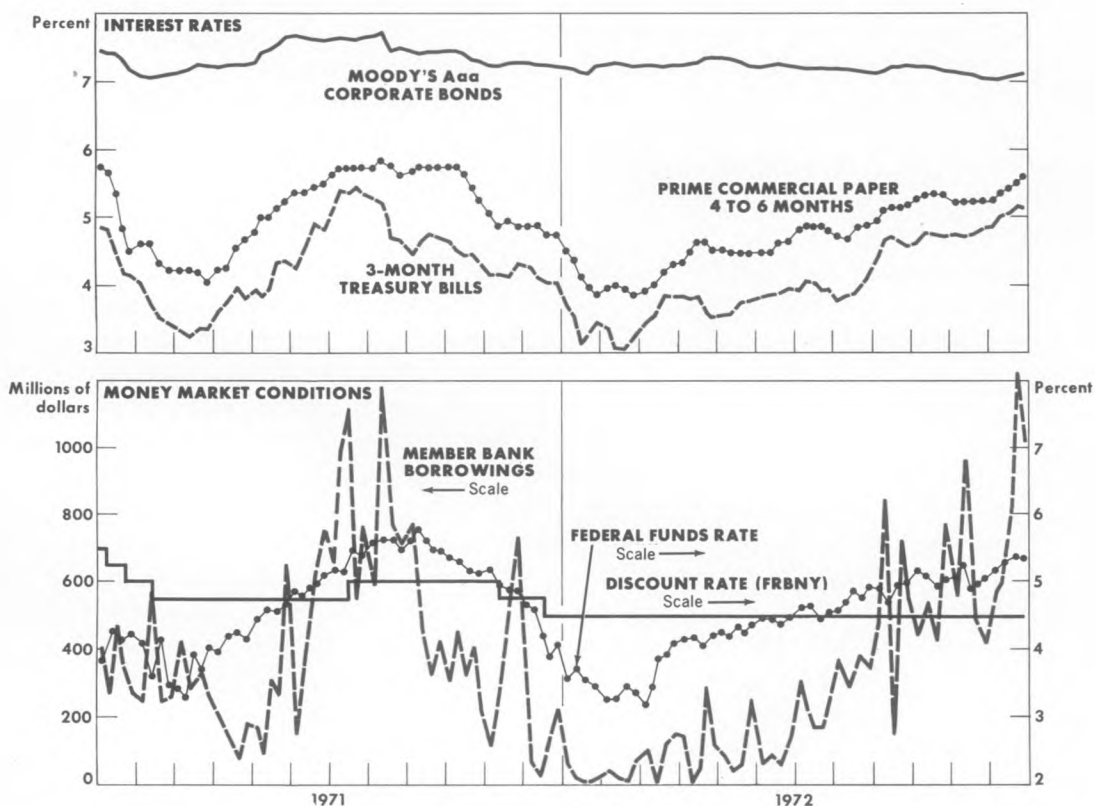
In response to the abundant supply of reserves, interest rates on most short-term credit market instruments fell sharply, and member bank borrowings at the discount window dropped to a frictional minimum. Although money supply growth remained sluggish in January, it accelerated in February. By late February evidence began to accumulate that RPD were growing ahead of expectations. Consequently, the System supplied nonborrowed reserves less generously and money market conditions firmed in March. Short-term interest rates rose briskly and, by the time of the FOMC meeting on March 21, the Federal funds rate had risen to 4 percent. At that meeting, it was decided to aim for money market conditions and a range of RPD growth consistent with more moderate growth of the money and credit aggregates than appeared to be emerging for the first quarter.

Initially, the growth of the aggregates slowed with relatively mild additional upward movement in short-term interest rates. Over the second quarter, the growth of  $M_1$  slowed to a seasonally adjusted annual rate of 6.1 percent, compared with 9.2 percent in the first quarter. By the end of June the Federal funds rate advanced to  $4\frac{1}{2}$  percent, the level of the Federal Reserve discount rate. Unexpectedly, the growth of  $M_1$  accelerated sharply in early July. As the System sought to slow the growth of  $M_1$  by providing nonborrowed reserves somewhat more grudgingly, the Federal funds rate rose above the discount rate, and member bank borrowings at the Federal Reserve discount window increased sharply (see Chart 5). This permitted total reserves to grow at an annual rate of 3.6 percent during the third quarter despite a decline in nonborrowed reserves at an annual rate of 0.8 percent, and  $M_1$  expanded at an annual rate of 8.2 percent. On September 21 this Bank's directors, deeply concerned over the risks that intensifying inflationary pressures might pose for the domestic economy and for the international position of the dollar, voted to raise the discount rate to  $4\frac{3}{4}$  percent. The directors believed that the action was appropriate in light of the recent rise in short-term market interest rates, the tendency toward excessive growth of money and credit, and projections of strong economic expansion. The Board of Governors of the Federal Reserve System, however, disapproved

the increase, feeling that the discount rate was not far out of line with short-term market rates and that an increase would give a misleading indication of policy. The directors reaffirmed their action at their next meeting, on October 5, but again the Board of Governors disapproved.

In October and November the growth of  $M_1$  slowed to a rate well below that of the third quarter. On November 9, two major Federal Reserve regula-

**Chart 5. INTEREST RATES AND MONEY MARKET CONDITIONS:** Long-term interest rates were generally stable in 1972. However, short-term rates fluctuated more widely, initially declining as the Federal Reserve made nonborrowed reserves abundant and then rising as the System supplied nonborrowed reserves more grudgingly in pursuit of moderate growth of the monetary aggregates.



tory changes became effective. Under an amendment to Regulation D, reserve requirements against demand deposits of commercial banks were made a function of bank size rather than geographic location, as had been the case previously. In addition, an amendment to Regulation J required all banks using Federal Reserve check collection facilities to pay for checks in funds available on the same day that the checks are presented to them. The change in Regulation J provided an opportunity to correct a downward bias in the estimated money supply.

The growth of  $M_1$  accelerated in December despite a significant firming of money market conditions. For example, the Federal funds rate rose from about 5 percent at the end of November to about  $5\frac{3}{4}$  percent by late December, while nonborrowed reserves declined at an annual rate of 14.6 percent in December. Total reserves, however, grew rapidly as member banks made extensive use of the discount privilege. After the turn of the year, in order to bring the discount rate into closer alignment with short-term rates generally, the Board of Governors approved a  $\frac{1}{2}$  percentage point increase in the discount rate in mid-January and again in late February 1973. These actions raised the discount rate to  $5\frac{1}{2}$  percent. Short-term rates of interest climbed sharply during the first two months of 1973 and the growth of  $M_1$  slowed.

**BANK CREDIT AND CAPITAL MARKET DEVELOPMENTS.** The acceleration of bank credit growth in 1972 reflected a marked increase in the volume of bank loans. In contrast, banks acquired municipal and Treasury securities at a slower rate than they had in 1971. The strong recovery in business sentiment was reflected not only in a large increase in outstanding commercial and industrial loans, but also in bank commitments to make loans in the future. For most of the year, the growth of business loans was concentrated outside New York, while loan demand at the New York City banks remained relatively weak until late in the year. Loans to nonbank financial institutions rose sharply, as finance and mortgage companies borrowed heavily to support their increased volume of lending. In addition, consumer loans extended by banks grew at an accelerated rate, as did real estate loans. Loans for the purpose of purchasing or carrying securities other than United States Government obligations rose sharply, as substantial amounts of margin credit were employed to acquire equities. The Board of Governors, taking note of the sharp increase in margin credit over the year, raised the initial margin requirement for purchasing or

carrying stocks by 10 percentage points to 65 percent, effective November 24.

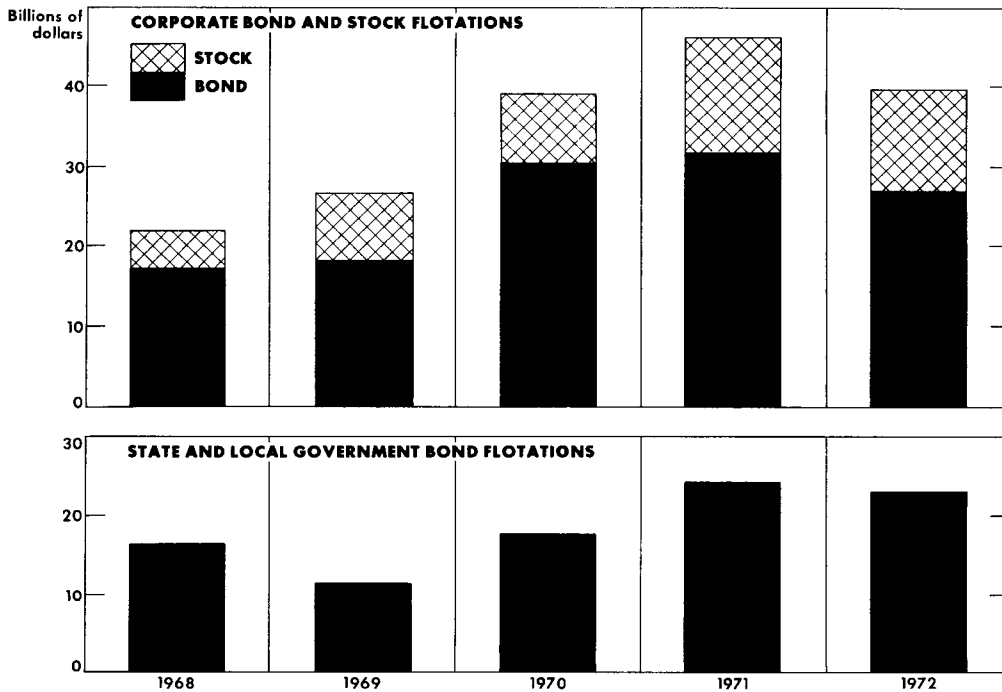
While business demands for short-term funds rose substantially in 1972, their demands for long-term capital moderated somewhat. To a considerable extent, this resulted from the greater volume of internal cash flow made available through the growth of profits and the somewhat more liberal depreciation allowance rules. Consequently, more internally generated funds were available to finance the large growth of capital expenditures. Furthermore, the liquidity buildup of the preceding two years had removed much of the incentive to borrow in the long-term markets for the purpose of accumulating cash or other short-term assets. Consequently, corporations floated \$27 billion of bonds during 1972, well below the record \$32 billion of 1971 (see Chart 6). By comparison, equity financing in 1972 was about equal to the record \$13 billion volume of 1971.

