FEDERAL RESERVE BANK OF NEW YORK

ANNUAL REPORT 1973

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FEDERAL RESERVE BANK OF NEW YORK

February 20, 1974

To the Member Banks in the
Second Federal Reserve District

I am pleased to present our fifty-ninth Annual Report, reviewing major economic and financial developments and this Bank's operations in 1973.

The past year witnessed a severe worldwide inflation. As demand pressures mounted, prices soared in this country, accompanied by sharply increased strains on resources and facilities. Monetary policy became progressively more restrictive over the first two thirds of the year but, while real economic growth slowed, serious inflation persisted. Late in the year, the developing energy shortage introduced a host of new uncertainties into the economic situation.

While the international financial system experienced considerable stress during the first half of the year, the atmosphere in the exchange markets improved in the latter half of 1973. Evidence that the central banks, including the Federal Reserve, were prepared to intervene in the markets fostered renewed confidence. And, as it became evident that there was substantial improvement in our international payments position, the recovery of the dollar gained momentum.

Quite clearly, serious problems, compounded by the energy situation, confront monetary policy in 1974. We must seek to reduce inflationary pressures and to reverse the escalation of cost and price increases. Both the reconstruction of the international monetary system and the restoration of confidence in the dollar depend heavily on the resumption of a reasonable degree of price stability in the United States. We must, at the same time, seek to encourage sustainable economic growth, being prepared to respond if unemployment becomes excessive. Progress toward these objectives calls for the determined, coordinated efforts of monetary and fiscal policies.

Alfred Hayes

ALFRED HAYES
President

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FIFTY-NINTH ANNUAL REPORT

For the Year

Ended

December 31, 1973

Second Federal Reserve District

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The Economy in 1973

Inflation reemerged as the paramount economic problem in the United States in 1973, exploding with a force not seen since the early days of the Korean war. With shortages of materials and parts widespread and with many industries operating close to capacity, it became painfully clear that this time labor was not the only constraint on aggregate supply. The surge in inflation was not confined to the United States, for prices rose even more rapidly in Western Europe and Japan. This development, coupled with the effects of two major exchange rate realignments, contributed to a substantial improvement in the United States foreign trade and payments positions in 1973. However, confidence in the dollar, as well as in the continuity and effectiveness of United States economic policies generally, was affected by the high rate of inflation and by some concern from time to time about the impact of unfolding political developments in this country. Nor was the recovery in the balance of payments costless, as an extraordinary increase in United States exports together with higher import prices compounded price pressures.

Nevertheless, the inflationary pressures in the United States were in good part domestic in origin. Severe capacity constraints beset the economy beginning early in 1973, far sooner than had been anticipated. The extent to which the margin of underutilized productive facilities had shrunk in 1972 was not widely recognized. This may have been because the overall unemployment rate was high through much of that year, and capacity utilization in many sectors remained low. In any case, the conventional assessment overestimated the amount of slack remaining in the economy and may thereby have encouraged policies in 1972

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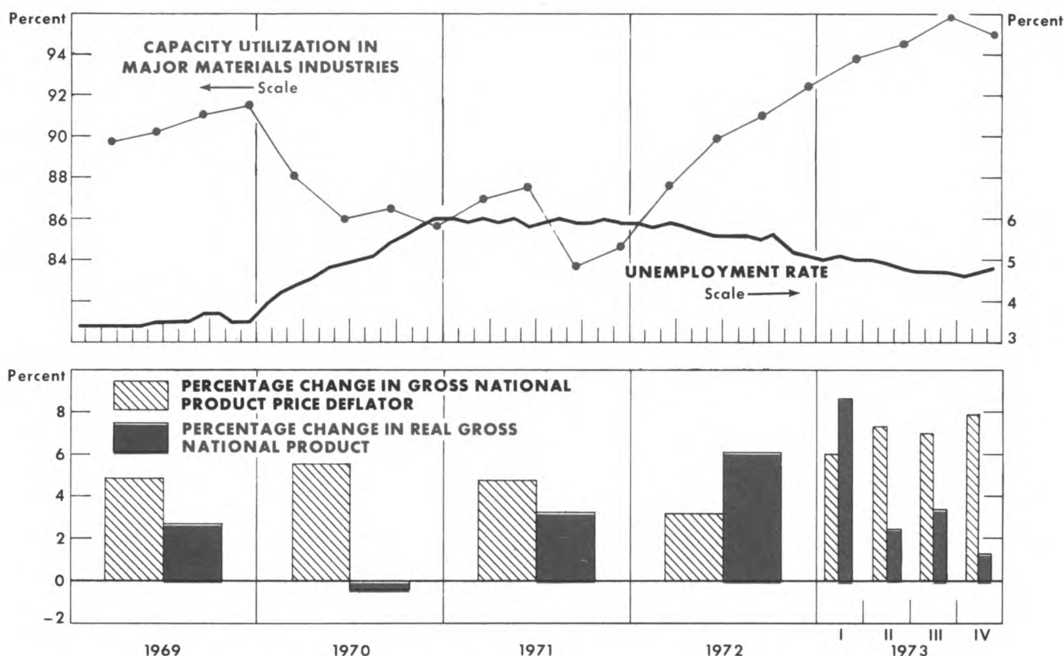
that at least in retrospect seem overly expansive.

Evidence of strains on facilities and resources became unmistakable as 1973 unfolded. Capacity utilization in the basic-materials-producing industries climbed to record high levels (see Chart 1). Strains were also manifested in the persistent buildup in unfilled orders, in extended delivery delays, and in shortages which limited spending on trucks, compact automobiles, farm machinery, and a rather wide variety of other goods. The situation was exacerbated later in the year as the controls program, by preventing prices from rising competitively in the United States, diverted some materials to export.

As a result of these pervasive demand pressures, prices soared in 1973, far outstripping most previous episodes of peacetime inflation in this country. Con-

Chart 1. **RESOURCE UTILIZATION, REAL GROWTH, AND INFLATION**



All data are seasonally adjusted. GNP growth rates for 1969 through 1972 represent increases in annual averages, while the quarterly GNP numbers are expressed at annual rates.

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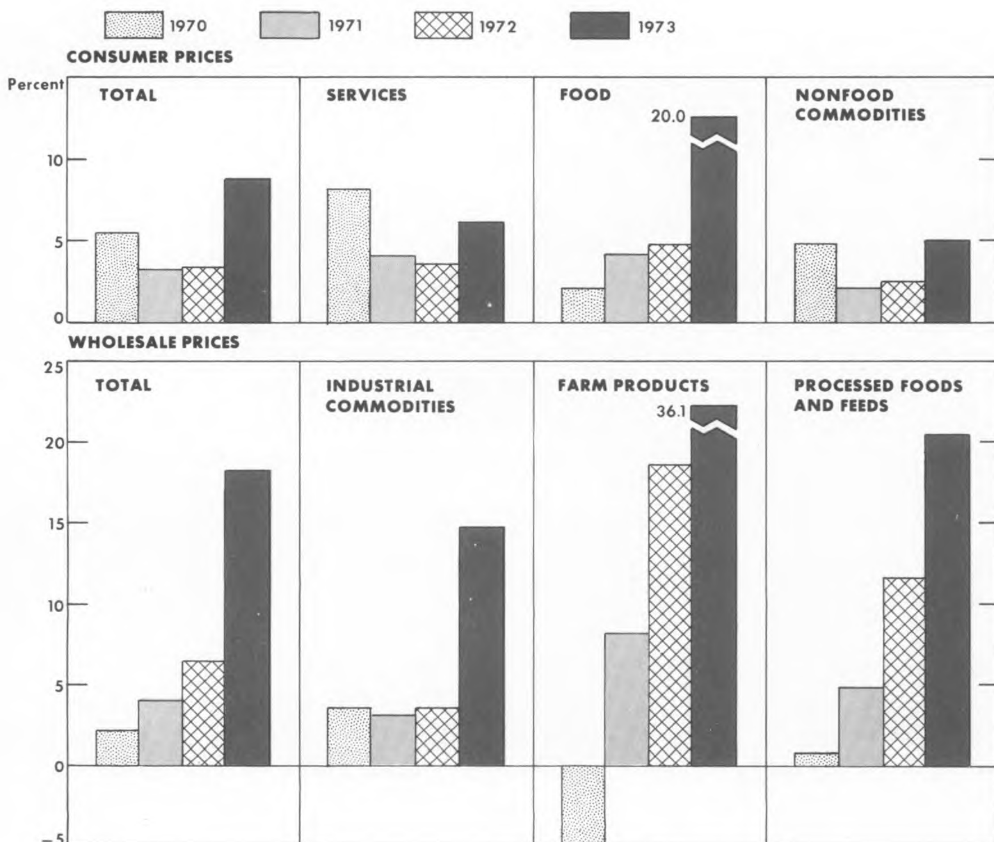
Chart 2. **CHANGES IN CONSUMER AND WHOLESALE PRICES**



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

sumer prices, for example, were 8.8 percent higher in December 1973 than they were one year earlier, and wholesale prices increased even more (see Chart 2). To be sure, a number of special factors contributed significantly to the extraordinary surge in the price level. Agricultural prices spiraled upward, partly as a consequence of crop failures in many countries in 1972. In 1973, the economic boom abroad added to the already excessive demands in this country, as

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did the devaluation of the dollar. The depreciation of the dollar boosted prices of imported goods both directly and through intensifying the inflationary atmosphere worldwide. Fuel prices climbed considerably toward the year-end, reflecting the developing energy shortage.

