FEDERAL RESERVE BANK OF NEW YORK

Fiscal Agent of the United States

[Circular No. 3548
March 24, 1950]

Public Notice of Offering of $900,000,000, or thereabouts, of 91-Day Treasury Bills

Dated March 30, 1950 — Maturing June 29, 1950

To all Incorporated Banks and Trust Companies in the Second Federal Reserve District and Others Concerned:

Following is the text of a notice today made public by the Treasury Department with respect to a new offering of Treasury bills payable at maturity without interest to be sold on a discount basis under competitive and non-competitive bidding.

FOR RELEASE, MORNING NEWSPAPERS,
Friday, March 24, 1950.

TREASURY DEPARTMENT
Washington

The Secretary of the Treasury, by this public notice, invites tenders for $900,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing March 30, 1950, to be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided. The bills of this series will be dated March 30, 1950, and will mature June 29, 1950, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern Standard time, Monday, March 27, 1950. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, non-competitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 30, 1950, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 30, 1950. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under the Internal Revenue Code, or laws amendatory or supplementary thereto. The bills shall be subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest. Under Sections 42 and 117 (a)(1) of the Internal Revenue Code, as amended by Section 115 of the Revenue Act of 1941, the amount of discount at which bills issued hereunder are sold shall not be considered to accrue until such bills shall be sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

In accordance with the above announcement tenders will be received at the Securities Department of this bank (9th floor, 33 Liberty Street) New York 45, N. Y., or at the Buffalo Branch of this bank (270 Main Street) Buffalo 5, N. Y., up to two o'clock p.m., Eastern Standard time, on Monday, March 27, 1950. It is requested that tenders be submitted on special form printed on reverse side and returned in special envelope enclosed herewith. *Payment for the Treasury bills cannot be made by credit through the Treasury Tax and Loan Account. Settlement must be made in cash or other immediately available funds or in maturing Treasury bills.*

ALLAN SPROUL, *President.*

(Extract from Treasury Department statement released for publication March 21, 1950, announcing results after tenders were opened for 91-day Treasury bills dated March 23, 1950 maturing June 22, 1950)

Total applied for $1,477,857,000
Total accepted .... $900,323,000 (includes $94,373,000 entered on a non-competitive basis and accepted in full at the average price shown below)
Average price ...... 99.712+ Equivalent rate of discount approx. 1.138% per annum

Range of accepted competitive bids:
High .... 99.717 Equivalent rate of discount approx. 1.120% per annum
Low .... 99.710 Equivalent rate of discount approx. 1.147% per annum

(29 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 7,125,000	$ 6,770,000
New York	1,172,246,000	667,236,000
Philadelphia	30,042,000	16,492,000
Cleveland	26,145,000	26,003,000
Richmond	11,240,000	11,240,000
Atlanta	8,042,000	8,042,000
Chicago	130,018,000	79,693,000
St. Louis	9,998,000	8,946,000
Minneapolis	4,305,000	4,305,000
Kansas City	15,593,000	15,593,000
Dallas	22,467,000	18,917,000
San Francisco	40,636,000	37,086,000
Total	$1,477,857,000	$900,323,000

(OVER)

IMPORTANT—If it is desired to bid on a competitive basis, fill in rate per 100 and maturity value in paragraph headed "Competitive Bid". If it is desired to bid on a non-competitive basis, fill in only the maturity value in paragraph headed "Non-competitive Bid". *DO NOT fill in both paragraphs on one form. A separate tender must be used for each bid.*

No.

TENDER FOR 91-DAY TREASURY BILLS

Dated March 30, 1950. **Maturing June 29, 1950.**

Dated at ....

To Federal Reserve Bank of New York,
Fiscal Agent of the United States.

.... 1950

COMPETITIVE BID

Pursuant to the provisions of Treasury Department Circular No. 418, as amended, and to the provisions of the public notice on March 24, 1950, as issued by the Secretary of the Treasury, the undersigned offers ....* (Rate per 100) for a total amount of $.................... (maturity value) of the Treasury bills therein described, or for any less amount that may be awarded, settlement therefor to be made at your bank, on the date stated in the public notice, as indicated below:

☐ By surrender of the maturing issue of Treasury bills....... $________________ (Amount surrendered)

☐ By cash or other immediately available funds

NON-COMPETITIVE BID

Pursuant to the provisions of Treasury Department Circular No. 418, as amended, and to the provisions of the public notice on March 24, 1950, as issued by the Secretary of the Treasury, the undersigned offers a non-competitive tender for a total amount of $.................... (Not to exceed $200,000) (maturity value) of the Treasury bills therein described, at the average price (in three decimals) of accepted competitive bids, settlement therefor to be made at your bank, on the date stated in the public notice, as indicated below:

☐ By surrender of the maturing issue of Treasury bills....... $________________ (Amount surrendered)

☐ By cash or other immediately available funds

The Treasury bills for which tender is hereby made are to be dated March 30, 1950, and are to mature on June 29, 1950.

This tender will be inserted in special envelope entitled "Tender for Treasury bills".

Name of Bidder .... (Please print)

By .... (Official signature required), ... (Title)

Street Address ....

.... (City, Town or Village, P.O. No., and State)

If this tender is submitted for the account of a customer, indicate the customer's name on line below:

.... (Name of Customer) .... (City, Town or Village, P.O. No., and State)

Use a separate tender for each customer's bid.

IMPORTANT INSTRUCTIONS:

1. **No tender for less than $1,000 will be considered, and each tender must be for an even multiple of $1,000 (maturity value). A separate tender must be executed for each bid.**

2. **If the person making the tender is a corporation, the tender should be signed by an officer of the corporation authorized to make the tender, and the signing of the tender by an officer of the corporation will be construed as a representation by him that he has been so authorized. If the tender is made by a partnership, it should be signed by a member of the firm, who should sign in the form ".., a copartnership, by ...., a member of the firm".**

3. **Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.**

4. **If the language of this tender is changed in any respect, which, in the opinion of the Secretary of the Treasury, is material, the tender may be disregarded.**

Payment by credit through Treasury Tax and Loan Account will not be permitted.

****Price must be expressed on the basis of 100, with not more than three decimal places. Fractions may not be used.***

at 3548

FEDERAL RESERVE BANK
OF NEW YORK

President's Report to Directors

for 1949

FEDERAL RESERVE BANK OF NEW YORK

President's Report to Directors

for 1949

CONFIDENTIAL

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FEDERAL RESERVE BANK
OF NEW YORK

March 14, 1950.

To the Directors of the
Federal Reserve Bank of New York:

I submit herewith a confidential report on the operations of the Bank during 1949. This report serves to inform you of certain aspects of the work of the Bank which cannot be covered in the annual report to stockholders, and also serves as a part of the permanent records of the Bank.

There was little significant change in the volume of our operations during 1949, compared with the two preceding years. Costs of operation again rose reflecting chiefly increases in salaries. Improved methods and machines were sought and used in various departments of the Bank to combat this trend. These improvements, combined with a further falling off in our fiscal agency work, contributed to some decline in staff, and tended to offset the rising costs of operation.

What we deem to be growing public interest in Federal Reserve policies and operations has stimulated increased attention, within the System, to the whole problem of member bank relations and public information. At this Bank, we have been attacking the problem by expanding and improving, in many small but cumulatively important ways, the services we render to our member banks (thus giving added direct evidence of the value of membership); we have also embarked upon an affirmative program of public information which, as it develops, should result in a wider understanding of the System and its policies, and of the significance of membership.