The volume of state and local government bond flotations in 1972 was only slightly below that of 1971 and well above that of any other previous year. Net funds raised in the credit markets by state and local governments declined significantly from 1971, however, as these units retired maturing bonds and reduced short-term borrowings. This decline in borrowings was made possible by the growth of tax receipts and Federal grants-in-aid. Because of the large overall budget surplus, financial investment by state and local governments exceeded the increase in their debt for the first time since 1947, and they were thereby able to improve their liquidity positions substantially.

Overall borrowings of the Federally sponsored credit agencies rose slightly in 1972. The farm credit agencies—the Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives—raised approximately the same amount as in 1971. In the housing area, the Federal Home Loan Banks (FHLB) redeemed a small amount of their outstanding obligations, although their advances to savings and loan associations rose slightly. These advances had declined in the first five months of the year; in the last seven months of the year, however, they rose sharply as mortgage lending by savings and loan associations exceeded their deposit inflows. In contrast to the reduction of FHLB consolidated obligations outstanding, the outstanding debt of the Federal National Mortgage Association rose \$1.5 billion in support of its secondary mortgage market operations.

As a result of the large increase in Federal tax receipts, Treasury borrowing needs over the year were considerably lighter than in 1971. The Treasury took advantage of this situation and the generally firm tone of the markets to prerefund

**Chart 6. BOND AND STOCK FLOTATIONS BY MAJOR SECTORS:** Corporations raised considerably less funds in the domestic bond market in 1972 than during the two preceding years, but they continued to raise funds in the equity market at a near-record rate. State and local government bond flotations in 1972 were slightly below those of 1971 but well above those of any prior year.



Estimates of new issues maturing in more than one year sold for cash in the United States.

\$6.4 billion in securities coming due in 1974 and 1975 when large amounts of outstanding debt were scheduled to mature. Of the \$16.1 billion in new cash that was raised during the year, \$3.9 billion was derived from the sale of nonmarketable issues sold to foreign central banks. By the close of the year, foreign official institutions held \$20.6 billion of such issues, up from \$16.7 billion a year earlier. A total of \$30.3 billion in marketable Treasury securities was held in custody for them by this Bank at the end of the year, compared with \$26.5 billion at the end of 1971.

## **THE UNITED STATES AND WORLD ECONOMY IN 1972**

The fabric of international economic cooperation was severely tested during 1972. Defense of the Smithsonian agreement required heavy exchange market intervention at times by foreign central banks, and numerous restrictions on capital movements were erected by governments abroad. Nevertheless, the long-run growth in world trade was maintained. Although the outlook for a basic overhaul of the international monetary system appeared to improve somewhat following the annual International Monetary Fund (IMF) meeting in September, at which representatives of the major countries expressed a strong desire to resolve their differences, serious problems continued to confront the international economy. This was underscored by the turmoil in the foreign exchange markets during the early weeks of 1973 that led to the February devaluation of the dollar and other exchange rate changes.

### **Strains on the International Economy**

The Smithsonian accord of December 18, 1971 alleviated the most pressing problems that had confronted the international economy in the wake of the upheavals occurring earlier in that year. The pattern of floating exchange rates that had developed following the suspension of dollar convertibility in August 1971 was replaced by a new set of "central" rates. These provided an effective revaluation of major foreign currencies *vis-à-vis* the dollar as well as the widening of the margins for exchange rate fluctuations to 2¼ percent above and below the new rates. The agreement also specified an increase of 8.57 percent in the United States official gold price, to \$38 an ounce. The United States removed its import surcharge, and several foreign governments began to relax exchange restrictions enacted earlier in 1971. These steps eased a severe threat



to business confidence in the major trading countries. The uncertainties surrounding exchange rate movements as well as the danger of additional controls and restrictions had become particularly troublesome in the countries of Western Europe, where an economic slowdown combined with continuing cost-push inflationary pressures was already complicating government stabilization policies.

The settlement was initially greeted with relief in the foreign exchange markets, and the dollar quickly moved close to its new ceiling with respect to a number of major foreign currencies. Some of the speculative funds that had previously fled the United States began to return. This reflux came to an end early in January, however, with the bulk of the earlier outflows remaining abroad. In part, this reflected a growing awareness of the immense difficulties remaining in the way of a reconstituted international financial system. Many market participants concluded that, in the meantime, the dollar was bound to weaken and, hoping to make additional profits, refrained from reversing their positions. This strategy was reinforced both by the widened Smithsonian bands, which greatly increased the potential speculative gains, and by the changing pattern of international interest rate differentials which, early in the year, was becoming more unfavorable to the United States.

The failure of a large-scale reflux to develop as some had expected was a major disappointment, and foreign exchange market conditions deteriorated sharply after the start of the new year. During January and February, the dollar came under heavy pressure at times (see Charts 7 and 8), causing several foreign central banks to add substantially to their already swollen dollar holdings. Increasingly during this period, doubts were expressed about some central banks' willingness to continue defending their Smithsonian limits. In addition, it was becoming more evident that the United States trade account was likely to remain in substantial deficit for some time.

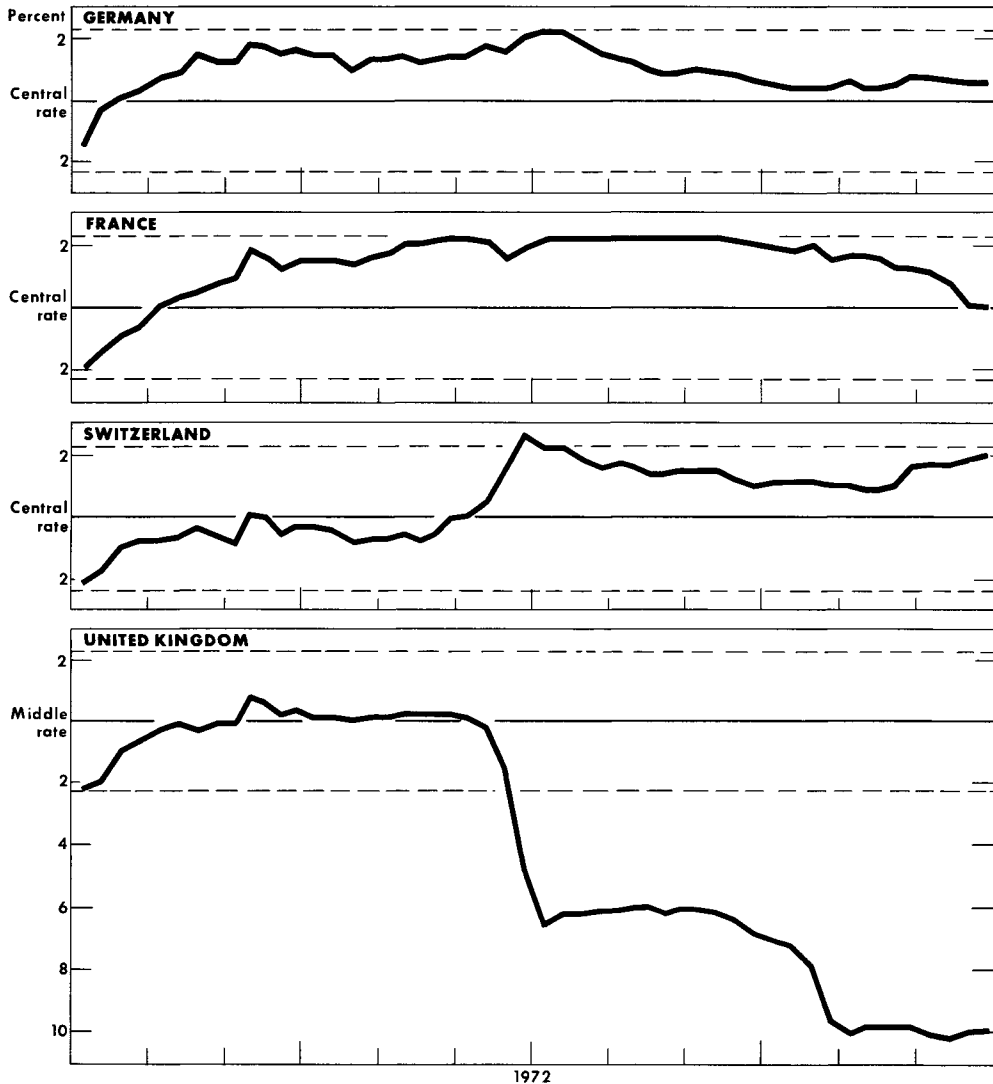
By March, however, a calmer tone developed in the markets and the dollar strengthened through most of the spring months. This occurred despite our continuing large basic balance deficit which was largely offset by an inflow of short-term funds. Thus, little official intervention occurred. Several factors contributed to this change in market sentiment. First, the decisiveness of foreign official intervention earlier in the year had helped reassure the market that the Smithsonian accord would continue to be upheld. In addition, the German and Japanese governments, among others, took steps to impede foreign purchases of their currencies. In mid-March, Congressional approval of an increase in the dollar price of gold removed some of the uncertainty hanging over the market. Finally,

United States short-term interest rates had begun to rise in mid-February, while rates in Europe were generally easing as governments there attempted to stimulate their lagging economies.