The influence of these factors notwithstanding, economic policies contributed to some extent to the severity of the inflation in 1973. In retrospect, it appears that monetary policy had been somewhat too stimulative during the preceding year; the narrowly defined money supply (M_1) grew 8.7 percent in 1972 and the other money and credit aggregates expanded even more rapidly. Also, fiscal policy was designed to, and probably did, spur demand. Given the lags associated with monetary and fiscal actions, the expansionary policies pursued in 1972 contributed to the strong rise in aggregate demand in the latter part of that year and in the opening months of 1973. While this was translated into a very rapid expansion in real output for a time, demand pressures on prices inevitably mounted as resources and unused capacity grew increasingly scarce and production bottlenecks developed.

While the wage and price controls embodied in the Economic Stabilization Program contributed to a dampening of cost inflation in 1972, in the generalized excess demand environment of 1973 the price controls were substantially less effective. The failure of the controls program to make significant headway against inflation was perhaps understandable, given the intensity of demand pressures. Unfortunately, to the extent that the controls led to distortions in the allocation process and to shortages, inflationary pressures were exacerbated. Moreover, the frequency of the changes in the Economic Stabilization Program—Phase Three, Freeze Two, Phase Four, and special treatment of prices of certain commodities—increased uncertainties and generated considerable skepticism about the soundness of the anti-inflationary strategy.

Although fiscal policy was less stimulative in 1973 than in the preceding year, it was nevertheless expansionary; the unified Federal budget remained in deficit in calendar year 1973 despite the fact that receipts were swollen as a result of inflation and the strength of the economy. In light of the strong excess demand conditions which characterized the year, a more restrictive fiscal policy involving a sizable budget surplus would have been appropriate. There was, however, no widespread support for the changes in Government spending or in taxes that would have brought about this result.

While the record on the price front was dismal, some progress was made in further reducing unemployment in 1973. Overall, though, the difficulty of achiev-

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ing the often-mentioned goal of 4 percent unemployment by expanding aggregate demand without encountering serious and perhaps accelerating inflation was demonstrated forcefully in 1973. The changes in the age and sex distribution of the labor force since this goal first gained wide acceptance, the prevailing structure of labor and product markets, and the experience of the past several years together suggest that aggregate demand policies probably cannot reduce unemployment much below 5 percent if reasonable price stability is to be reestablished and maintained. Other measures which deal more directly with structural problems are needed if the unemployment rate is to be lowered to 4 percent or less in a noninflationary environment. Along these lines, improved labor market information which helps to match workers with jobs, modification of minimum wage requirements for young workers, and greater progress against job discrimination coupled with better training programs could make a significant contribution to reducing structural unemployment.

MONETARY POLICY IN 1973. Against the background of the severe inflation that enveloped the country and the expansive policies of the previous year, the Federal Reserve pursued a policy of active restraint in 1973. At the same time, the monetary authorities sought to avoid extreme pressures on financial markets which could seriously disrupt credit flows and ultimately risk generating a substantial contraction in economic activity. All the major instruments of monetary policy were called into play during the year in an effort to slow the expansion in money and bank credit. Open market operations steadily increased pressure on bank reserve positions over the first two thirds of the year, and this pressure was relaxed only slightly during the remainder of 1973. Banks made record use of borrowings at the discount window for temporary assistance in adjusting to this pressure. Federal Reserve Bank discount rates were raised frequently in the first half of the year and reached record levels during the summer. Moreover, reserve requirements on most demand deposits at member banks were increased in July. Marginal reserve requirements on large-denomination certificates of deposit (CDs) and related bank sources of funds were established in June and raised in September before being lowered near the year-end.

The monetary restraint exercised in 1973 operated to a greater extent through interest rates and less through credit availability than in other recent periods. The absence of Regulation Q ceilings on large CDs of less than ninety days' maturity and the subsequent suspension of ceilings on all large CDs meant that

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banks could compete effectively for the funds needed to meet loan demands. At the same time, over much of the year there was a special incentive to borrow from banks because the Committee on Interest and Dividends (CID), in pursuit of its voluntary program to bring interest rates into the overall price and wage control program, kept bank lending rates from rising as fast or as far as market rates of interest. While the actions of the CID to limit the increases in bank lending rates may have helped gain acceptance for incomes policy, they altered normal interest rate relationships. This, in turn, had a differential effect on the growth in the aggregates. Bank credit, and business loans in particular, grew at an extraordinarily rapid rate through August. The Federal Reserve sought to counter this development in part with moral suasion, asking banks voluntarily to limit credit expansion and the sale of CDs. However, the impact of these efforts was probably limited.

Despite some rather widespread forecasts of an impending credit crunch, monetary policy was exceptionally tight in 1973 only as measured by the behavior of short-term interest rates. This may not be a particularly good test, however, especially in a period of rapid inflation. Growth of the monetary and credit aggregates slowed less than in other periods of restraint and remained rather high by historical standards. Increases in long-term interest rates were relatively modest, with these rates remaining below their 1970 peaks. And, with the exception of the mortgage market in the latter half of the year, credit generally remained readily available.

At the outset of the year, the Federal Open Market Committee (FOMC) sought money market conditions and supplies of bank reserves conducive to slower growth in the monetary aggregates than had occurred in the latter half of 1972. The initial restrictive moves were moderate in scope. Open market policy was firmed, placing increased pressure on bank reserve positions, and the Federal funds rate moved upward from 5.33 percent in December to a daily average in excess of 7 percent in March (see Chart 3). The Federal Reserve discount rate also was increased in two ½ percentage point steps to reach 5½ percent by early March.

Following the March meeting of the Group of Ten finance ministers in Paris, which resulted in agreement that official intervention in the foreign exchange markets might be useful at times to facilitate the maintenance of orderly conditions, the board of directors of this Bank voted at a special meeting held March 16 to raise the discount rate 1 percentage point to 6½ percent. In view of the circumstances at that time, the directors also authorized the officers of this Bank