Yours sincerely,

Allan Sproul

President.

PRESIDENT'S REPORT TO DIRECTORS FOR 1949

THE efforts of the Federal Reserve System, during the postwar period up to 1949, were directed primarily toward combatting inflationary pressures and maintaining an orderly market for United States Government securities. In 1949, however, the character of this problem changed as inflationary pressures abated and deflationary tendencies temporarily assumed greater importance. As evidence of economic readjustment accumulated, the Federal Reserve System first modified and then reversed the earlier policies adopted to meet postwar inflationary problems. The first steps taken in this new phase of System policy included a relaxation of the System's qualitative controls over credit used to purchase goods on the instalment plan and to buy securities. Later, as economic activity continued to recede and the volume of bank credit contracted substantially, the supply and availability of member bank reserves were increased on three successive occasions through reductions in reserve requirements. About $3.8 billion of reserves were returned to member banks between May 1 and September 1, 1949, inclusive.

OPEN MARKET OPERATIONS

Open market operations to influence the supply, availability, and the cost of credit played a critical role in carrying out this major change of Federal Reserve System policy. Operations on an extensive scale throughout the year were necessary to maintain orderly conditions in the market and to execute current rate policies. A large part of the funds freed through reductions in reserve requirements found their way into the Government security market, creating considerable downward pressure on market rates, as banks generally continued a policy of full investment. At different times and under varying circumstances, Treasury obligations were supplied to the market through such operations. The Federal Open Market Committee, after consultation with the Treasury Department, reformulated policy with respect to its operations along lines intended to increase flexibility and to achieve closer coordination with other instruments of Federal Reserve System policy.

Toward this end, the Federal Open Market Committee made the following statement on June 28, 1949:

> The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business and agriculture it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market, and the confidence of investors in Government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased.

This statement was significant as an expression of peacetime credit policy aimed at reaching a more desirable balance between the occasionally conflicting System and Treasury responsibilities in the related areas of debt management and of credit control.

Late in 1949 the economic outlook shifted somewhat. With business activity holding at relatively high levels, a large budget deficit in prospect for the next eighteen months, and a resumption in the growth of bank credit, the policy of monetary ease was modified. Mild restraint was applied on bank reserves through open market operations and rates were permitted to harden within the limitations imposed by the large Treasury refinancing operations scheduled for December 15, 1949 and January 1, 1950.

Sales of United States Treasury bonds

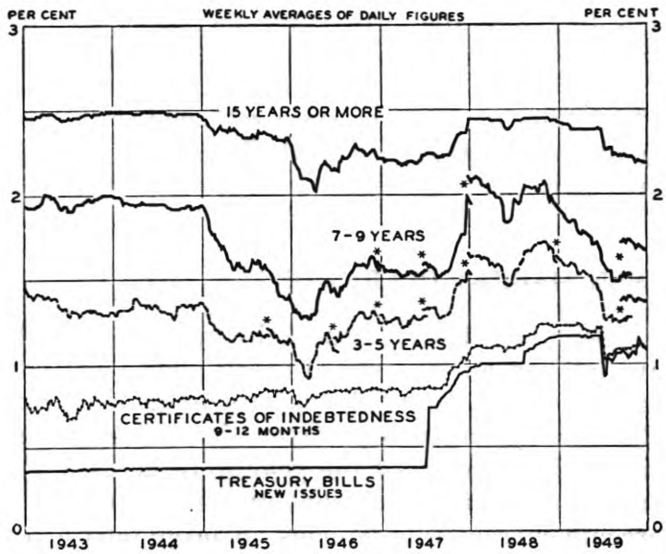
In contrast with 1948, when in all but the closing months the Federal Reserve Bank of New York made large and continuous purchases of Treasury bonds, at the direction of the Federal Open Market Committee, the Bank was an extensive seller of bonds during the first six months of 1949. It withdrew almost entirely from the market when the policy statement quoted above was made, however, since it was not consistent with general credit policy, at that time, to take reserve funds from the market by selling Government securities.

The closing weeks of 1948 were marked by a reversal in Treasury bond market conditions, as selling contracted and demand improved. Prices at that time were entering the first hesitant stages of a rising trend which continued, with only minor interruptions, throughout 1949. The more important factors exerting a downward pressure on rates varied in influence at different times. Basically, however, all stemmed from a changing economic situation and from the market's interpretation of changes, or anticipated changes, in Treasury and Federal Reserve policy. Among the more important market influences were a declining business demand for funds—both short and long term—in the face of a well-sustained supply available for investment, a significant increase in the availability of bank credit resulting from the reduction in members' reserve requirements, and finally a tendency, under current Treasury refunding policies, toward contraction in that portion of the public debt represented by Treasury bonds. These all combined to create, and later to maintain, a well-sustained demand for marketable Treasury bonds. Commercial banks, unable to find sufficient investment outlets elsewhere, turned to the Treasury bond market and made substantial additions to their holdings of these securities in an effort to bolster earnings. Nonbank investors were also sizable and persistent buyers of restricted Treasury bonds. Some offerings of bank-eligible bonds became available in the market from certain classes of nonbank investors, some of whom were switching to Treasury bonds ineligible for bank ownership. Despite offerings of this type and outright sales of various taxable bonds by institutional investors, notably life insurance companies, the market supply fell considerably short of the demand and, as the attendant pressure on rates mounted, the System found it advisable to supply bonds. It was, therefore, an almost continuous seller of these issues over the first six months of the year. As a result of these transactions, total holdings of United States Treasury bonds in the System Open Market Account declined between December 29, 1948 and June 29, 1949 by $3.2 billion. Owing largely to the ready availability of Treasury bonds from the System, changes in yields for these issues were relatively small, with the more important changes occurring in the opening months of the year.

During the second quarter of the year, it became increasingly apparent that these sales, which withdrew funds from the market, were tending to nullify the general credit policy which the System was pursuing. With the reformulation of open market policy on June 28, the System withdrew from the Treasury bond market and, except for modest transactions to maintain orderly conditions, it abstained from further intervention over the balance of the year. The immediate result of this withdrawal was a sharp decline in yields for intermediate and long-term Treasury bonds as the market attempted to adjust to the new policy. Relative stability was soon achieved at the lower rate levels reached toward the middle of July. By this time, the long-term rate had moved down from 2.44 per cent in June to 2.32 per cent, and thereafter rates again tended to move irregularly lower in an orderly way, which required only a nominal amount of System intervention. At the close of the year, long-term 2½ per cent restricted Treasury bonds of December 1967-72 were selling to yield 2.23 per cent as against 2.47 per cent at the close of 1948.

Yields on U. S. Government Securities

Fully taxable issues



* Breaks in lines represent changes in issues included.

Transactions in short-term Government securities

Because of declining opportunities to lend to private business and the determination of most commercial banks to maintain fully invested positions, a large part of the investment demand released through reductions in reserve requirements converged on the market for short-term Treasury obligations. The Federal Reserve Banks met this demand by large net sales and redemptions of Treasury bills and by net sales of certificates of indebtedness and Treasury notes.