This improved market atmosphere was abruptly transformed in mid-June when a crisis that originated with the British pound quickly grew into a serious threat to the entire Smithsonian rate structure. While the dollar had been showing a firmer market tone, a pessimistic attitude was developing with respect to sterling. Price and wage inflation—a severe problem in all the European countries—had become particularly troublesome in the United Kingdom, threatening to undermine the gains from the 1967 devaluation. Following signs that the United Kingdom's surplus on current account was eroding, and with increasing difficulties on the labor front, a wildcat dock strike touched off a wave of speculation in mid-June, necessitating heavy intervention in defense of sterling. This intervention was conducted primarily in European Community (EC) currencies in accordance with an earlier decision by the United Kingdom to join with its prospective Common Market partners in limiting fluctuations among their currencies to 2¼ percent, just half the range permitted under the Smithsonian accord.

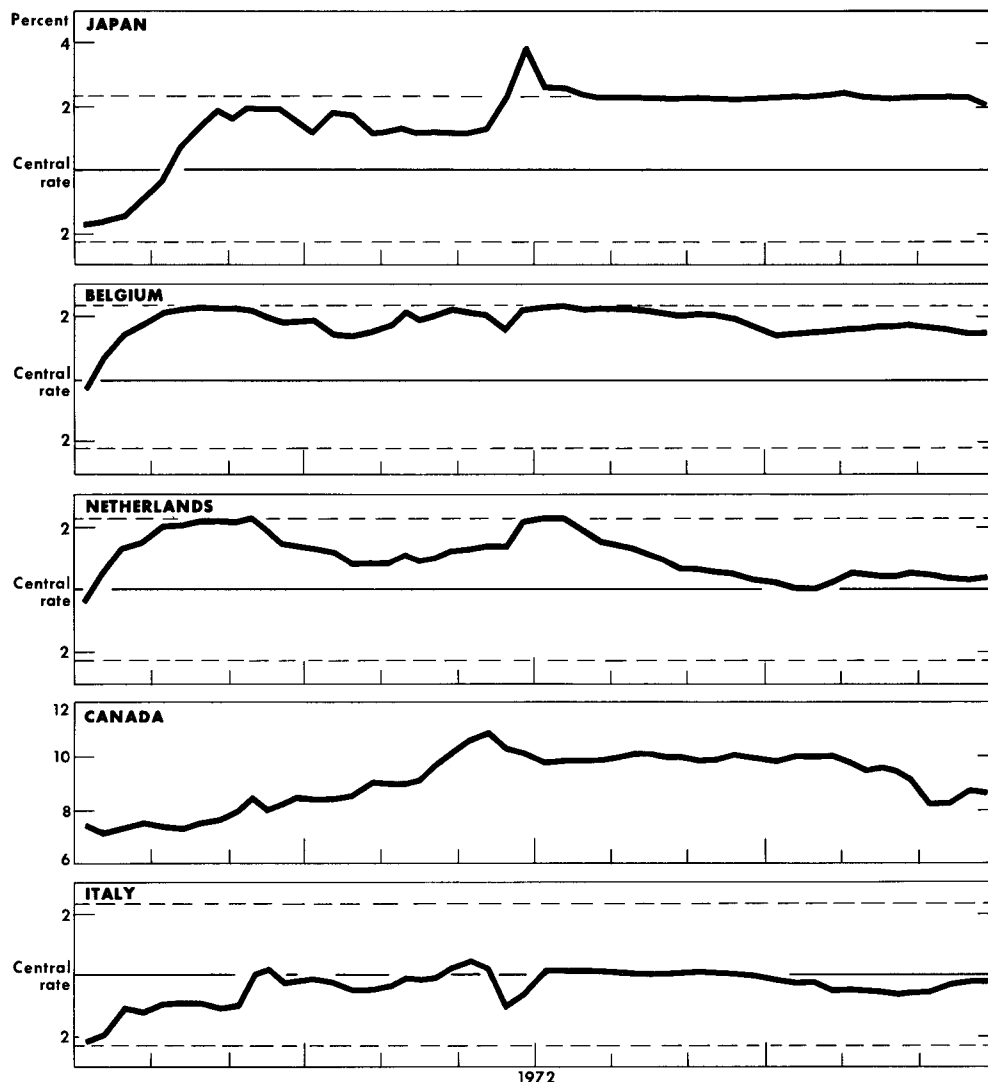
After a flight of the equivalent of some \$2.6 billion to the EC countries in only six days, sterling was floated on June 23 as the British authorities announced a temporary suspension of their participation in both the Smithsonian accord and the EC agreement. Continental currencies immediately rose to their Smithsonian ceilings in anticipation of a severe tightening of capital controls, a joint float of the Common Market currencies, or some combination of the two. European currency markets were then closed down, and an emergency meeting of the Community Finance Ministers was scheduled for June 26. At that meeting, the Ministers reaffirmed their determination to defend both the Smithsonian parities and the narrower Common Market band. Nevertheless, neither the Ministers' statement nor subsequent drastic controls by Switzerland and Germany to prevent unwanted capital inflows were sufficient to restore confidence in the prevailing structure of exchange rates. Rumors of an imminent joint EC float persisted, generating additional flows of over \$6 billion from dollars into European currencies and the Japanese yen. The markets finally began to calm on July 17 following a reaffirmation of the EC Finance Ministers' support of the Smithsonian parities as well as indications that they were actively developing a common position on international monetary reform within the framework of the Smithsonian agreement.

**Chart 7. EXCHANGE RATES:** The German mark and the French franc remained well above their central rates during most of 1972. The Swiss franc firmed during the sterling crisis, while the British pound fell sharply before drifting still lower later in the year.



Movements in exchange rates are measured as percentage deviations of weekly averages of New York noon offered rates from the central rates (and, in the case of the United Kingdom, the middle rate) established under the Smithsonian agreement. The upper and lower intervention limits are indicated by dashed lines.

**Chart 8. EXCHANGE RATES:** Heavy buying pressure kept the Japanese yen close to its Smithsonian ceiling during most of 1972, while the Belgian franc and the Netherlands guilder generally traded at premiums over their central rates. After firming during the first part of the year, the Canadian dollar eased toward the year-end. The Italian lira remained weak throughout 1972.



Movements in exchange rates are measured as percentage deviations of weekly averages of New York noon offered rates from the central rates established under the Smithsonian agreement (except for the Canadian dollar). The upper and lower intervention limits are indicated by dashed lines. Movements in the Canadian dollar are measured as percentage deviations from the \$0.92½ official parity established in May 1962. The Canadian dollar has been floating since June 1, 1970.

On the morning of July 19, the Federal Reserve, with the agreement of the German central bank, entered the New York market with a sizable offer of German marks. The intervention was described by Chairman Burns later in the day as a move by the United States authorities "to play our part to restore order in foreign exchange markets and do our part in upholding the Smithsonian agreement". The United States Treasury also noted: "The action reflects the willingness of the United States to intervene in the exchange markets upon occasions when it feels it is desirable to help deal with speculative forces. The action indicates absolutely no change in our basic policy approach toward monetary reform and the necessary efforts on all fronts to achieve a sustainable equilibrium in our balance of payments." On August 10, the Federal Reserve began intervening in a second European currency, the Belgian franc.

Although a total of only \$31.5 million in foreign currencies was actually sold between July 19 and September 1, news of the action exerted a calming influence on market psychology. For the first time the Smithsonian accord was felt to be actively defended by central banks on both sides of the Atlantic. This new evidence of solidarity prompted traders to reconsider the huge short positions in dollars which they had built up following the sterling crisis. Moreover, the longer run prospects for the United States trade balance seemed to be improving. A continuing deceleration of inflation in this country contrasted sharply with the situation generally prevailing in Europe, where labor unrest and wage and price pressures were accompanying the start of economic recovery there. Furthermore, an agreement reached with the Soviet Union in early July raised the prospect of large-scale United States grain sales to that country. All of these factors contributed to some unwinding of speculative positions and to a significant strengthening of the dollar from late July through September. A reflux of short-term funds brought the United States official payments position into rough balance in the late summer despite continuing large current-account deficits. The foreign exchange markets remained generally calm during the closing months of the year, but the dollar came under considerable pressure early in 1973 and on February 12 a 10 percent devaluation was announced. At the same time, the Japanese yen was allowed to float and quickly appreciated with respect to the new value of the dollar.