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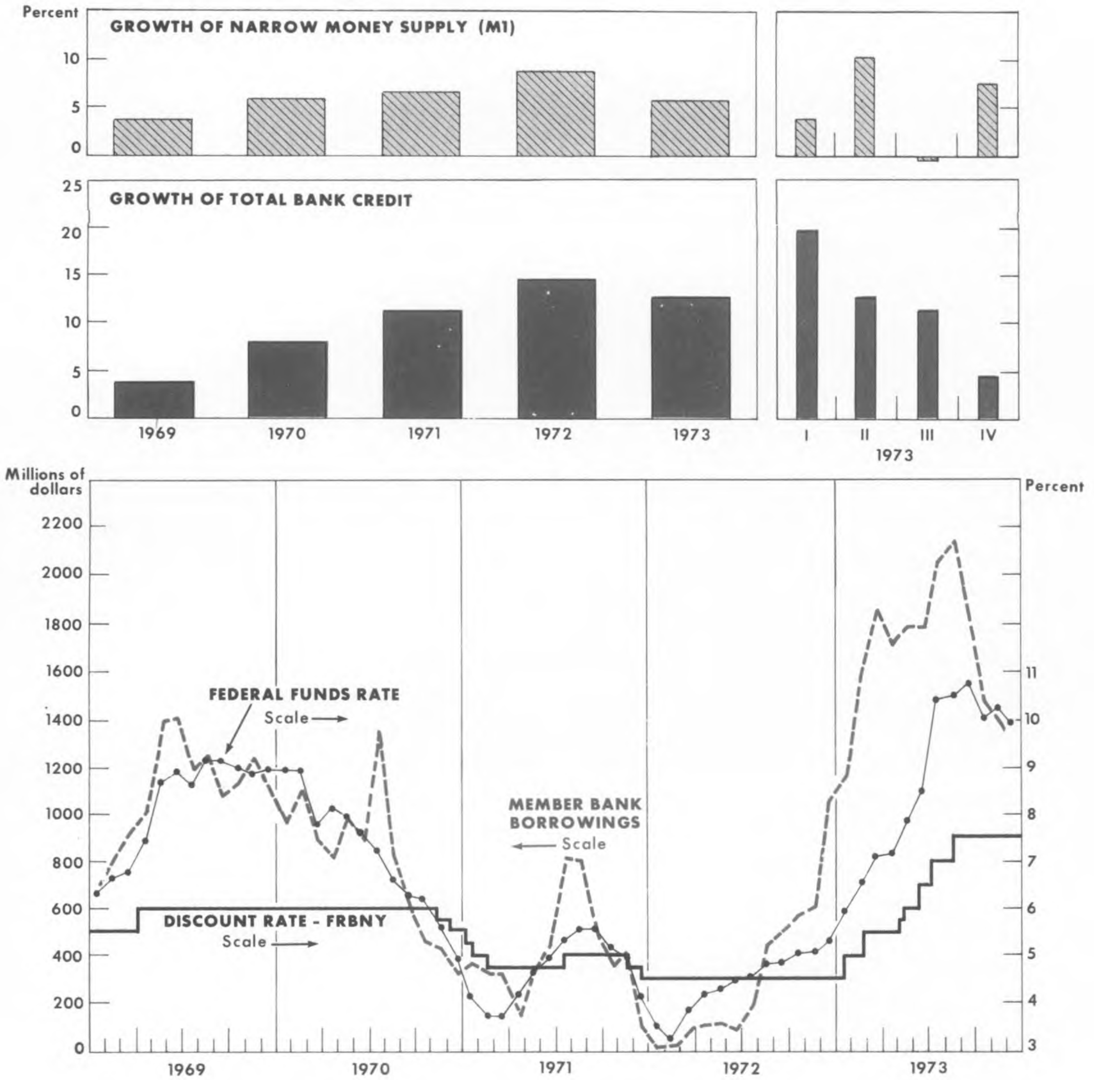
Chart 3. **MONEY, BANK CREDIT, AND MONEY MARKET CONDITIONS**



The money supply growth rates are computed from daily average levels in the final month of the preceding period and the final month of the period covered. Changes in bank credit include loan sales to affiliates and are based on levels as of the close of the period covered and the close of the preceding period. Quarterly figures for 1973 are expressed at seasonally adjusted annual rates.

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to fix a rate of 6 percent in the event that the Board of Governors of the Federal Reserve System failed to approve the 6½ percent rate. The directors were convinced that a strong signal of the Federal Reserve's intention to deal with the uncertainties and instability that had arisen within the international monetary system was highly desirable. The Board of Governors did not act on any discount rate increase, however, and the rate remained at 5½ percent. Thereafter, at meetings in late March and April, this Bank's directors voted to increase the discount rate ½ percentage point to 6 percent. While it was noted that a 1 percentage point increase was justified by both domestic and international considerations, it was felt that such a move might have severe repercussions on the capital markets at that time. The Board of Governors failed to act on the ½ percentage point increase voted by this Bank's directors.

The Board of Governors subsequently did approve a ¼ percentage point rise in the discount rate to 5¾ percent at seven Reserve Banks effective April 23, and four other Reserve Banks quickly joined in this move. This Bank aligned its rate accordingly in early May. Then, at a special meeting on May 10, the directors voted to raise the discount rate another ¼ percentage point to bring it to 6 percent. This increase was approved by the Board of Governors. At the end of May, this Bank's directors voted to establish a discount rate of 6½ percent in the belief that such an action would further demonstrate the System's willingness to take the necessary steps to help control inflation and restore confidence in the dollar. The directors voted this increase again at their first meeting in June, and the Board approved the rise in the discount rate to 6½ percent effective June 11.

Growth in M_1 slowed sharply in the first quarter of the year but then accelerated dramatically in the April-June period despite the marked rise in short-term interest rates. The reasons for the second-quarter upsurge in the money stock are not at all clear. This may have been another instance of the erratic quarter-to-quarter fluctuations of M_1. Bank credit, meantime, led by an explosive rise in business loans, had expanded rapidly in the first quarter, and substantial growth continued in the second quarter. Some of this expansion was doubtless related to international currency speculation.

In response to these developments, the Federal Reserve intensified its efforts to achieve restraint over much of the spring and summer. In June, the Federal Reserve Board imposed a marginal reserve requirement of 8 percent against the total of large CDs, bank-related commercial paper, and finance bills issued by member banks above a specified base, defined as the daily average amount of

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such liabilities outstanding in the week ended May 16. At the same time, suspension of Regulation Q ceilings was extended to large CDs maturing in ninety days or more. Further enhancing the restrictive monetary policy posture, reserve requirements on most demand deposits at member banks were raised ½ percentage point in July, in conjunction with an increase in the discount rate to 7 percent.

Open market operations became progressively more restrictive during the summer as well. As reserves were provided less generously through the open market, member bank borrowings rose to over $2 billion in July and August, nearly double the level of borrowings at the outset of the year. The process of slowing the growth of the money supply in the face of continued sizable increases in nominal spending entailed considerable upward pressure on short-term market rates of interest, and such rates climbed to historic peaks during the summer. The Federal funds rate rose to an average of 10.40 percent in July and increased somewhat further the next two months. The discount rate was boosted in August to a record 7½ percent. In early September, this Bank's directors, believing that the Federal Reserve had to provide an overt sign of its determination to maintain firm monetary restraint and thereby counteract any expectations of an imminent easing of policy, voted to raise the rate another ½ percentage point to 8 percent. The Board of Governors disapproved this move but announced that the marginal reserve requirement on CDs and related bank sources of funds was being increased from 8 percent to 11 percent, thus providing the desired signal.

M_1 contracted in the third quarter, and growth was moderate over the second half of the year as a whole. Most of the other monetary aggregates similarly expanded less rapidly than they had during the first half of the year. In recognition of the noticeable slowdown in the growth of commercial bank lending to businesses and the decline in the volume of large CDs outstanding, the marginal reserve requirement on CDs and related liabilities was reduced 3 percentage points to 8 percent in December.

Overall, the monetary policy pursued in 1973 was consistent with the need to slow the economy. Restraint was achieved, but it was not extreme. M_1 grew about 3 percentage points less in 1973 than in the previous year, although its rate of growth was greater than anticipated on the basis of the money supply estimates available to the FOMC over much of the year. And M_1 again fluctuated very erratically on a quarter-to-quarter basis. The reasons for these movements are often difficult to ascertain. Changes in United States Government deposits, changes in the distribution of deposits between banks subject to different reserve requirements, and shifts in the public's demand for liquidity are among the unpredict-

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able factors that can make short-run control of the money stock difficult.

More importantly, attempts to achieve precise control of the money supply in the short run seem both unwise and unnecessary. Since there are lags between Federal Reserve actions and the response of the monetary aggregates, efforts on the part of the Federal Reserve to attain a longer run money supply target in every month could involve excessive instability in money market interest rates. Sharp swings in interest rates are not only disturbing to financial markets but can also lead ultimately to an overshooting of the money supply objectives. This suggests that it is desirable to take a somewhat gradual approach to stimulating or restraining monetary growth. Further, available research suggests that even relatively large deviations from desired rates of increase in the money stock of up to six months' duration may have little impact on the economy, provided that they are subsequently offset. The Federal Reserve, moreover, has generally preferred a multifaceted approach, paying close attention to other financial variables as well as to the money supply, because these variables—interest rates and the liquidity position of institutions and the general public, for example—also have implications for economic activity. Nevertheless, the substantial upward revision in the statistical estimates of M_1 growth in 1973 as a result of incorporating bench-mark data on deposits at nonmember banks and the sometimes confusing signals given off by the wide fluctuations of M_1 in the short run suggest the desirability of continuing the search for means to enhance monetary control. Two measures that would contribute to such an improvement are better deposit data from nonmember banks and uniform reserve requirements on demand deposits at all commercial banks.