In line with the postwar objective of a less rigidly controlled Government security market in which open market operations could be used to adjust more completely the supply of credit to the needs of business, the System continued to strive for greater flexibility in short-term market rates. In the early months of 1949, a greater measure of freedom was permitted in the movement of the Treasury bill rate in relation to the coupon rate on one-year certificates of indebtedness, with the result that the spread between the yields on those two classes of issues narrowed slightly. However, both rates generally held within a narrow range of fluctuation over the first six months of 1949. The open market policy adopted in June opened the way to considerably greater flexibility in operations. With the introduction of this policy, and the expiration at almost the same time of the special statutory authority over reserve requirements (granted in August 1948), the Federal Reserve Banks withdrew entirely from the market for a time, so that the funds released to member banks would have their full effect on the market.

Treasury bill and certificate rates moved rapidly lower, effective yields on Treasury bills declining within several days from 1.16 per cent to 0.90 per cent (with some bills trading as low as 0.78 per cent), and a similar drop occurred in the yields on certificates, which went from 1.23 per cent to slightly under 1.00 per cent. These declines in rates were so sharp and sudden that sales of short-term Treasury obligations were soon resumed by the System to restore order in the market for these issues, and subsequently rates moved up slightly from the low points reached in early July. In view of these developments and the downward economic trend, the interest rate on the one-year certificate of indebtedness issued September 15, 1949 was lowered from the 1¼ per cent rate established a year earlier to 1⅛ per cent. Subsequent Treasury refunding operations were also based on this new level of short-term rates.

The June policy statement, which initially brought about a rate decline, also involved a more basic change in the conduct of open market operations, however. This took the form of a greater flexibility with respect to purchases and sales of short-term Treasury obligations, which were now undertaken within a wider range of rates than had heretofore prevailed; within limits, the level of rates was left more to determination of the market. Under this policy, during the latter half of 1949, effective yields on Treasury bills and certificates of indebtedness varied in accordance with short-run changes in money market conditions. Average rates on new issues of Treasury bills moved between 0.92 and 1.12 per cent, while the yields on the longest maturities of certificates (nine to twelve months) showed a somewhat narrower fluctuation. At the same time, the average rate of discount on three-month Treasury bills approached more closely the market rate on one-year certificates; and generally the spread between yields on these two issues held within a narrower range than had previously existed.

Repurchase agreements

During the year a number of tight money situations developed, adversely affecting the cost and availability of credit to dealers for purchasing or carrying short-term Government obligations. In anticipation of developments of that sort, the Federal Open Market Committee had, in 1948, reinstated the authority (which had not been used here since 1933, and which had been terminated in 1945) of the Reserve Banks to purchase short-term securities from qualified dealers, under an arrangement allowing the dealers to repurchase the securities within 15 days. The 1948 authority contemplated that the discount rate would be applicable to those agreements; by August 1949, however, the squeeze on the dealers had tightened because of the decline in market rates and the issuing rates on new short-term Treasury obligations, unaccompanied by a change in the discount rate. The Committee accordingly permitted the Reserve Banks to make repurchase agreements with non-bank dealers at a rate not less than 1⅜ per cent, the discount rate being 1½ per cent.

Use of this instrument contributed to the general implementation of open market policy during 1949, and was particularly effective during the latter half of the year.

Statistical summary

During 1949, this Bank purchased in the open market for the twelve Federal Reserve Banks, under the direction of the Federal Open Market Committee, Government securities having a total face value of $9.4 billion and sold, or redeemed, securities having a face value of $13.8 billion. Thus, the year's transactions resulted in a decrease of $4.4 billion in System holdings of United States Government securities. The major portion of this decline in System holdings was related to the release of $3.8 billion of reserves to member banks through reductions in reserve requirements during the year.

Total System holdings amounted to $18.9 billion at the end of 1949, compared with $23.3 billion at the end of 1948. The holdings of Treasury bonds declined by $3.7 billion, Treasury notes by $0.2 billion, and Treasury bills by $0.7 billion; certificates of indebtedness increased by $0.2 billion.

This Bank's share in total Government securities held by the System Open Market Account amounted at the year end to $4.5 billion, as compared with $5.6 billion at the end of 1948. The Federal Reserve Bank of New York, during 1949, bought and sold for its own account, under repurchase agreements, a total of $0.3 billion of short-term Treasury obligations.

FISCAL AGENCY OPERATIONS

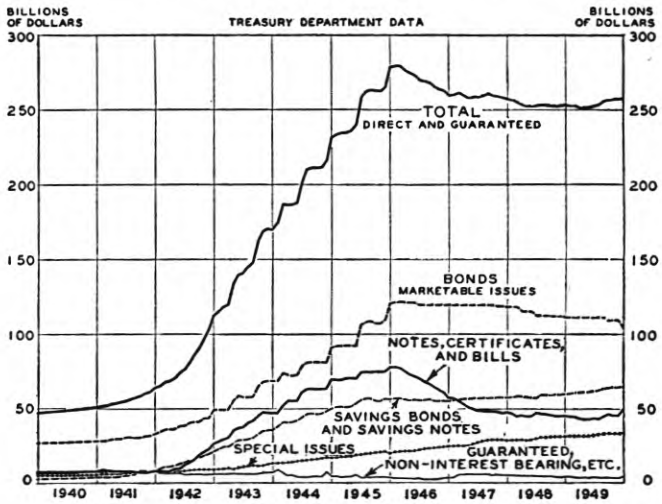
Public debt

For the fourth consecutive year since the conclusion of the war, there were no cash offerings of marketable issues of United States Government securities, with the exception of the weekly offerings of Treasury bills. Nevertheless, as a result of sales of non-marketable securities and special issues, there was a net increase of $4.3 billion in the gross public debt in 1949, compared with decreases of $2.5 billion in 1947 and $4.1 billion in 1948.

There was a net decrease of $2.4 billion in the amount of marketable issues outstanding, reflecting the redemption of the unexchanged portions of issues which matured or were called for payment during the year. No marketable issues, except Treasury bills, were redeemed for cash in their entirety by the Treasury. Only certificates of indebtedness were issued in exchange for matured or called issues until December 1949, when a 4¼ year Treasury note was offered in exchange for three bond issues and one certificate of indebtedness issue. On balance, the refunding operations and cash redemptions during the year resulted in a reduction of $6.7 billion in bonds and increases of $3.1 billion in certificates of indebtedness and $1.1 billion in notes outstanding. In 1949, eight issues of certificates of indebtedness totaling $26.5 billion, one note issue amounting to $3.5 billion, and five issues of bonds totaling $6.7 billion matured or were called; in 1948 there were 17 issues totaling $35.5 billion which matured or were called.

The chief factor in expansion of non-marketable issues was an increase in Treasury Savings Notes outstanding of $3 billion (par value) during the year. The redemption value (which includes interest accruals) of savings bonds outstanding increased $1.6 billion during the year; there was an increase of $2.4 billion in Series E, F and G bonds, while $0.8 billion of Series D savings bonds matured during the year. Finally, there was an increase of $2.2 billion in special issues of Treasury securities held by Government corporations and trust funds.

Gross Debt of the United States Government



Transactions in Government securities

The physical volume of transactions handled by the Bank, as fiscal agent of the United States, during 1949 in connection with the issue, exchange, transfer and redemption of marketable securities decreased slightly from the postwar high reached last year. During 1949, such transactions involved the receipt or delivery of approximately 2.7 million pieces, compared with approximately 3.0 million the previous year. The aggregate par value of such securities amounted to approximately $221 billion in 1949 compared with approximately $264 billion in 1948. The decrease is attributable primarily to market conditions prevailing in the respective years.