## **Persistence of Inflationary Pressures in Europe**

With the easing of exchange rate pressures during the latter part of 1972, attention in Western Europe increasingly shifted to the severe domestic inflation that prevailed in that region. European governments regarded the large influx of dollars earlier in the year as a major threat to anti-inflationary programs, and over the course of the year they maintained and strengthened a broad array of direct and indirect exchange restrictions designed to ward off additional inflows. During the final quarter of 1972, however, the central banks of Switzerland and Germany were able to sell dollars in the foreign exchange markets. In addition to reducing their dollar holdings, these sales helped absorb some of their countries' excessive domestic liquidity.

There were indications during the closing months of the year that several European countries would once again turn to some form of incomes policy to deal with the problem of inflation. In part, this reflected a widespread feeling abroad that United States wage and price controls were largely responsible for the lessening of inflationary pressures in this country at the same time that a vigorous economic expansion was getting under way. European concern over rising prices and wages was further underscored by a program designed to coordinate anti-inflationary efforts agreed upon in early November by the EC Council of Ministers. The agreement fixed a number of quantitative policy goals and had as its immediate objective the reduction of the rate of inflation to an average of 4 percent in 1973. Shortly after the agreement was reached, monetary policy was tightened in a number of EC countries, causing short-term interest rates to move significantly higher. Thanks to the relatively firm tone of the dollar and the insulating effects of existing exchange controls, these moves did not trigger large-scale capital inflows at that time.

The anti-inflationary program was only one of a number of steps taken toward European economic integration during 1972. As mentioned before, the intra-Community currency bands were narrowed earlier in the year. In September, an agreement to establish a European Monetary Fund was signed. Negotiations for a Europe-wide free trade area for industrial goods were completed during the year, and the agreement went into effect for most countries on January 1, 1973. Early in 1973, a modification of the settlement arrangements under the existing narrow-band scheme went into effect, permitting the EC central banks to defer until 1975 settlement of the gold portion of the debts incurred in support of their currency margins. These developments could have

important long-run implications for European integration, although the complete economic integration of the EC would require far more coordination of policies than has thus far emerged.

## **Improved Prospects for International Monetary Reform**

The annual IMF meeting held in late September generated optimism for the continued functioning of the Smithsonian accord as well as for eventual agreement on the long-run reform of the international monetary system. Addresses by President Nixon and Secretary of the Treasury Shultz were generally well received. The latter contained a number of specific proposals and was seen as evidence that the United States was now prepared to take an active role in negotiating international monetary reform. Representatives of other major countries indicated that, although substantial differences regarding specific measures remained, these could ultimately be reconciled or compromised. The task of working toward a consensus on a new monetary system and related problems in other spheres was assigned to a new group, the Committee of Twenty, representing major nations as well as groups of smaller countries within the IMF. The foreign exchange developments in early 1973 have made this task all the more urgent.

To carry out its mandate successfully, the Committee will have to come to grips with a number of difficult issues. First, it is clear that some means must be developed to insure that, in the future, external disequilibria are corrected without undue delay by adequate adjustment measures. In this connection, the Committee must reach an agreement on the overall structure of the exchange rate system, including criteria for changing par values, the permissible range of exchange rate fluctuations, and the role, if any, of floating exchange rates. Second, a viable international monetary system must provide for growth in international liquidity sufficient to support a steadily rising volume of international transactions. The Committee will therefore need to consider the future composition of reserve assets, including the role of reserve currencies, special drawing rights, and gold. Third, some means must be found to reduce the



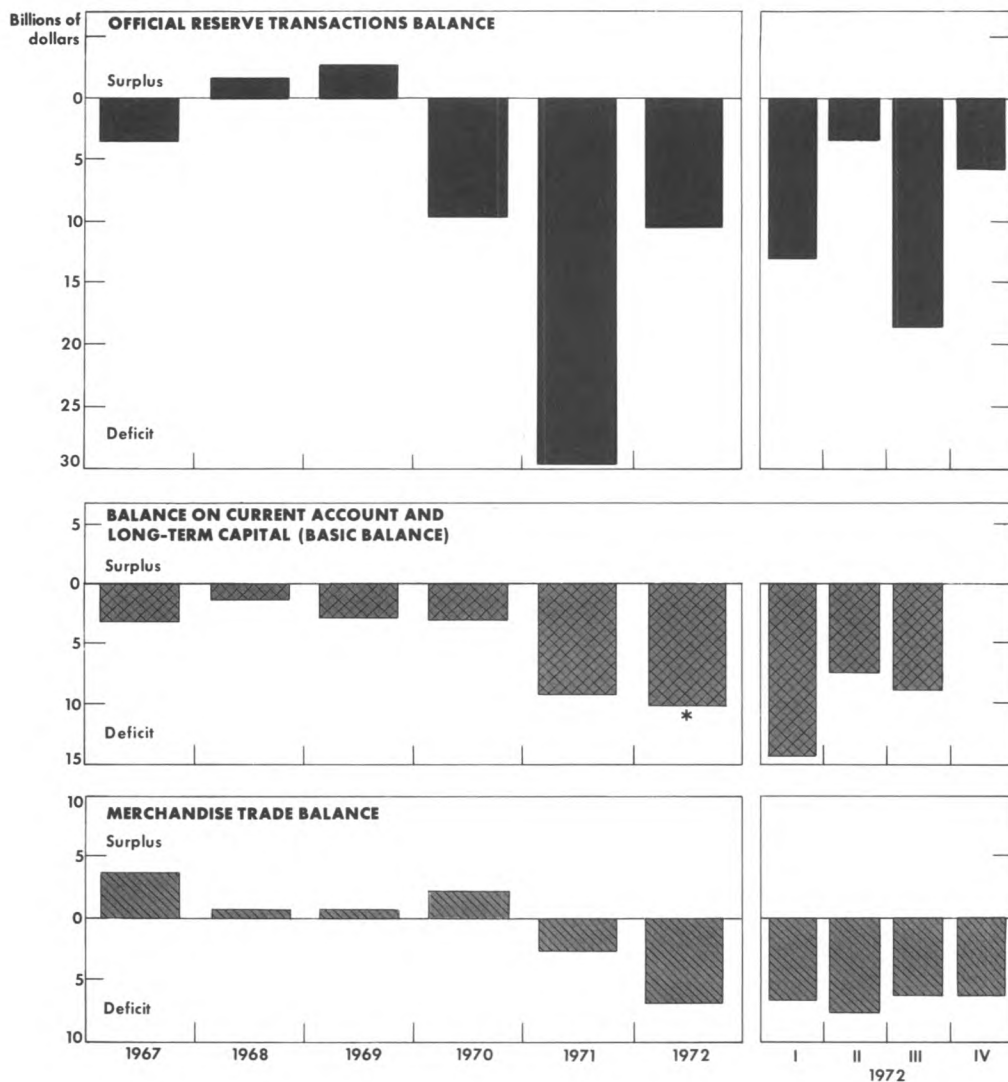
destabilizing effects of speculative capital flows without impeding legitimate international commercial transactions. Fourth, the Committee will have to consider the problems inherent in the large buildup of foreign official dollar holdings. Finally, the Committee must address itself to the general problem of insuring ongoing cooperation in a broad range of international economic affairs. The need for countries to agree on mutually consistent goals and adjustment criteria is far greater than in the past when we allowed our international payments to respond more or less passively to developments abroad.

The Committee's deliberations are taking place against a backdrop of both large continuing United States payments deficits and large surpluses recorded by Japan and the EC. The persistence of these imbalances increases the difficulties of negotiating long-run international monetary reform. Furthermore, the sharply deteriorating exchange market conditions that developed early in 1973 posed a more immediate threat to the international economy. Thus, on February 12, Secretary Shultz announced a series of actions designed to bring about a stronger international order. First, the par value of the dollar was to be lowered by an additional 10 percent. Second, the President would propose legislation designed to encourage a reduction in the barriers to international trade and, at the same time, to provide safeguards against the disruption of domestic markets as a result of rapid changes in international trade. Third, the United States planned to phase out its controls over investment and lending abroad. The Secretary stated that these measures will "serve to move our economy and the world economy closer to conditions of international equilibrium in a context of competitive freedom. They will accelerate the pace of successful monetary and trade reform."

## **The United States Balance of Payments**

Although the United States balance of payments improved in 1972, it nevertheless remained in substantial deficit (see Chart 9). Despite a sharp decline in the official settlements deficit, from nearly \$30 billion in 1971 to just over \$10 billion, it was still the second worst on record. At the same time, the basic balance (the current account plus long-term capital flows) once again regis-

**Chart 9. UNITED STATES BALANCE OF PAYMENTS: Both the official and basic balances remained in substantial deficit during 1972. The trade balance deteriorated sharply from 1971, with only a slight improvement apparent during the last half of the year.**



Quarterly data are expressed at annual rates, seasonally adjusted.