INTERNATIONAL DEVELOPMENTS. At the very start of 1973, it was clear that the existing pattern of foreign exchange rates rested on a fragile base. Confidence in the durability of currency relationships generally had already been undermined by the earlier adoption of a floating exchange rate in the United Kingdom, the introduction of a dual exchange rate system in France and Belgium, the proliferation of direct controls on capital inflows elsewhere on the Continent, and the intensification of inflationary pressures everywhere. Above all, the United States balance of payments remained in substantial deficit throughout 1972, while other countries—notably Germany and Japan—continued to develop sizable payments surpluses, as trade and other international transactions were slow to respond in any fundamental way to the earlier exchange rate

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adjustments. Under these circumstances, and in view of the reluctance of many governments to make the exchange rates credible to the markets through appropriate policies, the entire constellation of exchange rates was vulnerable to renewed speculative pressures.

Those strains first erupted toward the end of January, when speculation on a devaluation of the Italian lira generated large inflows into Swiss francs. When the Italian authorities responded to these pressures by introducing a flexible exchange rate for capital transactions and Switzerland allowed the Swiss franc to float, fears of similar action by still other countries swept through the exchange markets. Then, early in February, these expectations developed very rapidly into a massive attack on the United States dollar—one that culminated in the announcement on February 12 that the dollar would be devalued by 10 percent. At that point, most of the continental European countries allowed the dollar devaluation to be fully reflected in exchange rates, but Italy and Japan chose to allow their currencies to float, thus joining the Canadian dollar, Swiss franc, and pound sterling which were already floating.

These adjustments, together with the realignment negotiated in 1971, may well have been more than adequate to ensure the gradual correction of payments imbalances among the large industrial countries. Yet the markets remained unconvinced that the crisis had ended. The resurgence of inflationary pressures in the United States had deprived the first devaluation of some of its effect, and there was little indication that these pressures would be contained. At the same time, the markets sensed that the European governments would, individually or jointly, allow their currencies to appreciate even further in terms of the dollar in an effort to reduce the inflationary effects of continuing capital inflows. Above all, a second major realignment in little over a year was widely interpreted as simply another step in a continuing sequence of exchange rate adjustments. Consequently, the markets remained deeply disturbed and, after another massive run on the dollar suddenly developed early in March, the exchange markets in Europe and Japan were officially closed while a search for a solution to the crisis continued. Following a series of intergovernmental meetings, five members of the European Community—Belgium, Denmark, France, Germany, and the Netherlands—announced that they would no longer intervene in dollars but would maintain stable exchange rates only in terms of their respective currencies. When this agreement was subsequently joined by Norway and Sweden, the dollar was floating in terms of virtually every major currency.

After the markets reopened around the middle of March, exchange rates

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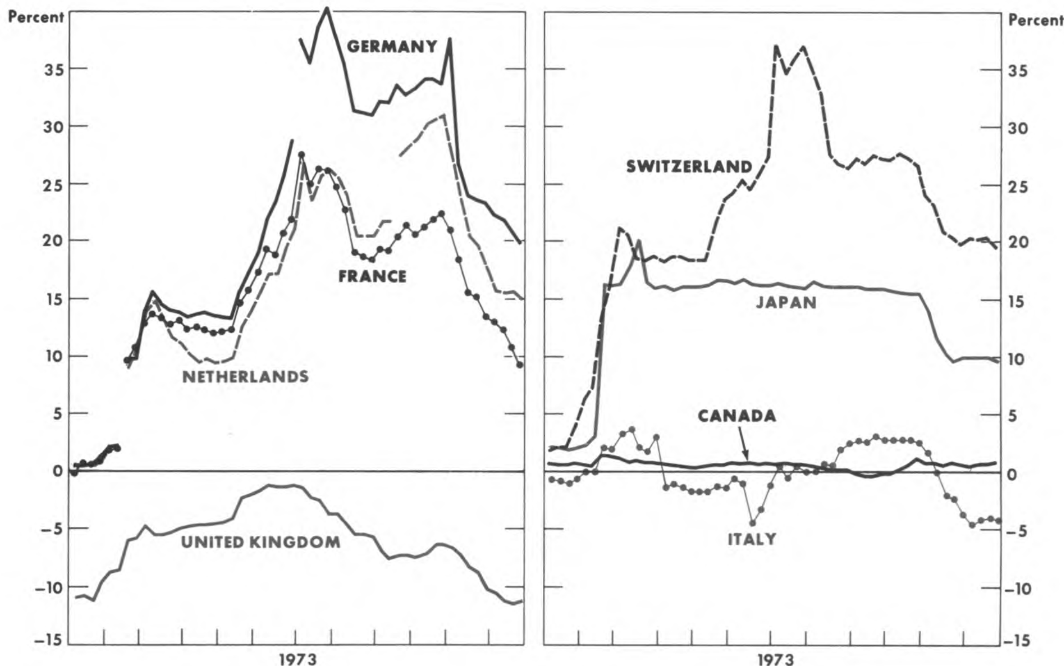
Chart 4. **EXCHANGE RATES: MAJOR CURRENCIES AGAINST UNITED STATES DOLLAR***



* Exchange rate movements are measured by the spread from the par value or central rate agreed to in December 1971, except for the Canadian dollar which is measured by the spread from the parity in May 1970. Breaks in series indicate a change in the central rate.

fluctuated within a narrow range (see Chart 4). Early in May, however, the dollar began to decline against most European currencies, despite some signs of an improving trend in the United States balance of payments. Fears of a further erosion in the value of the dollar intensified, as unfolding developments in the Watergate matter raised doubts in the market as to the ability of the authorities to sustain meaningful anti-inflationary policies. At the same time, the progressive tightening of monetary and fiscal policy in Germany, coupled with recurrent rumors of still another mark revaluation, increased the pressure on the dollar, not only in terms of marks but also in terms of other European currencies.

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Throughout the spring, as the dollar rate continued to depreciate, the markets became demoralized and, at times, disorderly. Official assurances that the central rates were realistic seemed to fall on deaf ears. Indeed, as the dollar rates collapsed, without any indication of support or concern by any government, many market participants appeared to lose all confidence in their ability to assess meaningful exchange rate relationships and looked increasingly for central bank guidance, but in its absence continued to sell dollars. From early May through the first week in July, the dollar depreciated against the more actively traded European currencies by as much as 15 percent. At those levels, the dollar had become transparently undervalued on any reasonably objective appraisal of the cumulative effects of two major exchange rate realignments, which had already been reflected in an improving balance of payments.

Against this background, and after consultation with the Treasury and representatives of other countries, the Federal Reserve announced on July 10 that it was prepared to intervene in the exchange markets. In addition, the swap network was increased by about 50 percent to nearly $18 billion. The announcement came as a major relief to the markets, and contributed to an immediate recovery of the dollar against the major European currencies. Throughout the latter half of the year, the Federal Reserve intervened in several coordinated operations with other central banks—most heavily in marks, but also in French francs, Belgian francs, and Dutch guilders. These operations clearly helped to restore a sense of order in the exchange markets, and at the same time encouraged the covering of some of the short positions in dollars that had been established earlier in the year. As the rate for the dollar advanced, all of these operations, which were financed by Federal Reserve swap drawings, were quickly reversed.

The fact that the central banks were prepared to intervene to prevent the reemergence of disorderly conditions contributed to a much calmer atmosphere in the markets during the late summer and early fall of 1973. The markets showed much greater resiliency in absorbing a succession of adverse political and economic shocks, most notably the outbreak of war in the Mideast in October. The recovery of the dollar then gained momentum, as the markets recognized that the United States was less vulnerable than other industrialized countries to the effects of the interruption of oil supplies and escalation of international petroleum prices. However, the recovery would not have materialized without a tangible improvement in the United States balance of payments, and as the year progressed it became increasingly clear that a turnaround was under way. Following a massive $10 billion deficit on official settlements in the first quarter of the

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year, the balance shifted into slight surplus in the second quarter and continued to widen over the remainder of the year (see Chart 5). On any of the other measures of the United States external accounts, the swing was equally dramatic. The improvement was spread throughout the full range of international transactions and was not just a reflection of an inflow of easily reversible short-term funds. Although the full dimensions of the improvement remain to be tabulated, the balance on trade and long-term capital transactions had moved into sizable surplus by the third quarter of the year. This correction was long overdue.