On the other hand, as can be seen from the table below, the total volume of work at this Bank in connection with non-marketable securities, as measured by pieces handled, was approximately the same as in the previous year. While there was an "Opportunity Drive" to sell savings bonds in the second quarter of 1949, the campaign was not as intense as that of the "Security Loan Drive" in 1948. There was, however, a substantial increase in the sale of Treasury Savings Notes. The yields on these notes had been revised upward in August 1948 and, with the decline in yields on comparable marketable issues which took place in 1949, the Treasury Savings Notes became relatively attractive.

Pieces handled

	1948	1949
U. S. Savings Bonds:		
Issued	9,230,730	10,408,842
Redeemed	12,506,728	11,605,993
Reissues and corrections	859,646	892,545
Armed Forces Leave Bonds:		
Issues and redemptions	297,954	89,763
Savings Notes:		
Issued, redeemed and reissued	95,756	80,925
	22,990,814	23,078,068

Dollar volume handled
(Par or maturity value)

	1948	1949
U. S. Savings Bonds:		
Issued	$1,466,621,440	$1,200,644,210
Redeemed	866,213,410	805,899,480
Reissues and corrections	173,139,610	212,283,910
Armed Forces Leave Bonds:		
Issues and redemptions	63,966,075	19,317,200
Savings Notes:		
Issued, redeemed and reissued	2,250,945,700	3,907,458,625
	$4,820,886,235	$6,145,603,425

In 1948 a pneumatic tube system was installed for the dispatch of telegrams between the Wire Transfer Division and the Safekeeping and Government Bond Departments, because of the very large volume of telegrams received and dispatched in connection with the wire transfer of securities. This installation proved so successful that it was decided to install a similar but larger tube system for dispatching securities between our Safekeeping Department and the Security Custody Department. We began to use this new system on November 7, 1949, and it resulted immediately in increased efficiency and a more rapid and even flow of securities between the two departments. On an average day, about 450 transactions are dispatched by this means.

Safekeeping of savings bonds

During the year the Bank streamlined the procedures for handling savings bonds held in safekeeping for the public. The Treasury Department circulars regarding savings bonds have always provided that if the owner of a savings bond so desires it will be held in safekeeping without charge by the Federal Reserve Banks as fiscal agent of the United States. When savings bonds were first issued, the number of requests to hold the bonds in safekeeping was not great and we handled these bonds in the same way that we handled securities held in safekeeping for account of member banks. This involved the issuance of safekeeping receipts and the maintenance of records by the Safekeeping Department; actual custody of the bonds was in the Security Custody Department, which has jurisdiction over the vault. Accounts were maintained in accordance with the inscription on the bonds and separate receipts were issued for each bond, except that two or more bonds issued as of the same date were covered by one receipt.

With the great increase in savings bonds our safekeeping business increased proportionately, and we found that our unit cost of handling these bonds was quite high. Accordingly, a new system was developed. The safekeeping operation is now handled entirely by the Savings Bond Department. Passbooks and account cards similar to those used by savings banks have been prepared, and deposits and withdrawals of bonds are recorded on the passbook and account card by machine in the same way that savings bank deposits and withdrawals are posted. The bonds themselves are kept in filing cabinets in a former book vault and are filed by account number. The transition from the old system to the new system involved a great deal of work because we endeavored to communicate with all persons having bonds in safekeeping to arrange for delivery of the passbooks to them. At the close of the year there were still more than two thousand persons who had deposited bonds with us, and whom we were not able to reach. At that time we had 32,858 accounts, in which 560,994 bonds were held.

The bonds are now filed in such a way that we can readily ascertain the bonds that are maturing within a particular period, and we are now rendering the depositors an additional service by advising them of the maturity of their bonds. Salary costs under the old system were about 70¢ per bond handled; under the new system such costs are now about 20¢.

Reconstruction Finance Corporation

The character of the work performed by this Bank, as fiscal agent of the Reconstruction Finance Corporation, continued practically unchanged. Although there has been some increase in the Corporation's lending activities, especially during the latter part of the year, the increase in the volume of work, in so far as the Bank is concerned, has not been large enough to offset the gradual decrease in the volume of work in connection with the liquidation of wartime commitments and other non-lending activities of the Corporation. As a result, the personnel assigned to the R.F.C. Custody Department decreased further during the year from 34 to 22.

Disbursements and collections made for the account of the Corporation during 1949 were $116 million and $294 million, respectively, compared with $161 million and $253 million, respectively, during the previous year.

Payment of Treasury coupons

The Treasury Department has until recently required us to sort by issue and denomination, before shipment to the Treasury, the coupons from United States Government securities on which we had made payment. Member banks were, therefore, requested to sort the coupons accordingly before presenting them to us. The Treasury Department revised this procedure, effective November 1, 1949, so as to require that coupons be grouped only by denomination and certain interest due dates. As a result, member and nonmember clearing banks were able, when sending Government coupons to us for payment, to make 30 per cent fewer sorts of coupons maturing December 15 than in the previous comparable period.

Deposit of Federal taxes

Up to January 31, 1950, income taxes withheld from wages had been deposited by employers with qualified local banks, and the deposits were either credited by the banks to their War Loan Deposit accounts or remitted regularly to the Federal Reserve Banks for account of the Treasurer of the United States. During the latter part of 1949 the Treasury revised its system for the collection of income taxes withheld by employers from wages and included, in the revised system, the collection of social security taxes. Under the new system, which became applicable to wages paid on or after January 1, 1950, both types of tax (known as "Federal taxes") may be deposited with qualified local banks or Federal Reserve Banks and, in either case, the deposits may be carried as deposit credits on the books of local banks in their Treasury Tax and Loan accounts (formerly War Loan Deposit accounts).

The scope and volume of the work of this Bank, as fiscal agent of the United States under this revised system, are expected to increase.

Foreign Funds Control

On May 31, 1949, this Bank ceased its fiscal agency function for the Office of Alien Property of the Department of Justice in the administration of foreign funds control.

SAFEKEEPING OF SECURITIES

During the year, we introduced two types of safekeeping service which have proved of considerable benefit to our member banks in the State of New Jersey.

The New Jersey Banking Act of 1948 provides that securities pledged with the Superior Court, for the purpose of qualifying banks to do a fiduciary business in New Jersey, may be deposited with the Federal Reserve Banks. Theretofore, such securities were required to be lodged with the Register of the Prerogative Court located at Trenton, N. J., and our New Jersey member banks incurred considerable shipping expense in sending securities to, or receiving them from, Trenton. Considering it a worthwhile service, our officers, in November 1948, decided that we should accept Government securities for safekeeping from our member banks located in New Jersey. As of the close of business December 31, 1949, we had 59 of these accounts and held Government securities with a par value of $7,837,000.

A second safekeeping service was inaugurated in December 1949, to aid our member banks in New Jersey in the handling of their pledged accounts. Authority is given to the State Treasurer of New Jersey to leave in safekeeping with either the Federal Reserve Bank of New York or of Philadelphia those securities pledged with him as security for State funds. Consequently, in December 1949, this Bank began accepting United States Government securities in bearer form deposited with the State Treasurer by any of our member banks located in the State of New Jersey.