\*First three quarters at an annual rate, seasonally adjusted.

tered a sizable deficit. Most of the official settlements deficit was recorded during the early months of the year and during the weeks immediately following the floating of sterling, periods when the viability of the entire Smithsonian rate structure was called into question. The basic balance, on the other hand, remained in substantial deficit throughout the year.

One of the most disappointing aspects of the nation's payments position during 1972 was the very sharp deterioration in the merchandise trade balance despite the currency realignments of 1971. Although the trade deficit receded from its worst position in the spring, for all of 1972 it came to a record \$6.8 billion, about two and one-half times the 1971 figure. The dollar devaluation of late 1971 actually had a perverse short-run influence on the trade account. As was to be expected, its adverse impact in raising the dollar value of our imports was felt more quickly than its favorable effect on the volume of exports and imports. The trade balance during the year was also adversely affected by the relative cyclical positions of the United States and foreign economies. The rapid economic expansion taking place in this country served to pull in additional imports, while foreign purchases of United States products were held down by lagging economic recovery abroad. In addition, the prevalence of widespread excess capacity overseas provided a strong incentive for foreign exporters to maintain their share of the United States market. The trade balance was hurt as well by speculatively induced orders placed prior to the Smithsonian agreement, which probably increased the volume of goods imported into the United States during the early months of 1972. Moreover, toward the end of the year our imports from Japan may have been increased by expectations that the yen would again be revalued. Finally, a growing shortage of domestic supplies led to a rise of close to \$1 billion in our fuel imports.

Another major disappointment of 1972 was the absence of a sustained, large-scale reversal of the massive short-term capital outflows that had taken place during the currency crisis of 1971. In large part, this reflected the general problem of confidence in the Smithsonian rate structure. Indeed, additional outflows were generated when the dollar was under pressure, and those reflows that did occur coincided with periods of relative calm in the foreign exchange markets. Improvement in our underlying payments position and progress toward a new international monetary system can be expected to induce additional reflows in the future.

While the overall United States balance-of-payments performance during the year was disappointing, there were nonetheless several encouraging develop-

ments. Our long-term capital position improved somewhat, as United States direct investment outflows in 1972 receded from the record level reached during the previous year. United States firms reduced the rate of growth of their overseas plant and equipment expenditures and, in addition, they may also have run down the funds that they had transferred abroad during 1971. At the same time, net foreign direct investment in the United States recovered from last year's speculatively induced outflows. Foreign investors showed a sharply increased interest in United States corporate equities and in the offshore bond issues of American corporations, a high proportion of which were convertible into common stock. In part, this probably reflected the vigorous pace of economic expansion in this country and a renewal of foreign confidence in the United States stock market, which registered new highs during the year. Favorable interest rate differentials may have contributed to the increased tendency of United States corporations to borrow abroad.

The nation's short-term capital position also showed a marked improvement, in large part because the huge speculatively induced outflow recorded as errors and omissions in 1971 was not repeated on such a scale in 1972. In addition, the liabilities of United States branches and agencies of foreign banks to their head offices rose sharply over the course of the year, while the liabilities of United States banks to their foreign branches showed little change. This contrasted with very sharp declines in 1971 and largely reflected reduced short-term Euro-dollar interest rates. On the other hand, total bank-reported short-term claims on foreigners rose by about the same amount as during 1971. While dollar deposits by Japanese monetary authorities were used to liquidate previous borrowings from United States banks during the first three quarters of the year, by the year-end short-term claims on Japan had once again reached the level of a year earlier. At the same time, the liberalization of the Voluntary Foreign Credit Restraint Program late in 1971 led to very sizable increases in export-related bank claims.

Although the improvements in the capital flows were greatly welcomed, a major share of attention continues to be focused on our merchandise trade performance. Any lasting improvement in the United States payments position will certainly require a substantial turnabout in the trade balance, and there is a growing understanding that a change in par values, taken by itself, may not be sufficient to bring this about. However, the pickup in economic growth abroad and the progress made in moderating inflation in this country, when added to the favorable influence of the two dollar devaluations, should lead to an even-

tual improvement. In the longer run, of course, our exports and imports will also be affected by the future shape of international trade policies. At present, discussions between the United States and the EC are taking place, within the General Agreement on Tariffs and Trade (GATT), concerning the structure of the Common Market's nontariff trade barriers and its preferential trade agreements with other countries. Moreover, the trade agreements negotiated during the year with the Soviet Union, together with the partial reopening of trade channels between the United States and the People's Republic of China, raise the possibility of a sharp expansion in our currently quite small trade with Communist countries. Changes in the pattern of international trade over the next few years, which will be heavily dependent upon further progress in liberalizing trade policies, could well affect the world economy as profoundly as the current negotiations on international monetary reform.

## **THIS BANK'S OPERATIONS**

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

The volume of many of this Bank's operations grew at a strong pace during 1972. This growth reflected not only the brisk economic recovery, but also the continuing implementation of basic structural changes in the Bank's services to an expanding economy dependent upon the rapid and efficient transfer of funds. Toward this goal, a major innovation in the payments mechanism during 1972 was the opening of regional offices for overnight processing and early-morning delivery of checks for payment in immediately available funds. The operation of these Regional Check Processing Centers (RCPCs) will reduce the volume of Head Office check processing operations.

Two RCPCs became operational in the Second District in 1972: one is located in Freeport, Long Island, and the other is an in-house facility at the Buffalo Branch. The Long Island RCPC, in operation since September 1972, processed 27.5 million checks with a value of \$10.3 billion by the year-end, and the Western New York RCPC in Buffalo, in operation since October 1972, processed 6.8 million checks with a value of \$1.9 billion. A third is to be opened at Cranford, New Jersey, early in 1973 to serve the twelve northern counties of New Jersey. A feasibility study is also under way for the establishment of a fourth center in the upstate New York Head Office territory. The Cranford RCPC will be the sixth largest check processing center in the Federal Reserve System in terms of the number of items processed. Its volume is expected to average 1.2 million checks daily, or roughly one third of the Head Office's 1972 volume of approximately 3.7 million daily items. The Second District RCPCs will ultimately be linked electronically with this Bank by terminals which will be on line with a computer-based message switching and accounting system at this Bank.

The volume of non-Government checks handled by this Bank rose 6.3 percent to 1,011 million in 1972, reflecting both the higher level of business activity and the increased use of the Bank's facilities by commercial banks which had previously cleared checks through correspondent banks or by direct presentation.

This shift in the routing of checks drawn on banks in the Second District arose primarily as a result of the accelerated check payment schedule provided in the 1972 revisions to Regulation J. The importance of the changes in Regulation J to the check processing areas was further indicated by the elimination of time-schedule float and a substantial reduction in the remittance float. The dollar value of non-Government checks, however, decreased 37 percent to \$1,556 billion with the discontinuance of most of the checks used for transfers of large sums of Euro-dollar funds. These transfers are now processed on a net settlement basis through the computerized facilities of the New York Clearing House. The number of Government checks processed at this Bank declined 2.6 percent to 71 million in 1972, while the dollar value was marginally lower at \$32 billion.

The number of return items rose 5 percent over 1971, reflecting the increase in the number of checks handled. The number of items returned has remained at about ½ percent of the number of checks processed.

With the increasing volume of financial transactions and the growing use of the wire transfer system, the number of wire transfers of funds increased 16.3 percent to 2.2 million in 1972 (excluding transfers between Federal Reserve Districts for Treasury accounts). The dollar volume rose 15 percent to \$5,875 billion. Approximately 70 percent of the wire transfers of funds in 1972 reflected third-party transfers. During the year, two more banks became on-line participants in the communications network, and several out-of-city banks are expected to come on line during 1973.

In furtherance of the program for automating securities operations, additional steps were taken in 1972 to expand significantly the computerized telegraphic transfer of Government securities and the related book-entry procedure for these obligations. This marked the first full year of the unrestricted use of the Government Securities Clearing Arrangement by the twelve New York City banks that participate with this Bank in the computer-based telegraphic transfer system for United States Treasury (and some Federal agency) securities. The use of wire transfers to effect virtually all deliveries of these securities between the participating banks resulted in a marked increase in the scope of this service during 1972. Specifically, the number of all transfers of marketable securities processed rose approximately 50 percent to 706,000 and the par value expanded 65 percent to \$1,169 billion. Still further growth in clearing volume is forecast, based on the anticipated conversion of agency securities to book-entry.

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

<b>Number of pieces handled</b> (in thousands)★	<b>1972</b>	<b>1971</b>
Currency received .....	1,770,599	1,738,273
Coin received† .....	2,363,612	2,247,294
Gold bars and bags of gold coin .....	111	209
United States Government checks .....	71,249	73,165
All other checks‡ .....	1,011,117	951,481
Return items .....	5,518	5,253
Postal money orders .....	24,874	26,327
Collection items .....	16,380	17,361
United States Government coupons paid .....	2,324	2,701
All other coupons paid .....	2,347	2,619
Credits for direct sendings of collection items .....	216	206
Food stamps redeemed .....	282,221	279,327
Issues, redemptions, servicing by fiscal agency departments:		
United States savings bonds and notes .....	32,261	31,578§
All other obligations of the United States .....	3,460	4,776§
Obligations of Federal agencies .....	1,165	1,483
Obligations of international organizations .....	141	150
Custody of securities:		
Pieces deposited in and withdrawn from unissued stock held by this Bank as fiscal agent .....	36,672	38,255
Pieces received and delivered for safekeeping accounts ....	1,041	1,009
Coupons detached .....	3,341	3,993
Wire transfers of marketable securities .....	706	470
Wire transfers of funds   .....	2,159	1,856

See facing page for footnotes.