Indeed, the return to a more balanced pattern of international payments was an indispensable condition for the reconstruction of a more viable international monetary system. For the events of 1973 made it clear that no large country is prepared to allow the external value of its currency to fluctuate under all circumstances, in any direction, or without limit, in response to market forces. To do so is to invite speculative aberrations which may at times carry exchange rates to levels that are inconsistent with long-run external payments equilibrium. In a highly integrated world economy, variations in exchange rates have very pervasive and at times unwelcome domestic effects on the economic life of every country, large and small. During a period of global inflationary pressures, moreover, extreme exchange rate fluctuations may exacerbate those pressures.

For similar reasons, national authorities normally find it desirable whenever feasible to implement policies in an environment of reasonably stable exchange rates to be adjusted where necessary to avoid inflationary or deflationary distortions in the domestic economy. However, the need for such adjustment is inherently a matter of international concern, since any exchange rate change entails reciprocal variations in the exchange rates of other countries and may introduce new problems in the management of other economies. It follows, therefore, from the very nature of exchange rate relationships that the determination of exchange rates under virtually any regime is a matter of international negotiation and reconciliation. The Bretton Woods system, as implemented in practice, provided an effective solution to this problem for many years but one that placed the United States in a passive role. That role is no longer feasible for the United States, and now that countries are prepared to allow their exchange rates to move more promptly than previously, the need for rules of international conduct—whether formally negotiated at a high intergovernmental level and embodied in a revised code of international monetary conduct or developed gradually in other forums—is all the more urgent. Rules that might command broad international support have not yet evolved, and the development of any consensus has become

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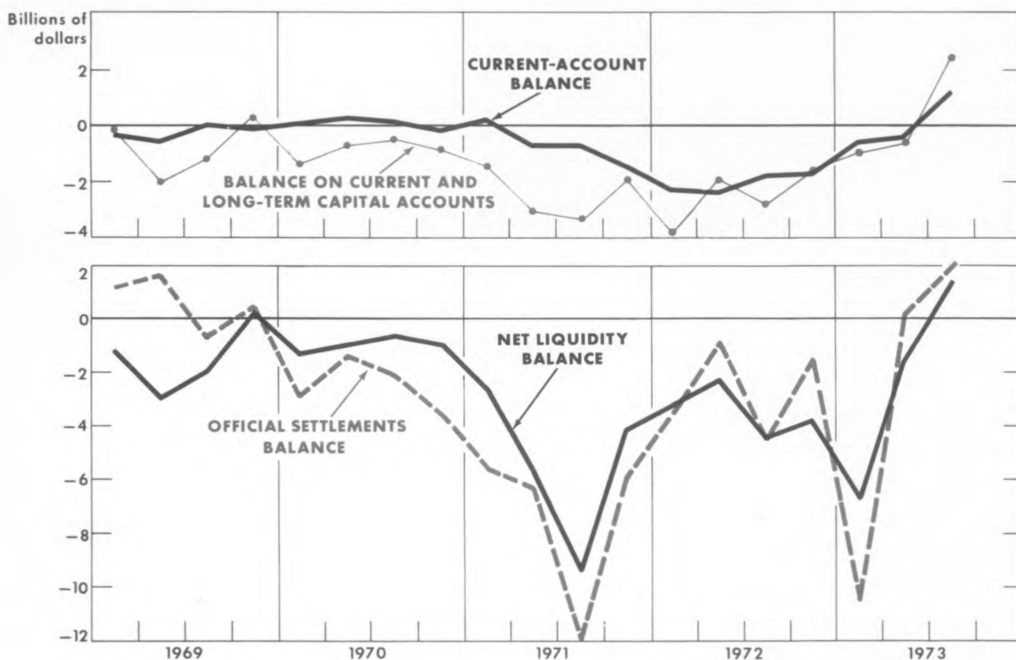
even more difficult in view of the prospective changes in international financial flows resulting from the oil crisis.

In very broad terms, of course, the principles of a reformed system began to emerge in 1973 through the negotiations of the Committee of Twenty. Yet many contentious issues were still unresolved, and the operational provisions of a reformed system remained to be negotiated. In fact, there was little international agreement on the criteria—objective or otherwise—that might guide or condition changes in exchange rates, on the timing or form of any pressures that might be invoked to induce appropriate policy adjustments, on the desirability of controls over capital flows, on the circumstances under which provision should be made for recourse to floating rates, or on the form and manner for settlement of payments imbalances.

Chart 5. **UNITED STATES BALANCE OF PAYMENTS**



Quarterly data at seasonally adjusted annual rates.

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Taken together, these and other questions represent an extensive list of unresolved issues, and it became increasingly clear that they could not be quickly resolved through intergovernmental agreement. Each of these issues bristles with technicalities, but the difficulties in reform are not so much technical as political, for even the most seemingly arcane features of international monetary arrangements have a tangible counterpart in domestic as well as international affairs. Whatever the specific characteristics of a reformed system, it is clear that any viable agreement would need to leave scope for adaptation to changing circumstances. Moreover, any system would have to survive the severe market pressures to which all currencies are at times exposed and to which the dollar is particularly vulnerable by virtue of its varied and extensive use as an international currency. Indeed, no set of rules, however fully codified, will be workable over the long pull unless governments are prepared to make it work and to use for that purpose the entire range of monetary, fiscal, and other policy instruments at their disposal.

This implies that all countries must be prepared to qualify their autonomy in economic policy, at least in some respects. That autonomy has already been limited *de facto* by the very process of economic and financial integration. In a world of interdependent economies, no country can escape the consequences of policies adopted elsewhere, and no country can cope satisfactorily with the problems of adjustment if it stands alone or tries to resolve those problems entirely on its own terms. The adjustment process must be a joint effort if it is to work satisfactorily, whether that process is formalized in terms of agreed boundaries around the freedom of national action or reflected in looser accommodations of uncertain duration. Either way, cooperation remains imperative in a world in which economic interdependence is a fact of life.

The need for international cooperation on a broad front is hardly new, but it became even more urgent in the aftermath of the restrictions on oil exports and unprecedented increases in prices announced unilaterally by the oil-producing countries. For the sheer size of the increases carried with it the potential for a massive redistribution of resources, real and financial, from consuming countries to the oil-exporting countries. Under these circumstances, the risks of competitive and self-defeating policy adjustments to emerging payments imbalances increased considerably. Indeed, the dislocations resulting from the oil problem introduced entirely new dimensions into the process of international monetary management, which will clearly test the commitment of all countries to a mutually beneficial international order.

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PROBLEMS CONFRONTING MONETARY POLICY. The domestic economy remained plagued by grave problems as 1973 drew to a close. Inflation had not abated and it appeared that it would remain a major concern in 1974. While demand pressures on prices were moderating, cost pressures seemed to have strengthened. Real take-home pay declined in 1973 and consequently labor appeared poised to demand substantial wage increases in 1974. These demands seemed likely to be far in excess of any conceivable gain in labor productivity and hence to generate a further sharp rise in unit labor costs. In addition, the shortages of various petroleum products appeared likely to add significantly in 1974 to upward cost pressures on prices, and thus to inflation, while simultaneously limiting real growth.

The experience of 1973, and more generally of the past several years, furnished several important lessons for monetary policy. Clearly, severe inflationary pressures can emerge well before employment goals formerly regarded as achievable through aggregate demand policies alone are reached. And, once inflation becomes entrenched, it does not respond readily to brief shortfalls in demand. Stringent monetary policy could foster a prolonged downturn in economic activity, and eventually price stability, but only at such substantial costs in terms of underutilized resources and foregone output as to be completely outside the realm of acceptable policy.

In addition, the experience of 1973 has raised questions about the limitations of wage and price controls. To be sure, there was some improvement during the first two phases of the Economic Stabilization Program when there was still a fair degree of slack in the economy. In such an environment controls may well serve a useful function, especially in helping to check the momentum of a long-continuing inflation. However, some of the improvement in the latter months of 1971 and in 1972 seems in retrospect to have reflected the repression of inflationary forces that were subsequently unleashed in 1973.

Overall, our recent experience has suggested that an easy solution to the problem of inflation probably cannot be achieved. At the end of 1973, it appeared that the energy situation would complicate the challenges facing monetary policy in 1974. While it seemed that monetary policy could do little to relieve the economic problems resulting directly from the oil shortage, policy had to try to minimize the chances that these problems would cumulate into a serious recession or into a further marked acceleration in price increases. Beyond this, monetary policy had to attempt to lay the foundation for a progressive moderation of inflation in the years ahead.

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THE BANK'S OPERATIONS IN 1973

Managing for the Future

On July 3, 1973, demolition began on eight buildings occupying the site opposite the Maiden Lane side of the headquarters building of the Federal Reserve Bank of New York. By November 5 most of the 23,249-square-foot tract of land was cleared and ready for construction of the Bank's planned 42-story auxiliary office building.