By the close of business December 31, 17 accounts had been opened, with a par value of $4,205,000 of Government securities.

A further service which we have offered to our member banks for several years is the acceptance for safekeeping of securities which are pledged by the banks as security for funds of bankrupt estates held by our member banks under the jurisdiction of the various District Courts of the United States. Our authority for handling these accounts is provided for in Section 61 of the Bankruptcy Act (Chandler Act). Previously these deposits were secured by surety bonds, the cost of which was quite expensive to our member banks. We had 126 of these accounts, with Government securities having a par value of $60,826,500, at the end of the year.

Our member banks prefer to concentrate the safekeeping of their portfolios with this Bank, and the extension of these services is of considerable financial value to them. It is also good bank relations.

BANK SUPERVISION AND BANK RELATIONS

System membership of State banks

On January 1, 1949 there were 251 State member banks in this District. During the year, three State banks were admitted to membership in the Federal Reserve System, seven were taken over by other institutions, and three withdrew from membership. Of the total number of State banks in the District at the end of the year (exclusive of savings banks, private bankers, and industrial banks), there were 244 members and 116 nonmembers. There were no applications for membership pending on December 31, 1949. Most eligible nonmember banks based their objections to membership specifically on the financial cost involved. They estimated that, as members, they would reduce their earnings approximately $1,000 per annum per $1,000,000 of deposits, chiefly by the exclusion as reserves of both vault cash and balances maintained with correspondent banks.

The three withdrawals from membership were for other reasons, however. These banks desired to operate out-of-town branches with less than the minimum capital required of member banks. They had sufficient capital stock, however, to meet the minimum capital requirements of New York State and, therefore, withdrew from the System in order to open out-of-town branches. Two of the banks stated they withdrew reluctantly from the Federal Reserve System and assured us they would return to membership as soon as the Federal law was amended to bring minimum capital requirements for establishment of out-of-town branches more nearly in line with State law. Except for the Federal requirement, each of these banks, in our opinion, had adequate capital in relation to aggregate deposit liabilities and other corporate responsibilities to merit our approval of out-of-town branches.

In two other cases, member banks contemplating mergers and the establishment of out-of-town branches will be unable to meet present capital requirements under Federal law; if these mergers take place we may therefore expect further withdrawals from membership unless there is an intervening change in the law, easing those requirements.

We have long felt that the capital requirements of the Federal law for establishment of out-of-town branches are unnecessarily high and should be reduced to more reasonable and realistic proportions. With System approval, bills have been introduced in Congress to effect such a reduction on several occasions during the past few years, but they have not been acted upon. We have brought these developments in this District to the attention of the Board of Governors to reemphasize the need for such legislation.

Classification of uninvested trust funds

In December, the Board of Governors issued a ruling which represented the successful culmination of more than a year's effort on the part of the Bank's counsel and Trust Examiner. The ruling confirms the practice of several of the larger member banks in New York State under which uninvested trust funds, consisting of the commingled funds of various trust estates, are deposited by the trust departments of the banks in their own banking departments as time deposits for purposes of the Board's Regulation D, relating to reserves of member banks, and Regulation Q, relating to the payment of interest on deposits.

The practice had been established many years ago with this Bank's approval. As a result of some publicity given to the adoption of the practice by one of the New York banks in the spring of 1948, and numerous inquiries from banks in various sections of the country, the Board made a preliminary review of the legal aspects of the practice. Upon submission of the matter by the Board to the Federal Reserve Banks for their views, a majority of them disapproved of the practice. The Board thereupon submitted to the Federal Reserve Banks a proposed amendment to its Regulation D, the effect of which would have been to eliminate the practice. After further efforts by this Bank's counsel and Trust Examiner, including the presentation of argument before a member of the Board and nine members of its staff in August 1949, the Board issued a ruling which authorizes the deposit of trust department funds as time deposits in the commercial department of a bank without identification of the amount of the funds of each trust included in such deposits, when the practice is not inconsistent with the terms of any applicable law or court order.

The ruling is important to the member banks doing a trust business, particularly to those with a substantial volume, since, to the extent that the classification of deposits of uninvested trust funds as time deposits enables the banks to carry lower reserves, earning assets are increased, and the trust departments of many institutions are able to show an operating profit when they otherwise might show a loss.

Bank relations activities

A number of new practices were developed in the Bank Relations Department during 1949 to improve our relationships with member banks. Among the major innovations were:

1. *Group meetings.* Beginning in April we held small group meetings with member bankers approximately twice a month. The meetings were arranged through the various county bankers organizations, with each limited to 12 or 15 bankers, no more than one from a bank. Those who wished to see our operations were conducted on a morning tour of the Bank by the staff member who regularly visits them. Luncheon was then served to the group in the Bank. An officer of the Cash and Collections function, an officer from the Loans and Credits or Government Bond and Safekeeping function, and generally one other officer of the Bank, were invited to this luncheon. The luncheon was followed by a discussion of current economic conditions under the leadership of a senior economist of our Research Department, and, following this discussion, Mr. Clarke, Assistant Counsel, spoke about some of the legal aspects of the deferred posting technique, which was then a matter of current interest. In the fall, we substituted a talk on Federal Reserve services by Mr. Rounds for the latter part of the program. During the year, bankers from 112 banks in 11 counties attended these meetings. All expressed enthusiasm for the program.

2. *Salary survey.* During the first half of the year, our Bank Relations representatives distributed salary questionnaires, devised by the Bank Relations Department in cooperation with the Research Department, to the member banks outside of New York and the larger industrial cities. About 74 per cent of those banks returned completed questionnaires, the percentage of return being higher for the smaller banks. Our Research Department collated the returns by size of institution responding. The summary of this material was mailed in October to a senior officer of each member bank in the District, whether his bank had participated or not, thus enabling the bank to compare the salaries it pays with those paid by banks of similar size. This survey was perhaps more comprehensive than any similar survey made in recent years and member bankers generally have been pleased with this undertaking on our part.

3. *Check operations survey.* For many years our Check Department has sent a member of its staff to visit those banks indicating a desire to forward checks to us for collection. These visits are especially useful in explaining our check sorting requirements, which are based on the volume of checks sent to us. This service gradually broadened in scope, as the Check Department representative, John J. Knox, was able in many banks to make suggestions not only with respect to sorting, but to improving the bank's check operations generally. Early in the spring, we began offering the services of this representative to member banks whether they wished to send checks to us or not, telling them that we had a man thoroughly experienced in check operations of country banks, whose services we would gladly make available for the

purpose of offering some helpful suggestions. We were able to be helpful to most of the banks visited, and early in the fall we began to offer his services more widely. After each visit, he rendered a report to the bank visited, summarizing his suggestions. At the year end, this program was accelerated and our representative was visiting three to five banks a week.

Out of this experience grew a proposal, which the Board of Directors approved last fall, to engage the services of a top-flight management consultant to assist us in establishing, if possible, basic check operation standards and procedures for banks of varied size. We have since discussed the project with committees of both the New York and New Jersey State bankers associations, have engaged a consultant, and are about to get under way with our preliminary field work.