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

<b>Amounts handled</b> (in millions of dollars)	<b>1972</b>	<b>1971</b>
Advances .....	28,763	23,365
Currency received .....	13,620	13,419
Coin received† .....	285	266
Gold bars and bags of gold coin .....	1,566	3,000
United States Government checks .....	32,374	33,242
All other checks‡ .....	1,556,369	2,475,833
Return items .....	3,258	2,968
Postal money orders .....	656	697
Collection items .....	4,056	3,810
United States Government coupons paid .....	1,545	1,580
All other coupons paid .....	1,805	2,026
Credits for direct sendings of collection items .....	760	964
Food stamps redeemed .....	477	444
Issues, redemptions, servicing by fiscal agency departments:		
United States savings bonds and notes .....	1,966	1,788§
All other obligations of the United States .....	1,451,762	1,376,727§
Obligations of Federal agencies .....	61,256	69,860
Obligations of international organizations .....	3,617	3,383
Custody of securities:		
Par value of pieces deposited in and withdrawn from unissued stock held by this Bank as fiscal agent .....	837,134	995,994
Par value of pieces received and delivered for safekeeping accounts .....	943,786	792,525
Par value of wire transfers of marketable securities¶ .....	1,168,893	710,623
Wire transfers of funds   .....	5,875,052	5,107,154

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

† Excludes shipments of new coin from the Mint.

‡ Includes checks drawn on reserve accounts held at this Bank. For 1972 includes also 27.5 million checks for \$10.3 billion processed by the Long Island Regional Check Processing Center, Freeport, and 6.8 million checks for \$1.9 billion processed by the Western New York Regional Check Processing Center, Buffalo.

§ Revised.

|| Excludes Treasury transfers between Federal Reserve Districts.

¶ Total includes denominational exchanges with par value of \$21.8 billion in 1972 and \$18.2 billion in 1971.

As a result of an April 1972 revision of Treasury Department regulations governing the book-entry procedure for Government securities, substantial progress was made in converting additional securities held by the banks participating in the Government Securities Clearing Arrangement. These banks have constituted a pilot group for testing the expanded procedures prior to adoption on a System-wide basis, and many of the conversions that have been made represented securities held by them for customers, including both nonbank dealers and fiduciary accounts. These deposits raised the total book-entry balances held at this Bank to \$150 billion at the year-end, an increase of 6 percent from a year earlier. The various Federal Reserve Banks are now preparing to announce to all member banks their readiness to establish book-entry accounts for customers' securities, including trust accounts, with respect to both Treasury and Federal agency obligations subject to the issuance of book-entry regulations by the various agencies. By the year-end, two agencies—the United States Postal Service and the Farm Credit Administration—had issued such regulations; other agencies are expected to do so shortly.

The volume of this Bank's fiscal agency operations grew slightly during 1972. The total dollar amount of transactions handled for the United States Treasury (other than United States savings bonds and notes), Federal agencies, and international organizations increased 4.6 percent to \$1,517 billion. However, the number of definitive securities handled declined 25.6 percent, to 4.8 million, as a result of the continued expansion of the book-entry procedure and the Government Securities Clearing Arrangement.

Total assets held by this Bank for foreign and international accounts rose \$10.1 billion to close the year at a record high of \$78.3 billion. As in 1971, when the increase was \$29.9 billion, this expansion reflected mainly the United States payments deficit on an official settlements basis. In 1972, total holdings of gold, United States Government securities, and other assets for foreign accounts rose \$8.7 billion to \$65.1 billion and holdings for international accounts increased \$1.4 billion to \$13.2 billion. The overall growth in assets was chiefly in the form of an increase of \$8.1 billion in holdings of United States Government securities to \$58.2 billion.

Second District member bank borrowings at the discount window increased substantially during 1972. The increase in credit was attributable chiefly to a greater use of the discount window by "country" banks during the final quarter and by large New York City banks in December. This borrowing helped member banks meet temporary adjustment problems caused by stringency in the

money market and by strengthening loan demand pressing against a limited supply of reserves. Borrowing at the window, furthermore, was encouraged by a growing gap between an unchanged discount rate and rising money market rates. Total advances rose 23 percent to \$28.8 billion and, on a daily average basis, the gain was 32 percent to \$132.6 million. Outstanding advances reached a record high of \$1,503.7 million on October 25, a settlement day when there was a scarcity of reserves available for purchase in the Federal funds market. The percentage of member banks borrowing at the discount window during the year 1972 was about the same as in 1971 (35.1 percent in 1972 and 35.8 percent in 1971).

Prior to the implementation of the changes in Regulations D and J, member banks were reminded that the discount window was available to assist in cushioning the impact on reserve positions of the new check collection procedures. The facility was also offered to nonmember commercial banks, if those institutions suffered a significant liquidity problem in adjusting to the new procedures. In this District, member bank borrowings attributable to the rules changes did not bulk large in the weeks following their implementation, and no requests for credit were received from nonmember banks.

As fiscal agent for the Federal Government's Emergency Loan Guarantee Board, this Bank has reviewed all financial statements, reports, notices, and certificates submitted to it by Lockheed Aircraft Corporation and the lending banks, including monthly and quarterly unaudited financial statements of the company and its pledged subsidiaries, quarterly reports of the L-1011 production program, all Securities and Exchange Commission and stockholder reports, and annual audited financial statements. In connection with requests for take-downs of guaranteed loans, the Bank has compared the submitted plan for expenditures with actual and forecast expenditures. The Bank has also prepared material for use in the Emergency Loan Guarantee Board's *Annual Report*.

In the light of cost overruns experienced by Lockheed in the L-1011 production program, this Bank's monitoring efforts were increased. The enlarged monitoring program has included a continuation of those analyses and reviews of the various financial statements and reports required of Lockheed under the Credit Agreement and requested by the Emergency Loan Guarantee Board and its staff. A weekly report is also prepared, giving the latest information about the L-1011 program and other Lockheed developments. These weekly reports by telephone are supplemented by weekly submissions by Lockheed of certain key charts and schedules, which are then reviewed by this Bank.

Average employment at the Bank declined slightly in 1972. The number of officers and employees at the Head Office and at the Buffalo Branch averaged 4,715 in 1972, compared with 4,744 the previous year. At the end of 1972, total employment was 4,874.

During 1972, more than 861,000 copies of the Bank's booklets and over 963,000 copies of Bank periodicals were distributed. About 11,000 visitors toured the Bank, and 119 talks and seminars were given by members of the Bank's staff.

# Financial Statements

## STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1972 AND 1971 (In thousands of dollars)

	1972	1971
Total current earnings .....	971,295	959,232
Net expenses .....	90,074	83,671
Current net earnings	881,221	875,561
Additions to current net earnings:		
Profit on sales of United States Government securities and Federal agency obligations (net) .....	770	26,060
All other .....	516	46
Total additions	1,286	26,106
Deductions from current net earnings:		
Loss on foreign exchange transactions (net) .....	13,477	2,152
All other .....	107	59
Total deductions	13,584	2,211
Net additions or deductions (—) .....	—12,298	23,895
Net earnings available for distribution	868,923	899,456
Dividends paid .....	11,928	11,342
Payments to United States Treasury (interest on Federal Reserve notes) .....	843,245	880,050
Transferred to surplus .....	13,750	8,064
<b>SURPLUS ACCOUNT</b>		
Surplus—beginning of year .....	192,854	184,790
Transferred from net earnings for year .....	13,750	8,064
Surplus—end of year	206,604	192,854

**STATEMENT OF CONDITION**

In thousands of dollars

<b>Assets</b>	<b>DEC. 31, 1972</b>	<b>DEC. 31, 1971</b>
Gold certificate account .....	2,063,888	1,957,162
Special Drawing Rights certificate account .....	93,000	93,000
Federal Reserve notes of other Banks .....	205,956	163,812
Other cash .....	17,435	21,120
<b>Total</b>	<b>2,380,279</b>	<b>2,235,094</b>
 Advances and discounts .....	 926,100	 16,750
Acceptances:		
Bought outright .....	70,461	79,663
Held under repurchase agreements .....	36,306	180,919
United States Government securities:		
Bought outright* .....	17,702,177	16,714,335
Held under repurchase agreements .....	97,500	1,222,305
Federal agency obligations:		
Bought outright .....	332,538	117,495
Held under repurchase agreements .....	13,000	101,400
<b>Total loans and securities</b>	<b>19,178,082</b>	<b>18,432,867</b>
 Other assets:		
Cash items in process of collection .....	2,543,300	2,921,626
Bank premises .....	7,482	8,280
All other† .....	258,960	329,686
<b>Total other assets</b>	<b>2,809,742</b>	<b>3,259,592</b>
<b>Total Assets</b>	<b>24,368,103</b>	<b>23,927,553</b>

\* Includes securities loaned—fully secured by United States Government securities pledged with the Bank .....

27,100

35,370

† Includes assets denominated in foreign currencies and, for December 31, 1971, IMF gold deposited.