The building, which will contribute to the revival of the downtown financial community, reflects the Bank's commitment to remain an active force in the New York City labor market. The building project has received strong support and cooperation from city authorities and interested community groups.

In a striking departure from conventional designs, the building will rest on four concrete and steel columns 165 feet high. The design was chosen to make the most efficient use of the available land while meeting the city's building standards. The construction of a conventional building extending outward to the property line at ground level, with the required "setback" of upper floors, would not have provided the Bank with the space it needs.

This new approach to an old problem is, in many ways, representative of a number of other developments that took place in the Bank during 1973. The need for initiatives and innovations has been dictated by more than just the projected increases in the volume of the Bank's activities. Inherent in the anticipated volume of transfers of funds and securities is the need for more effective controls to ensure the safe, as well as speedy, handling of these activities. In addition, more detailed and accurate management information and financial statistics are needed. The Bank took a number of constructive steps toward these goals during 1973.

MEETING DEMANDS FOR SPACE. A new building was foreseen a number of years ago as the way to keep ahead of the rapidly growing space requirements that were then being met through the use of rented space in nearby buildings.

Along with a 26 percent increase in total staff since the mid-1960's, there has

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been a 32 percent increase in the Bank's space requirements. Expanding work volumes and increasing responsibilities pointed to continued growth of staff in a high space-using computer environment.

The new building, which is expected to be ready for occupancy in 1977 or 1978, will provide a gross area of more than 858,000 square feet. This is slightly larger than the gross area of the existing main building. Initially, a portion of the building will be rented. The building will allow the Bank to consolidate its present staff and foreseeable growth in staff. About 1,000 staff members are located in five buildings near the headquarters building. The officers' Building Committee, aided by the planning staff, is considering which departments to locate in the new facility.

The architecture of the new building will bring a refreshing openness to the narrow, cramped streets just north of the Bank. The underside of the building, thirteen stories above the street, will create a canopy for a landscaped arcade and plaza that will occupy the entire site. The soaring support columns will also frame the northern face of the headquarters building, visually linking the two structures. The two Bank buildings will be connected underground and also by an enclosed pedestrian bridge, 190 feet above Maiden Lane, between the third floor of the new structure and the twelfth floor of the headquarters building.

Test borings are being taken of the soil and rock strata of the building site, and an analysis will be prepared to aid in designing the foundation. Ground breaking will take place later this year.

PROGRESS AGAINST PAPER. Continued progress was made in automating United States Government securities operations, as the book-entry program expanded substantially to include securities issued by several Government agencies and Government securities held by member banks for customers.

The book-entry program eliminates the need for physical certificates by permitting the issuance, servicing, and redemption of eligible securities through electronic entries at Federal Reserve Banks rather than by physical handling. The program also simplifies custody operations, speeds the transfer of securities through the Government Securities Clearing Arrangement, and eliminates the risk of loss or theft involved in safekeeping and delivering physical certificates.

The first phase of the book-entry program, which began in 1968, involved the conversion of Government securities held in safekeeping accounts for member banks by Reserve Banks.

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At the year-end, some $176.6 billion, or 65.4 percent of the $270.2 billion of marketable Government securities outstanding, was in book-entry form. Of the remaining $93.6 billion of direct Government obligations eligible for conversion into book-entry form, approximately $87 billion was in bearer form and $6.6 billion in registered form. The majority of these securities are held by banks for customers, such as correspondent banks, trust accounts, and nonbank securities dealers, and are maintained primarily in major financial centers such as New York City, according to industry sources. Member banks in each Reserve District are currently being urged to speed conversion of these holdings.

Eligible securities of several major Federal agencies were also included in the book-entry program during 1973. Among the $3.6 billion in agency securities presently held by Federal Reserve Banks in this form are those of the Banks for Cooperatives, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks, the United States Postal Service, and most recently the Farmers Home Administration. Securities of the Federal National Mortgage Association are expected to be added early in 1974.

THE GROWING SECURITIES AND MONEY TRANSFER NETWORK. The number of securities transfers processed through the communications network in 1973 increased 42 percent over 1972 levels, totaling approximately one million transfers with an aggregate par value of more than $1.5 trillion.

Participants in the network can make transfers of securities or funds to one another, or to and from other Reserve Banks by telegraphic messages that automatically debit and credit the appropriate reserve and securities accounts.

The communications network is also handling a rising volume of funds transfers. Last year, the Bank processed 2.8 million transfers totaling $8.3 trillion, a gain of 29 percent and 42 percent, respectively, over the prior year.

Eight additional banks and one Government agency joined the network in 1973, bringing the total number of participants to twenty-two. Plans are also under way to add the Washington, D.C., office of the Treasury Department to the network during 1974.

REDUCED FLOAT. In the first full year after Regulation J was amended to accelerate the check payment schedule, aggregate float dropped 29.3 percent.

Float results when a depositing bank's account is credited for an item before

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the payor bank's account is charged. Regulation J was revised in late 1972 to require payor banks to pay for checks drawn on them in immediately available funds on the same day the Federal Reserve Bank presents the checks for payment, eliminating a large fraction of float.

Aggregate float (net average daily float) in the Second District totaled $548 million, compared with $775 million in 1972. Transportation float, which generally reflects weather-induced delays in delivering checks to paying banks, held close to 1972's level and totaled $216 million in 1973, compared with $203 million the year before.

As part of the effort to provide faster check processing in the face of rapidly mounting volume, and particularly to provide for overnight clearing and settlement in immediately available funds, the Bank established a regional check processing center in Cranford, New Jersey, in April 1973. The facility is centrally located in relation to some 160 banks it serves in the twelve northernmost counties of New Jersey. The facility replaced a much smaller clearing bureau that previously served forty-three banks in eight of the state's northernmost counties.

Although less than a year old, the Cranford office is one of the largest check processing operations in the Federal Reserve System in terms of items handled. In 1973, it accounted for approximately 185 million checks, or 15.6 percent of the checks the Bank processed in the Second District, while coping with the initial operating problems inherent in any new facility.

A Long Island processing facility, which opened in Freeport in 1972, was moved to new quarters in Jericho, New York, in August. These quarters are more suitable to the present operation and will allow the Long Island facility to handle increasing volume. During 1973, this clearing operation handled approximately 117 million items, or 9.9 percent of the Bank's volume.

ELECTRONIC PAYMENTS. Regional check processing centers, such as those at Cranford and Jericho, are an important intermediate step in the ultimate transition to an electronic payments system that will substantially offset the projected growth of paper checks.

There are presently twenty-six projects in numerous cities around the country to develop a system of paperless transfers. Each is oriented toward the development of an automated clearing house which would process electronic entries of bill payments and direct payroll deposits via magnetic tapes, punched cards, or some other machine-readable document.

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There are three studies presently under way in which this Bank is involved. The Rochester Clearing House Association completed a feasibility study for an automated clearing house that would service the Rochester-area banks and those banks that clear checks through the Buffalo office. The Long Island Bankers Association, which launched its studies in 1971, has completed the planning phase of its program and is evaluating the cost of the next phase of the program. The New Jersey Bankers Association has also completed the data-gathering phase of its studies for a possible automated clearing house to include all banks in the state. The Bank, as a possible participant in any future automated system, has been actively discussing plans, acting as a sounding board for new ideas, and providing advice and information.

In November, the Board of Governors invited comment by March 8, 1974 on the broad range of issues involved in modernizing the nation's payments mechanism, including the expanding use of electronic substitutes for check payments. Among the issues on which comments were invited were the role of the Federal Reserve and other institutions in the ownership and operation of an electronic payments system, the extent and conditions of access, and the means of allocating operating costs.

These comments were requested in connection with a proposed revision of Regulation J. The revision would codify current practices for the use of the Federal Reserve communications network for member banks and their customers sending funds from one point to another. More important, the revision would for the first time permit member banks to use the network to collect funds from other commercial banks as they now use it to make payments. Under this procedure, a Reserve Bank would provisionally credit a collecting bank's reserve account immediately on request, electronically transfer the collecting bank's request to the paying bank, and, pursuant to an agreement between the Reserve Bank and the paying bank, automatically deduct that amount from the paying bank's reserve account.