4. *Credit file installations.* Early in the fall we intensified our efforts to install the model Farm Credit File in member banks. The file consists of a special folder containing forms for credit statements, live stock appraisals, machinery and equipment inventories, and similar purposes. We found that there was a real need for this file as well as for credit files in connection with other types of loans. In the past few months, Mr. Johnston of our Credit Department has made Farm Credit File installations in eight banks, spending approximately a week at each. Numerous other banks requested this service after the first of the year. In the meantime, we have been following closely the efforts of the New York State Bankers Association to develop a simplified commercial file comparable with the Farm Credit File and have indicated our willingness to furnish the file and its inserts at cost.

5. *Distribution of National Summary of Business Conditions.* About mid-year, we began offering to member banks the "National Summary of Business Conditions" prepared by the Board of Governors, a reprint of which is included each month in our Monthly Review. We felt that this concise summary would be of interest to many businessmen and, therefore, suggested to our member banks that they might distribute reprints of it to a selected number of their customers. Our initial mailing of the reprint was made in September, when we sent approximately 2,500 copies to 39 banks. By the beginning of 1950 we were sending about 15,000 reprints to more than 300 banks, and we expect further increases.

6. *New visiting techniques.* During the course of the year, we developed a number of new techniques in connection with our periodic visits to all banks in the District. Among these are:

(a) Display of counterfeit notes: Each of our representatives carried with him samples of counterfeit notes furnished by the United States Secret Service. These counterfeits were samples of those most prevalent in our District during the year. We made it a point to display them to the tellers in all of the banks visited, and upon request, we also displayed them to Chambers of Commerce and merchant groups at meetings sponsored by member banks.

(b) Display of pictures: During the last half of the year, each of our representatives carried with him a portfolio of photographs of our check operations. These pictures illustrate the manner in which the commercial banks' operations tie in with ours and show the use to which we and other collecting banks put the Check Routing Symbol. These pictures created considerable interest and enabled our representatives to make the acquaintance of the operating people in the check departments of the banks visited. In 1950, we expect to display similar pictures of our cash operations.

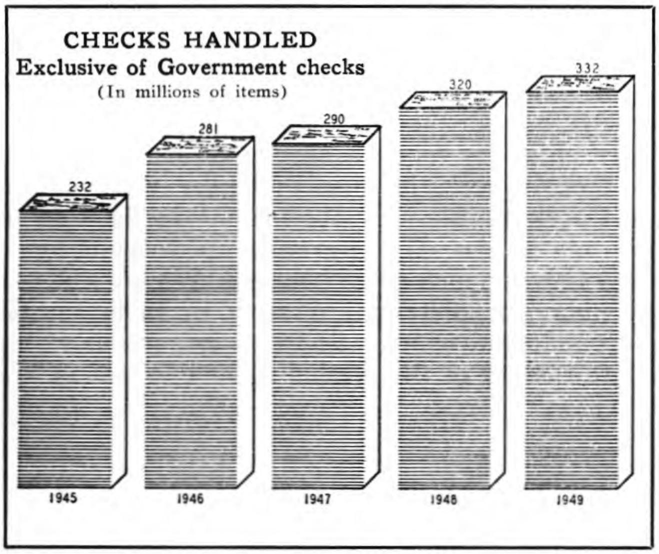
(c) Instruction in the use of the Check Routing Symbol: In the latter months of the year, our representatives made a special effort to instruct the transit clerks of member banks in the use of the Check Routing Symbol. Some banks told us that use of the symbol speeds up the sorting of checks by as much as 25 per cent. We are now developing, for distribution early in 1950, sample chart material which will be an important visual aid to the use of the symbol in smaller banks.

PUBLIC INFORMATION ACTIVITIES

Following study during 1949 by the directors and officers of the need for expanding our work in the field of public information, the Bank established in the Secretary's Office the post of Director of Public Information as of January 1, 1950, and engaged for that job Thomas O. Waage, formerly associate financial editor of The Journal of Commerce.

CHECK COLLECTION

The volume of checks collected by this Bank has been increasing from year to year. In 1949 we handled approximately 332 million checks, compared with slightly more than 320 million in 1948 and 290 million in 1947. Despite this continued expansion in volume, we have made marked progress in providing improved services to our member banks and in effecting operating economies. In the 1946 report, it was stated that the use of I. B. M. punch-card and tabulating equipment in the preparation of cash letters had not worked to the satisfaction of either this Bank or the member banks and, therefore, that its use was being discontinued. The conversion of equipment used in processing checks, and the accompanying revision of the procedures, advanced steadily throughout 1948 and was completed in May 1949. The completion of our conversion program and the transfer of practically all check handling operations to one floor have increased the efficiency of the Check Department staff and made it possible to reduce the number of employees assigned to that department from 928 at the end of 1948 to 734 at the end of 1949. The cash letters now prepared by the Check Department meet the desires of our member banks.



Air transportation

Because of the consistent performance of air transportation in making faster collection of checks possible, we revised our Head Office time schedule on July 1, 1949 to provide earlier availability of credit for cash items payable in thirteen Federal Reserve Bank and Branch cities. As a consequence, the maximum period of deferment of credit for checks drawn on banks in other Federal Reserve Bank and Branch cities is now two days.

Our use of air transportation facilities in the collection of checks has increased proportionately with the greater volume of check collections. Consolidated shipments, consisting of our own cash letters and those of 34 direct-sending banks, reached a new peak on November 15, 1949, when 3,637 pounds, or approximately 1,200,000 checks, were shipped by air.

The special shipping container (commonly referred to as a "crash bag"), developed in 1946 and since used by this Bank and other Reserve Banks to protect checks in air transit against the impact of a plane crash and any resultant fire, was subjected to a severe test when an American Airlines plane crashed and burned at Dallas, Texas, November 29, 1949. This plane carried two such bags, one containing 6,232 checks dispatched by this Bank to the Federal Reserve Bank of Dallas, and another containing 1,012 checks enroute to the El Paso Branch of the Federal Reserve Bank of Dallas. The larger Dallas shipment sustained the greater damage, and it was returned to us at our request. Examination showed that thirteen of the twenty-three packages of checks (including the rubber bands securing them) making up this shipment had been damaged only slightly and that about 3,800 or 61 per cent of the items were legible. The bag addressed to the El Paso Branch was reforwarded from Dallas and that Branch found the condition of all but 39 checks to be such that they could be processed in the usual manner.

Change in sorting requirements

We revised our check sorting requirements on September 1, 1949 to permit any member or nonmember clearing bank which deposits with us a daily average of not more than 250 cash items to forward the items unsorted in one cash letter for credit on the day after receipt. Prior to that time these small deposits required at least one sort. By the end of the year, 10 banks in the Head Office territory had applied for and received permission to deposit their cash items with us unsorted.

County clearing arrangements

County clearing arrangements, which enable participating member banks to mail checks direct to each other for settlement on our books the next business day, were further expanded during 1949. Two new county clearing arrangements were formed during the year and two were substantially enlarged. As of December 31, 1949, there were 275 participant banks in 18 arrangements covering 25 counties.