**STATEMENT OF CONDITION**

In thousands of dollars

<b>Liabilities</b>	<b>DEC. 31, 1972</b>	<b>DEC. 31, 1971</b>
Federal Reserve notes .....	14,809,233	13,462,157
Deposits:		
Member bank reserve accounts .....	7,072,851	6,960,448
United States Treasurer—general account .....	388,169	386,977
Foreign* .....	110,029	87,682
Other† .....	571,067	850,279
<b>Total deposits</b>	<b>8,142,116</b>	<b>8,285,386</b>
Other liabilities:		
Deferred availability cash items .....	862,910	1,627,449
All other .....	140,636	166,853
<b>Total other liabilities</b>	<b>1,003,546</b>	<b>1,794,302</b>
<b>Total Liabilities</b>	<b>23,954,895</b>	<b>23,541,845</b>
<b>Capital Accounts</b>		
Capital paid in .....	206,604	192,854
Surplus .....	206,604	192,854
<b>Total Capital Accounts</b>	<b>413,208</b>	<b>385,708</b>
<b>Total Liabilities and Capital Accounts</b>	<b>24,368,103</b>	<b>23,927,553</b>
Contingent liability on acceptances purchased for foreign correspondents‡ .....	46,552	66,624
★ After deducting participations of other Federal Reserve Banks amounting to	214,600	206,360
† For December 31, 1971, includes IMF gold deposit.		
‡ After deducting participations of other Federal Reserve Banks amounting to	132,460	187,861

## Changes in Membership

During 1972 the total number of member banks of the Federal Reserve System in the Second District decreased from 340 to 335. The net reduction resulted from the merger of fifteen member banks, the organization of eight new member banks, and the conversion of two nonmembers into member banks. The 335 banks represent 76 percent of all commercial banks and trust companies in this District and hold 96 percent of the total assets of all such institutions in the 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, 1972			DECEMBER 31, 1971		
	Members	Non-members	Percent members	Members	Non-members	Percent members
National banks★	243	0	100	244	0	100
State banks and trust companies	92	107	46	96	106	48
<b>Total</b>	<b>335</b>	<b>107</b>	<b>76</b>	<b>340</b>	<b>106</b>	<b>76</b>

★ Includes one national bank located in the Virgin Islands.

### CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1972

<b>Total membership at beginning of year</b>	<b>340</b>
<b>Increases:</b>	
New national banks	8
Nonmember banks converted into national banks	2
<b>Decreases:</b>	
Member banks merged into other members	14
Member bank merged into nonmember	1
<b>Total membership at the year-end</b>	<b>335</b>



## Changes in Directors and Officers

**CHANGES IN DIRECTORS.** In March 1972, member banks in Group 1 elected Maurice F. Granville a Class B director for the unexpired portion of the term ending December 31, 1973. Mr. Granville is Chairman of the Board of Texaco Inc., New York, N.Y.

In October, William S. Renchard, a Class A director since January 1971, resigned as a director, effective December 31, 1972, in anticipation of his retirement in February 1973 as Chairman of the Board of Chemical Bank, New York, N.Y. To succeed Mr. Renchard, member banks in Group 1 in December elected David Rockefeller a Class A director for the unexpired portion of the term ending December 31, 1973. Mr. Rockefeller is Chairman of the Board of The Chase Manhattan Bank (National Association), New York, N.Y. At the same time, member banks in Group 3 elected Newman E. Wait, Jr., a Class A director and Jack B. Jackson a Class B director for three-year terms beginning January 1, 1973. Mr. Wait, President of The Adirondack Trust Company, Saratoga Springs, N.Y., succeeded Arthur S. Hamlin, President of The Canandaigua National Bank and Trust Company, Canandaigua, N.Y., who served as a Class A director for the three-year term that ended December 31, 1972. Mr. Jackson, President of J. C. Penney Company, Inc., New York, N.Y., succeeded Maurice R. Forman, Chairman of the Board of B. Forman Co., Inc., Rochester, N.Y., who served as a Class B director from January 1967 through December 1972. Prior to their service on the Bank's board of directors, both Mr. Hamlin and Mr. Forman had served as directors of the Buffalo Branch of this Bank.

Also in December, the Board of Governors of the Federal Reserve System redesignated Roswell L. Gilpatric as *Chairman* of the board of directors and *Federal Reserve Agent* for the year 1973. Mr. Gilpatric, a partner in the New York law firm of Cravath, Swaine & Moore, has been serving as a Class C director since January 1969 and had served as *Deputy Chairman* during 1971 and as *Chairman* and *Federal Reserve Agent* during 1972.

At the same time, the Board of Governors appointed Frank R. Milliken a Class C director for the three-year term beginning January 1, 1973, and also appointed him *Deputy Chairman* for the year 1973. As a Class C director and as *Deputy Chairman*, Mr. Milliken, who is President of Kennecott Copper Corporation, New York, N.Y., succeeded Ellison L. Hazard, Chairman of the Executive Committee of Continental Can Company, Inc., New York, N.Y.

Mr. Milliken had been serving as a Class B director since January 1972; he resigned from that position, effective December 31, 1972, to accept the appointment as a Class C director.

*Buffalo Branch.* In December, the Board of Governors appointed Donald R. Nesbitt a director of the Buffalo Branch for a three-year term beginning January 1, 1973. Mr. Nesbitt is the owner and operator of Silver Creek Farms, Albion, N.Y.; on the Branch board, he succeeded Morton Adams, President of Curtice-Burns, Inc., Rochester, N.Y., who was a Branch director from January 1970 through December 1972, serving as *Chairman* of the Branch board for the year 1972.

Also in December, the board of directors of this Bank appointed Claude F. Shuchter a director of the Buffalo Branch for a three-year term beginning January 1, 1973. Mr. Shuchter is President and Chief Executive Officer of Manufacturers and Traders Trust Company, Buffalo, N.Y.; on the Branch board, he succeeded David J. Laub, Chairman of the Board of Marine Midland Bank—Western, Buffalo, N.Y., who served on the Branch board from January 1970 through December 1972. At the same time, the board of directors of this Bank designated Rupert Warren as *Chairman* of the Branch board for the year 1973. Mr. Warren, former President of Trico Products Corporation, Buffalo, N.Y., has been a Branch director since January 1971.

**CHANGES IN OFFICERS.** Since January 1972, four officers have retired and one has resigned:

John J. Clarke, Vice President and Special Legal Adviser, retired on May 1, 1972, after completing over thirty years of service with the Bank. Mr. Clarke joined the Bank's staff in 1941 and became an officer in 1946.

Spencer S. Marsh, Jr., Market Adviser, retired on May 1, 1972, after completing over forty-two years of service with the Bank. Mr. Marsh joined the Bank's staff in 1929 and became an officer in 1946.

Gerald H. Greene, Assistant Cashier of the Buffalo Branch, retired on October 1, 1972, after completing forty-four years of service with the Bank, almost all of which was at the Buffalo Branch. Mr. Greene joined the Branch's staff in 1928 and became an officer of the Branch in 1951.

Irving M. Auerbach, Manager, Statistics Department, resigned effective November 14, 1972, to accept a position as Vice President of Aubrey G. Lanston & Company. Mr. Auerbach joined the Bank's staff in 1948 and became an officer in 1967.

Arthur A. Randall, Assistant Cashier of the Buffalo Branch, retired on March 1, 1973, after completing forty-seven years of service with the Buffalo Branch. Mr. Randall joined the Branch's staff in 1926 and became an officer of the Branch in 1965.

The following additional changes in the official staff, including the appointment of thirteen new officers, have been made since January 1972:

Fred W. Piderit, Jr., Vice President, and Benedict Rafanello, Assistant Vice President, were assigned responsibility for the Foreign Banking Regulations Department effective February 7, 1972. The other assignments of Messrs. Piderit and Rafanello were continued.

Thomas O. Waage, Senior Vice President, and James O. Aston, Assistant Vice President, and Assistant Secretary, were assigned responsibility for the Payment Systems Department effective February 7, 1972, when that department was transferred to the Cash and Collections function. The other assignments of Messrs. Waage and Aston were continued. Mr. Aston's appointment as Assistant Secretary was terminated on July 6, 1972. Mr. Waage was assigned to Public Information effective January 5, 1973; his assignment to Cash and Collections was continued.

The assignment of John C. Houhoulis, Manager, to the former Consumer Information and Securities Regulations Department was terminated effective February 7, 1972; his assignment to the Payment Systems Department was continued.

Everett B. Post, Vice President, was assigned as the officer in charge of Computer Services effective May 19, 1972.

Howard F. Crumb, Assistant Vice President, was assigned to Computer Services effective May 19, 1972, his responsibility for the Computer Operations and Computer Support Departments continuing. Mr. Crumb was appointed Adviser on January 4, 1973 and assigned to Computer Services.

E. Gerald Corrigan, formerly Chief of the Domestic Research Division, Domestic Research Department, was appointed an officer with the titles of Senior Economist and Assistant Secretary on July 6, 1972. On January 4, 1973, Mr. Corrigan was appointed Secretary and his appointment as Senior Economist was terminated.

Edna E. Ehrlich, formerly Senior Economist, was appointed Manager on July 6, 1972 and assigned to the International Research Department.