IMPROVING INTERNAL ORGANIZATION, PLANNING, AND BUDGETARY CONTROL. The search for new approaches was highlighted last year by the formation of a senior officers' committee on planning and budgetary control and by engaging a management consulting firm to assist the Bank's directors and officers in a review of the Bank's organizational structure and role as well as in developing new and improved planning and budgetary techniques and procedures.

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Task forces headed by officers have begun conducting budget and organization surveys of all departments in the Bank. Several steps have already been taken, among them a revamping of the Bank's overall budgeting procedures. The goal is to maximize the Bank's ability to deal with the rapidly growing volume of activities and maintain effective controls over staffing and expenses. In recent years this goal has received increasing emphasis in the System.

The Computer Planning Department took the first step in implementing a master automation plan during 1973. The plan charts the direction, scope, and timetable of the Bank's computer development over the next seven years. The goals are to organize the proliferation of computer uses, to meet the increasing demands to process more information at a faster pace, and to provide a more accessible and flexible source of management information needed in the course of everyday business.

Under the plan, the Bank's computer facilities would be formed into an integrated management information system that would allow the various operating and administrative functions to share pertinent data gathered and stored in a central information system. Data would be fed into the information system through remote terminals, such as cathode-ray devices, connected to a communications system controlled by an automatic message-switching unit that would direct the flow of data.

Initially the communications network would connect the Bank's in-house computer operations with the Buffalo Branch and the Cranford and Jericho check processing facilities. Eventually, terminals for collecting and supplying selected data would be extended to the Board of Governors and other Reserve Banks, the Treasury and other Government agencies, the New York Clearing House, and Government securities dealers.

During 1973, information systems were designed to handle the Bank's transfer agent functions, to inventory and report the public debt, and to compile and analyze the Bank's budget and expenses. A senior officers' committee on computer uses was reorganized in July 1973 to oversee all of the automation plans, allocate computer resources, and assign priorities to all computer projects.

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Financial Statements

STATEMENT OF CONDITION

In thousands of dollars

Assets	**DEC. 31, 1973**	**DEC. 31, 1972**
Gold certificate account	3,231,124	2,063,888
Special Drawing Rights certificate account	93,000	93,000
Federal Reserve notes of other Banks	197,838	205,956
Other cash	19,012	17,435
Total	3,540,974	2,380,279
Advances	485,105	926,100
Acceptances:		
Bought outright	68,014	70,461
Held under repurchase agreements	0	36,306
United States Government securities:		
Bought outright*	19,313,746	17,702,177
Held under repurchase agreements	58,000	97,500
Federal agency obligations:		
Bought outright	476,947	332,538
Held under repurchase agreements	42,000	13,000
Total loans and securities	20,443,812	19,178,082
Other assets:		
Cash items in process of collection	2,575,287	2,543,300
Bank premises	10,067	7,482
All other†	207,995	258,960
Total other assets	2,793,349	2,809,742
Total Assets	**26,778,135**	**24,368,103**

* Includes securities loaned—fully secured by United States Government securities pledged with the Bank	162,950	27,100

† Includes assets denominated in foreign currencies.

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STATEMENT OF CONDITION

In thousands of dollars

Liabilities	**DEC. 31, 1973**	**DEC. 31, 1972**
Federal Reserve notes	16,081,665	14,809,233
Deposits:		
Member bank reserve accounts	7,780,246	7,072,851
United States Treasurer—general account	394,348	388,169
Foreign★	58,635	110,029
Other	673,840	571,067
Total deposits	8,907,069	8,142,116
Other liabilities:		
Deferred availability cash items	1,118,004	862,910
All other	241,471	140,636
Total other liabilities	1,359,475	1,003,546
Total Liabilities	**26,348,209**	**23,954,895**
Capital Accounts		
Capital paid in	214,963	206,604
Surplus	214,963	206,604
Total Capital Accounts	**429,926**	**413,208**
Total Liabilities and Capital Accounts	**26,778,135**	**24,368,103**
Contingent liability on acceptances purchased for foreign correspondents†	151,662	46,552

★ After deducting participations of other Federal Reserve Banks amounting to	192,140	214,600
† After deducting participations of other Federal Reserve Banks amounting to	429,433	132,460

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STATEMENT OF EARNINGS AND EXPENSES FOR THE CALENDAR YEARS 1973 AND 1972 (In thousands of dollars)

	1973	1972
Total current earnings	1,347,807	971,295
Net expenses	108,848	90,074
Current net earnings	1,238,959	881,221
Additions to current net earnings:		
Profit on sales of United States Government securities and Federal agency obligations (net)	0	770
All other	503	516
Total additions	503	1,286
Deductions from current net earnings:		
Loss on sales of United States Government securities and Federal agency obligations (net)	9,281	0
Loss on foreign exchange transactions (net)	12,376	13,477
All other	60	107
Total deductions	21,717	13,584
Net deductions	21,214	12,298
Net earnings available for distribution	**1,217,745**	**868,923**
Dividends paid	12,550	11,928
Payments to United States Treasury (interest on Federal Reserve notes)	1,196,836	843,245
Transferred to surplus	8,359	13,750

SURPLUS ACCOUNT

	1973	1972
Surplus—beginning of year	206,604	192,854
Transferred from net earnings for year	8,359	13,750
Surplus—end of year	**214,963**	**206,604**

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Changes in Directors and Senior Officers

CHANGES IN DIRECTORS. In August 1973, member banks in Group 2 elected William S. Sneath a Class B director for the unexpired portion of the term ending December 31, 1974, from which Frank R. Milliken resigned, effective December 31, 1972, to accept appointment as a Class C director. Mr. Sneath is President of Union Carbide Corporation, New York, N. Y.

In December, member banks in Group 1 reelected David Rockefeller a Class A director and Maurice F. Granville a Class B director, each for a three-year term beginning January 1, 1974. Mr. Rockefeller, Chairman of the Board of The Chase Manhattan Bank (National Association), New York, N. Y., has been a Class A director since January 1, 1973. In 1972, Mr. Rockefeller served as the member of the Federal Advisory Council representing the Second Federal Reserve District. Mr. Granville, Chairman of the Board of Texaco Inc., New York, N. Y., has been a Class B director since March 14, 1972.

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 1974. 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 served as *Deputy Chairman* during 1971 and as *Chairman* and *Federal Reserve Agent* during 1972 and 1973. At the same time, the Board of Governors reappointed Frank R. Milliken as *Deputy Chairman* for the year 1974. Mr. Milliken, President of Kennecott Copper Corporation, New York, N. Y., has been serving as a Class C director, and as *Deputy Chairman,* since January 1973. He served as a Class B director in 1972.

In addition, the Board of Governors reappointed Alan Pifer a Class C director for the three-year term beginning January 1, 1974. Mr. Pifer, President of Carnegie Corporation of New York, New York, N. Y., has been serving as a Class C director since October 1971.

Buffalo Branch. In December, the Board of Governors reappointed Rupert Warren a director of the Buffalo Branch for a three-year term beginning January 1, 1974. Mr. Warren, former President of Trico Products Corporation, Buffalo, N. Y., has been a director of the Branch since January 1971 and was *Chairman* of the Branch Board during 1973. Also in December, the board of directors of this Bank appointed J. Wallace Ely and Daniel G. Ransom as directors of the Buffalo Branch for three-year terms beginning January 1, 1974.

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Mr. Ely, who is Chairman of the Board of Security New York State Corporation, Rochester, N. Y., had previously served as a director of the Buffalo Branch from January 1965 through 1967. Mr. Ransom is President of The Wm. Hengerer Company, Buffalo, N. Y. On the Branch Board, they succeeded Angelo A. Costanza, President, Central Trust Company Rochester N. Y., Rochester, N. Y., and William B. Anderson, President, The First National Bank of Jamestown, Jamestown, N. Y., who had been serving on the Branch Board since January 1, 1971. At the same time, the board of directors of this Bank designated Norman F. Beach as *Chairman* of the Branch Board for the year 1974. Mr. Beach, who is Vice President of Eastman Kodak Company, Rochester, N. Y., has been a director of the Branch since January 1, 1968 and was *Chairman* of the Branch Board during 1971.

CHANGES IN SENIOR OFFICERS. The following changes in the official staff, at the level of Vice President and above, have been made since January 1973:

William F. Treiber, First Vice President, retired from the Bank, effective June 1, 1973, after completing almost four decades of distinguished service with the Bank, including twenty-one years as its First Vice President. Mr. Treiber, who attained age sixty-five in May, joined the Bank as an officer with the title of Assistant Counsel in 1934. He held several other official positions prior to his appointment as First Vice President, effective March 1, 1952. Since July 1, 1973 Mr. Treiber has been serving as a part-time consultant to the Bank with respect to the Bank's new building and other special long-range projects.