Check Routing Symbol program

The Check Routing Symbol program sponsored by the American Bankers Association and the Federal Reserve Banks continued to make progress during the past year. A nation-wide survey in December of checks in circulation throughout the country, drawn on par remitting banks, revealed that 67 per cent of such checks bore the symbol in the approved location—the upper right hand or "northeast" corner. This was an increase of 9 per cent for the year. The Second Federal Reserve District again held the lead with 80 per cent, although all districts advanced over the year with the exception of the Ninth Federal Reserve District (Minneapolis), which fell back 1 per cent. As an aid to the promotion of the program in the several Federal Reserve districts, an "Outline of Suggested Procedures for Promoting Check Routing Symbol Plan" was prepared under the auspices of the System's Committee on Collections and made available to the President of each Reserve Bank. The program was further advanced by the dispatch of a letter from the American Bankers Association over the signature of its president to all of its members, asserting the wholehearted support of that Association in the program and urging the full cooperation of banks in bringing it to completion. Early in 1950, the last serious opposition to the program collapsed, when one of the country's largest suppliers of checks (which had previously resisted placing the symbol in the approved position on the checks it supplied) agreed to conform to the program.

Deferred posting legislation

In 1948 it was reported that in the fall of that year a Special Committee of Counsel, appointed by the Committee on Operations of the Presidents Conference, of which Mr. Logan, Vice President and General Counsel of the Bank, was chairman, participated with counsel for the American Bankers Association in the preparation of a model deferred posting statute which was accepted by the Board of Governors and which the American Bankers Association then transmitted to the State bankers association in each State with the request that it be submitted to the State legislature. This statute was enacted without change by the New Jersey and Connecticut legislatures and was also enacted, with minor changes in some cases, by 32 other State legislatures holding sessions in 1949. The Legislative Committee of the New York State Bankers Association took no action prior to the 1949 session of the New York legislature. During 1949, counsel for this Bank had considerable correspondence and a number of discussions with members of the Legislative Committee and interested bankers and bank lawyers. A group of bank lawyers and bank operating officers prepared a draft of a deferred posting statute consistent with the objectives of the A.B.A. model statute but covering additional matter not included in the model statute. Counsel for this Bank also participated in a number of discussions relating to this draft and made suggestions regarding it. This draft, in the form which our counsel considers satisfactory, was approved by the Legislative Committee. The bill has been passed by both houses of the 1950 State legislature, and is now awaiting action by the governor.

CASH OPERATIONS

Counterfeits

The increase in counterfeits noted during the year 1948 continued during 1949. Whereas the 1948 influx consisted largely of counterfeit notes in the $10 and $20 denominations of the Federal Reserve Bank of Chicago, the past year has seen a wide circulation of counterfeit Federal Reserve Bank of New York notes in the same two denominations. During 1949, 2,750 counterfeits in the amount of $39,005 were detected by our currency counters. Both in number and amount this represented more than double the totals discovered in our work during 1948. We sent a letter to all banks in this District in September, with the approval of the United States Secret Service, giving a complete description of the two counterfeit notes of this Bank, and took other measures (described elsewhere in this report) to bring these notes to the attention of the banks. During the latter part of the year there was a marked decline in the number of counterfeits appearing in the deposits we received.

Armored car service

Our program for transporting currency and coin by armored car at our expense to and from suburban member banks and branches has been in operation two years. The banks, without exception, have been pleased with this service primarily because it has eliminated the risk to their employees in transporting money shipments to and from an express office or post office, and also because in most cases it has eliminated the loss of reserve account credit for the additional day or days such shipments were formerly in transit through post office or express channels. We are now operating 9 different routes which serve 317 banking offices of member banks located within a radius of approximately 25 miles, an increase of one route and 37 banks over a year ago. The cost of this service to us is approximately $115,000 less per year than it would have been if we had continued to absorb the expense of shipping currency and coin to and from these same banks by mail or express.

Special coin and currency arrangements

During the past year several arrangements have been instituted which have reduced our expense in handling coin and currency shipments to and from us and facilitated to some extent the flow of money between us and our member banks. One such arrangement developed as an outgrowth of the extension of our armored car service to banks in Newark, New Jersey. By agreement with several Newark banks, the sizable amount of surplus coin that we would regularly receive from the Fidelity Union Trust Company of Newark is paid out directly to the other banks in that city. The Syracuse Trust Company, Syracuse, New York, also consistently accumulates an excess supply of coin. We therefore inaugurated an arrangement in March whereby The Syracuse Trust Company makes direct shipments of coin to other banks in the district on our order. A similar arrangement was put into effect in June with the State Bank of Albany, Albany, New York. In July, a currency interchange arrangement was developed with banks in Binghamton, Johnson City, and Endicott, whereby the currency requirements of the smaller banks are supplied by the larger banks in those communities through armored car facilities at our expense. All of these arrangements have been well received by the banks affected and have resulted in an estimated annual saving to us of approximately $18,000.

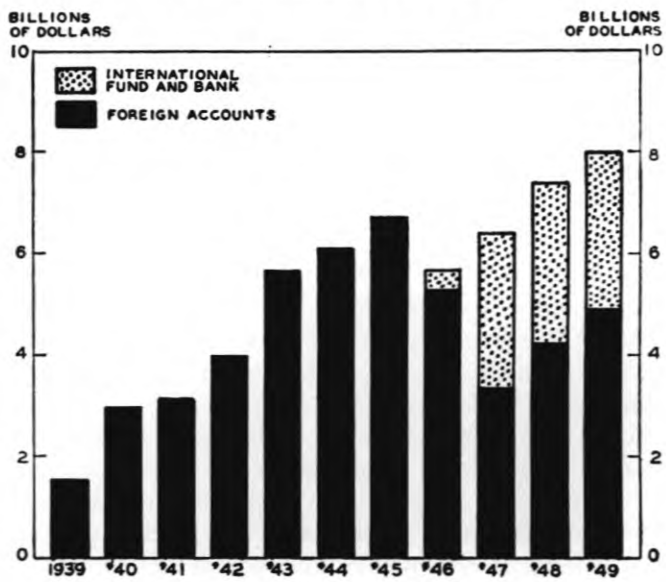
FOREIGN OPERATIONS

Assets held for foreign and international account

During 1949 the total of earmarked gold, deposits, United States Government securities, and other assets held at the Federal Reserve Bank of New York for both foreign and international account (International Bank and International Monetary Fund) rose to over $8 billion, or close to the previous peak reached in February 1947. Although gold and dollar assets held here for the International Bank and Fund declined $81 million net to $3,073 million, assets held for foreign account increased by $702 million net to $4,956 million, continuing the upward trend which has been in evidence since the latter part of 1947, as may be seen in the accompanying chart.

As the table below indicates, the net increase in foreign assets, while distributed among all types, was largely in the form of earmarked gold. The accounts showing the greatest net increases in total assets were those of the central banks of the United Kingdom, Italy, Belgium, Argentina, and Switzerland. Few foreign accounts showed any reduction in assets, the greatest reductions being in those of Portugal, Poland, Yugoslavia, China, and France.

Total Gold and Dollar Assets Held at the Federal Reserve Bank of New York for Foreign Accounts and for International Fund and Bank



Total Assets Held at Federal Reserve Bank of New York for Foreign and Certain International Accounts

(In millions)

	End of 1948	End of 1949	Net Change in 1949
Foreign Accounts			
Earmarked gold	$2,969(a)	$3,451(b)	+$482
Deposits	642	766	+ 124
United States Government securities	593	669	+ 76
Miscellaneous securities, commercial paper, and bankers' acceptances	50	70	+ 20
Total—Foreign Accounts	$4,254	$4,956	+$702
International Accounts (International Fund and Bank)			
Earmarked gold	$ 809	$ 822	+$ 13
Deposits	296	317	+ 21
United States Government securities	1,604(c)	1,454(c)	— 150
Miscellaneous securities	445(d)	480(d)	+ 35
Total—International Accounts	$3,154	$3,073	—$ 81
GRAND TOTAL	$7,408	$8,029	+$621

(a) Includes $8,020,000 held as collateral to loans made by domestic commercial banks to Bolivia and Nicaragua and $197,074,000 held as collateral to foreign loans on gold made by Federal Reserve Banks.