Michael J. Hamburger, formerly Special Assistant in Research and Statistics, was appointed an officer with the title of Senior Economist on July 6, 1972.

Fred H. Klopstock, formerly Manager of the International Research Department, was appointed Senior Economist on July 6, 1972.

Margaret L. Greene, formerly Chief of the Financial Statistics Division, Statistics Department, was appointed an officer with the title of Manager on August 3, 1972 and assigned to the Foreign Department.

Aloysius J. Stanton, formerly Manager, was appointed Assistant Vice President effective October 1, 1972 and assigned to Cash and Collections, with responsibility for the newly established North Jersey Regional Check Processing Center.

Stephen P. Weis, formerly Chief of the Audit Analysis Division, Auditing Department, was appointed an officer with the title of Manager effective October 1, 1972 and assigned to the Security Custody Department.

Peter D. Luce, formerly Special Representative in the Bank Relations and Public Information function, Buffalo Branch, was appointed an officer at the Branch with the title of Assistant Cashier effective October 1, 1972.

Effective January 5, 1973, the Administrative Services function was reorganized into two functions—(a) Accounting Control and (b) Building and Planning; at the same time a new function, the Service function, was established.

Richard A. Debs, formerly Vice President, was appointed Senior Vice President on January 4, 1973 and assigned to general administrative duties as an assistant to the President and the First Vice President. Mr. Debs' assignments to Government Bond and Safekeeping of Securities and to Open Market Operations and Treasury Issues were terminated effective January 5, 1973.

Thomas M. Timlen, Jr., formerly Vice President, was appointed Senior Vice President on January 4, 1973 and assigned to Accounting Control, Computer Services, Government Bond and Safekeeping of Securities, Personnel, and Service; his assignment to Loans and Credits was continued.

William H. Braun, Jr., Vice President, formerly assigned to Administrative Services, was assigned to Building and Planning effective January 5, 1973.

John T. Keane, Vice President, formerly assigned to Administrative Services, was assigned to Accounting Control effective January 5, 1973.

Thomas C. Sloane, formerly Deputy General Counsel, was appointed Vice President on January 4, 1973 and assigned to Government Bond and Safekeeping of Securities.

Frederick L. Smedley, formerly Assistant Vice President, was appointed Vice President on January 4, 1973 and assigned to Service.

H. David Willey, formerly Assistant Vice President, was appointed Vice

President on January 4, 1973 and assigned to Loans and Credits.

A. Thomas Combader, Assistant Vice President, formerly assigned to Administrative Services, was assigned to Building and Planning, with responsibility for the Building Operating Department, effective January 5, 1973.

James H. Oltman, formerly Assistant Counsel, was appointed Assistant General Counsel on January 4, 1973.

Edwin R. Powers, formerly Manager, was appointed Assistant Vice President on January 4, 1973 and assigned to Computer Services.

Walter S. Rushmore, Assistant Vice President, formerly assigned to Administrative Services, was assigned to Accounting Control effective January 5, 1973.

William M. Schultz, Assistant Vice President, formerly assigned to Personnel, was assigned to Service effective January 5, 1973.

Jerry Berkowitz, formerly Chief of the Methods and Systems Division, Planning Department, was appointed an officer with the title of Manager on January 4, 1973 and assigned to the Auditing Department.

Louis J. Conroy, Manager, formerly assigned to the Service Department, was assigned to the Emergency Planning Department effective January 5, 1973.

Fred A. Denesevich, formerly Chief of the Wire Transfer Division, Collection Department, was appointed an officer with the title of Manager on January 4, 1973 and assigned to the North Jersey Regional Check Processing Center.

The appointment of Chester B. Feldberg as Secretary was terminated on January 4, 1973; his appointment as Assistant Counsel was continued.

Henry S. Fujarski, Jr., formerly Chief of the Accounting Division, Accounting Department, was appointed an officer with the title of Manager on January 4, 1973 and assigned to the Accounting Department.

Peter J. Fullen, formerly Chief of the Computer Programming and Training Division, Computer Support Department, was appointed an officer with the title of Manager on January 4, 1973 and assigned to the Computer Operations Department.

Ronald E. Long, Manager, formerly assigned to the Accounting Department, was assigned to the Service Department effective January 5, 1973.

Ernest T. Patrikis, formerly Attorney in the Legal Department, was appointed an officer with the title of Assistant Counsel on January 4, 1973.

Leopold S. Rassnick was appointed Assistant Secretary on January 4, 1973, continuing as Assistant Counsel.

Sheila L. Tschinkel, formerly Chief of the Securities Analysis Division, Securities Department, was appointed an officer with the title of Manager on January 4, 1973 and assigned to the Securities Department.

Anton S. Nissen was appointed an officer with the title of Manager effective February 1, 1973 and assigned to the Statistics Department. Immediately before his appointment, Mr. Nissen was a Senior Economist with the Board of Governors of the Federal Reserve System; prior to his association with the Board of Governors, Mr. Nissen was Chief of the Market Statistics Division, Statistics Department, of this Bank.

Gary S. Weintraub, formerly Special Assistant, Administrative Services, was appointed an officer of the Buffalo Branch with the title of Assistant Cashier effective February 1, 1973.

**MEMBER OF FEDERAL ADVISORY COUNCIL—1973.** The board of directors of this Bank selected Gabriel Hauge, Chairman of the Board of Manufacturers Hanover Trust Company, New York, N.Y., to serve during 1973 as the member of the Federal Advisory Council representing the Second Federal Reserve District. On the Council, Mr. Hauge succeeded David Rockefeller, Chairman of the Board of The Chase Manhattan Bank (National Association), New York, N.Y., who was this District's member in 1972.

## Directors of the Federal Reserve Bank of New York

<b>DIRECTORS</b>	<i>Term expires Dec. 31</i>	<i>Class</i>	<i>Group</i>
DAVID ROCKEFELLER ..... Chairman of the Board, The Chase Manhattan Bank (National Association), New York, N.Y.	1973	A	1
NORMAN BRASSLER ..... Chairman of the Board, New Jersey Bank (National Association), Clifton, N.J.	1974	A	2
NEWMAN E. WAIT, Jr. .... President, The Adirondack Trust Company, Saratoga Springs, N.Y.	1975	A	3
MAURICE F. GRANVILLE ..... Chairman of the Board, Texaco Inc., New York, N.Y.	1973	B	1
VACANCY .....	1974	B	2
JACK B. JACKSON ..... President, J. C. Penney Company, Inc., New York, N.Y.	1975	B	3
ROSWELL L. GILPATRIC, <i>Chairman, and Federal Reserve Agent</i> ..... Partner, Cravath, Swaine & Moore, Attorneys, New York, N.Y.	1974	C	
FRANK R. MILLIKEN, <i>Deputy Chairman</i> ..... President, Kennecott Copper Corporation, New York, N.Y.	1975	C	
ALAN PIPER ..... President, Carnegie Corporation of New York, New York, N.Y.	1973	C	

### DIRECTORS—BUFFALO BRANCH

RUPERT WARREN, <i>Chairman</i> ..... Former President, Trico Products Corporation, Buffalo, N.Y.	1973
WILLIAM B. ANDERSON ..... President, The First National Bank of Jamestown, Jamestown, N.Y.	1973
ANGELO A. COSTANZA ..... President, Central Trust Company Rochester N.Y., Rochester, N.Y.	1973
NORMAN F. BEACH ..... Vice President, Eastman Kodak Company, Rochester, N.Y.	1974
THEODORE M. MCCLURE ..... President, The Citizens National Bank and Trust Company, Wellsville, N.Y.	1974
DONALD R. NESBITT ..... Owner and operator, Silver Creek Farms, Albion, N.Y.	1975
CLAUDE F. SHUCHTER ..... President and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, N.Y.	1975

### MEMBER OF FEDERAL ADVISORY COUNCIL—1973

GABRIEL HAUGE ..... Chairman of the Board, Manufacturers Hanover Trust Company, New York, N.Y.	1973
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WILLIAM F. TREIBER, *First Vice President*

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RICHARD A. DEBS, *Senior Vice President*  
ALAN R. HOLMES, *Senior Vice President*

ROBERT G. LINK, *Senior Vice President*  
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*Manager, Personnel Department*  
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*Manager, Check Adjustment and*  
*Return Items Department*  
ALLEN R. BIVENS,  
*Assistant Counsel*  
JAMES H. BOOTH,  
*Manager, Regulations and Bank*  
*Analysis Department*

ARMOND J. BRAIGER,  
*Manager, Savings Bond Department*  
LOUIS J. BRENDL,  
*Manager, Planning Department*  
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*Manager, Management Information Department*  
LOUIS J. CONROY,  
*Manager, Emergency Planning Department*  
RICHARD D. COOPERSMITH,  
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*Securities Trading Officer*

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*Manager, North Jersey Regional  
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ADAM R. DICK,  
*Manager, Bank Relations Department*

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*Manager, International Research Department*

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*Manager, Computer Operations Department*

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*Manager, Foreign Department*

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JOHN E. FLANAGAN, *Assistant General Auditor*  
JERRY BERKOWITZ, *Manager, Auditing Department*

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**RONALD B. GRAY, *Assistant Vice President and Cashier***

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**PETER D. LUCE, *Assistant Cashier***

**GARY S. WEINTRAUB, *Assistant Cashier***

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