Richard A. Debs, formerly Senior Vice President, was appointed First Vice President, effective June 1, 1973, for the unexpired portion of Mr. Treiber's five-year term ending February 29, 1976.

Richard G. Davis, formerly Adviser, was appointed Vice President on June 1, 1973 and assigned to Research and Statistics, with supervisory responsibility for the operations of the function under Robert G. Link, Senior Vice President. Effective December 1, 1973, when Mr. Link retired from the Bank, Mr. Davis was assigned as the officer in charge of Research and Statistics.

Peter Fousek, formerly Vice President, was appointed Economic Adviser on June 1, 1973 and assigned to Research and Statistics. In this position, which is equivalent in rank to that of Vice President, Mr. Fousek is primarily concerned with advice and special studies with respect to international economic and financial affairs.

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John T. Keane, Vice President, formerly assigned to Accounting Control, was assigned to Personnel on June 1, 1973.

Paul Meek, formerly Assistant Vice President, was appointed Monetary Adviser on June 1, 1973 and assigned to Open Market Operations and Treasury Issues. In this position, which is equivalent in rank to that of Vice President, Mr. Meek is primarily concerned with advice and special studies with respect to open market operations and policies.

A. Marshall Puckett, formerly Assistant Vice President, was appointed Vice President on June 1, 1973 and assigned to Accounting Control.

Effective July 20, 1973, the Cash and Collections Function was reorganized into two functions, the Cash and Collection Function and the Check Processing Function.

Thomas O. Waage, Senior Vice President, formerly assigned to Cash and Collections, was assigned to Cash and Collection and to Check Processing on July 20, 1973. Mr. Waage's assignment to Public Information was continued.

William H. Braun, Jr., Vice President, formerly assigned to Building and Planning, was assigned to Cash and Collection on July 20, 1973.

Karl L. Ege, formerly Assistant Vice President, was appointed Vice President on July 20, 1973 and assigned to Check Processing.

Robert G. Link, Senior Vice President, retired on early retirement effective December 1, 1973, after completing over twenty years of service with the Bank. Mr. Link joined the Bank's staff in 1953 and became an officer in 1958.

Thomas M. Timlen, Jr., Senior Vice President, was assigned to Building and Planning effective January 1, 1974. Mr. Timlen's assignments to Accounting Control, Data Services, Government Bond and Safekeeping of Securities, Loans and Credits, Personnel, and Service were continued.

George Garvy, formerly Economic Adviser, was appointed Vice President and Senior Adviser effective January 1, 1974. In his new position, Mr. Garvy has responsibility for advising the President and the First Vice President on policy matters and for special studies.

Robert E. Lloyd, Jr., was appointed Vice President effective January 1, 1974 and assigned to Building and Planning. Mr. Lloyd joined the Bank's staff as Adviser effective August 1, 1973; he had formerly been Deputy Manager, Operations, at Brown Brothers Harriman & Co.

Paul B. Henderson, Jr., was appointed an officer of the Bank with the title of Vice President effective February 15, 1974 and assigned to Data Services. Prior to joining the Bank, Mr. Henderson was the Director of Data Services,

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Allis-Chalmers Corporation, Milwaukee, Wisconsin.

Everett B. Post, formerly Vice President, was appointed Senior Data Services Adviser, which is equivalent in rank to the position of Vice President, effective February 15, 1974; his assignment to Data Services was continued. Mr. Post has elected early retirement and will retire from the Bank on July 1, 1974.

MEMBER OF FEDERAL ADVISORY COUNCIL—1974. The board of directors of this Bank selected Gabriel Hauge to serve during 1974, for the second successive year, as the member of the Federal Advisory Council representing the Second Federal Reserve District. Mr. Hauge is Chairman of the Board of Manufacturers Hanover Trust Company, New York, N. Y.

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Directors of the Federal Reserve Bank of New York

DIRECTORS	*Term expires Dec. 31*	*Class*	*Group*
DAVID ROCKEFELLER Chairman of the Board, The Chase Manhattan Bank (National Association), New York, N.Y.	1976	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.	1976	B	1
WILLIAM S. SNEATH President, Union Carbide Corporation, New York, N.Y.	1974	B	2
JACK B. JACKSON President, J. C. Penney Company, Inc., New York, N.Y.	1975	B	3
ROSWELL L. GILPATRIC, *Chairman, and Federal Reserve Agent* Partner, Cravath, Swaine & Moore, Attorneys, New York, N.Y.	1974	C	
FRANK R. MILLIKEN, *Deputy Chairman* President, Kennecott Copper Corporation, New York, N.Y.	1975	C	
ALAN PIFER President, Carnegie Corporation of New York, New York, N.Y.	1976	C	

DIRECTORS—BUFFALO BRANCH

NORMAN F. BEACH, *Chairman* 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, Manufacturers and Traders Trust Company, Buffalo, N.Y.	1975
J. WALLACE ELY Chairman of the Board, Security New York State Corporation, Rochester, N. Y.	1976
DANIEL G. RANSOM President, The Wm. Hengerer Company, Buffalo, N.Y.	1976
RUPERT WARREN Former President, Trico Products Corporation, Buffalo, N.Y.	1976

MEMBER OF FEDERAL ADVISORY COUNCIL—1974

GABRIEL HAUGE Chairman of the Board, Manufacturers Hanover Trust Company, New York, N.Y.	1974

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Officers of the Federal Reserve Bank of New York

ALFRED HAYES, *President*
RICHARD A. DEBS, *First Vice President*

CHARLES A. COOMBS, *Senior Vice President*
Foreign

ALAN R. HOLMES, *Senior Vice President*
Open Market Operations and Treasury Issues

THOMAS M. TIMLEN, JR., *Senior Vice President*
Accounting Control; Building and Planning; Data Services; Government Bond and Safekeeping of Securities; Loans and Credits; Personnel; Service

THOMAS O. WAAGE, *Senior Vice President*
Cash and Collection; Check Processing; Public Information

ACCOUNTING CONTROL

A. MARSHALL PUCKETT, *Vice President*

WALTER S. RUSHMORE, *Assistant Vice President*
JOHN CHOWANSKY,
Manager, Management Information Department
HENRY S. FUJARSKI, JR.,
Manager, Accounting Department

AUDIT

GEORGE C. SMITH, *General Auditor*

JOHN E. FLANAGAN, *Assistant General Auditor*
W. WILLIAM BAUMGARDT,
Manager, Auditing Department

BANK SUPERVISION AND RELATIONS

FRED W. PIDERIT, JR., *Vice President*

BENEDICT RAFANELLO, *Assistant Vice President*
EDWARD F. KIPFSTUHL,
Manager, Foreign Banking Regulations Department
BENJAMIN STACKHOUSE,
Manager, Bank Applications Department

ROBERT C. THOMAN, *Assistant Vice President*
ADAM R. DICK,
Manager, Bank Relations Department
FREDERICK L. FREY, *Chief Examiner*

JAMES H. BOOTH,
Manager, Regulations and Bank Analysis Department
LEON KOROBOW,
Manager, Banking Studies Department

BUILDING AND PLANNING

ROBERT E. LLOYD, JR., *Vice President*

LOUIS J. BRENDEL, *Assistant Vice President*
RONALD E. LONG,
Manager, Planning Department

A. THOMAS COMBADER, *Buildings Administrator*
MATTHEW C. DREXLER,
Manager, Building Operating Department

CASH AND COLLECTION

WILLIAM H. BRAUN, JR., *Vice President*

KAREN J. BOPP,
Manager, Cash Custody Department, and Manager, Collection Department
LEON R. HOLMES,
Manager, Cash Department

CHECK PROCESSING

KARL L. EGE, *Vice President*

JAMES O. ASTON, *Assistant Vice President*
LEONARD I. BENNETTS,
Manager, Check Adjustment and Return Items Department
RALPH A. CANN, III,
Manager, Check Processing Department
FRED A. DENESEVICH,
Manager, Check Processing Department
JOHN C. HOUHOULIS,
Manager, Payment Systems Department
JOSEPH M. O'CONNELL,
Manager, Check Processing Department

WHITNEY R. IRWIN, *Assistant Vice President*
JEROME P. PERLONGO,
Manager, North Jersey Regional Check Processing Center

DATA SERVICES

PAUL B. HENDERSON, JR., *Vice President*

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