(b) Includes $38,169,000 held as collateral to loans made by domestic commercial banks to Bolivia, France and Nicaragua and $75,477,000 held as collateral to foreign loans on gold made by Federal Reserve Banks.

(c) Includes non-interest-bearing non-negotiable demand notes as follows:

1948—$1,176,000,000
1949—$1,008,000,000

(d) Does not include bonds having face value of 17,000,000 Swiss francs and 45,355,000 Belgian francs.

Change in status of foreign accounts

In March 1949, this Bank, as principal, and as agent for the other Federal Reserve Banks, opened an account for the newly organized Central Bank of the Philippines. A regular account was also opened for the National Bank of Egypt on January 11, 1950, and for Caisse Centrale de la France d'Outre-Mer on January 18, 1950. This Bank, as fiscal agent of the United States, had maintained an account for Caisse Centrale since July 1944; when its regular account was opened, the fiscal agency account was closed. As to international accounts, a fiscal agency account was opened in March 1949 for the World Health Organization, an agency of the United Nations.

The wartime account of the Government of Yugoslavia was formally closed in November 1949. We continue, however, to maintain an account for Yugoslavia's central bank. There has been no change in the dormant status of the accounts on our books for the central banks of Hungary, Bulgaria, and Rumania.

During 1949 counsel collaborated with the Foreign Department in conducting extended negotiations with the State Department for the certification, pursuant to section 25(b) of the Federal Reserve Act, of the authority of officials of the Central Bank of China to operate its accounts on the books of this Bank; these negotiations resulted in the issuance of a certification in December. The matter was somewhat complicated by the transfer of the head office of the Central Bank of China, first from Shanghai to Canton, and then to Chungking. Immediately following the issuance of the certification, negotiations were opened with the State Department to obtain a further certification of the account by reason of the removal of the head office of the Central Bank of China to Taipeh, Formosa, and the cancellation of the authority of former signing officers and the appointment of new ones.

Contemporaneously with the transfer of sovereignty over Indonesia from the Kingdom of the Netherlands to the Republic of the United States of Indonesia in December 1949, the power of attorney (granted in 1942) in favor of the Netherland's Ambassador to the United States to operate the account on the books of this Bank in the name of De Javasche Bank was revoked. This compelled us to request the Secretary of State to certify, pursuant to section 25(b) of the Federal Reserve Act, the authority of officials of De Javasche Bank to operate its account on the books of this Bank. Th requisite documentation and certification from the Secretary of State are expected shortly; the officials of De Javasche Bank will then be able to operate the account directly.

Loans on gold

During 1949 there was a decline in the demand for loans on gold by foreign central banks. The total of such loans outstanding, which had risen to a record high of $259.7 million in August 1948, had receded by the end of 1949 to $69.5 million. In all, 57 advances (including renewals) were made in 1949 and interest earned on these loans amounted to $1.7 million, as compared with $2.5 million in 1948 and $620 thousand in 1947.

At the close of 1948 loans aggregating $190.1 million were outstanding to the central banks of Poland, France, the Netherlands, Yugoslavia, and Brazil. The loan to Poland, in accordance with the program of repayment calling for gradual liquidation, was reduced from $14.1 million to $2.5 million during the year and to $500 thousand by the end of January 1950; the remaining $500 thousand was paid in February. Similarly the loan to France, which reached a maximum of $100 million in February 1948, now amounts to $30 million and, under the present plan, final liquidation is scheduled for August 1950. Liquidation of our loan to France has been aided, in considerable measure, by funds advanced to the French government under a $75 million loan agreement concluded last year with a group of New York commercial banks; advances under this agreement are secured by gold held at this Bank for the New York banks. The loan to the Netherlands, amounting to $10 million, was repaid in full during the first week of January 1949. The loan to Brazil, the proceeds of which had been used to repay that country's obligation under the United States-Brazil Stabilization Agreement, was liquidated in June in accordance with the original fixed schedule of repayments. The loan to Yugoslavia was also repaid in full.

During the year we made five separate loans aggregating $13.6 million to Ecuador's central bank; three of these loans in the amount of $8.5 million were still outstanding at the year-end. Loans up to $40 million were also authorized for Turkey's central bank; up to the year-end $35 million had been advanced under this arrangement, of which $13.5 million was outstanding.

In May 1949 the arrangement originally made with the Bank for International Settlements in November 1948 for advances up to $5 million was extended for another six months to November 1949; at that time it expired without having been used. During the year somewhat similar agreements were also in effect with the central banks of Costa Rica and the Netherlands East Indies, but these arrangements also expired without having been used. In November we agreed in principle to make $15 million available under generally similar conditions to Australia's central bank, but were subsequently informed that the bank did not expect to have need for these facilities in the immediate future and no drawings have so far been made. Shortly before the end of the year we made a new arrangement with Costa Rica's central bank to lend approximately $2 million for seasonal requirements; however, no part of this facility has as yet been used.

Our policy with respect to loans on gold remains unchanged, i.e., short-term loans to foreign central banks to take care of temporary (usually seasonal) dollar deficiencies. Because it did not fall into this category, we declined to make a loan of $7 million requested by the Central Bank of China in May 1949.

The following schedule summarizes our experience with respect to all loans against gold which were outstanding at any time during 1949:

(Amounts in millions of dollars)

Central Bank of	Date of first advance	Outstanding end of 1948	Maximum outstanding 1949	Outstanding end of 1949	Date of final repayment
Poland	April 1947	14.1	14.1	2.5	—
France	Dec. 1947	100.0	100.0	45.0	—
Netherlands	April 1948	10.0	10.0	—	Jan. 1949
Brazil	June 1948	60.0	60.0	—	June 1949
Yugoslavia	Aug. 1948	6.0	6.0	—	Feb. 1949
Ecuador	March 1949*	—	8.5	8.5 (3 advances)	—
Turkey	June 1949	—	18.5	13.5	—
		190.1		69.5	

* Date of first of five separate advances

Gold movements

The net purchases of foreign-owned gold by the United States during 1949 amounted to less than $200 million, as compared with about $1.5 billion in 1948 and $2.8 billion in 1947. The net gain during 1949 reflected purchases by the Treasury of $728 million of foreign-owned gold, offset in part by sales of $541 million of gold by the Treasury to foreign central banks. The largest foreign sellers of gold were the United Kingdom and South Africa, while purchases were primarily for account of Italy, Switzerland, Argentina, Venezuela, Belgium, and Thailand.

The total volume of all gold transactions handled during the year continued the decline which began after attaining the record peak of 1947; it continued, however, to be sizable, notably in the case of the purchases of foreign-owned gold.

In addition to the gold transactions effected during 1949, we also handled many details in connection with the coinage and shipment of silver and nickel coins, which were manufactured at United States mints for Venezuela and China. A total of 32.5 million pieces was consigned in four shipments to Caracas from San Francisco, and 30 million pieces were consigned in eight shipments to Hong Kong from Los Angeles, San Francisco, and Philadelphia.

Visits to foreign central banks

In the summer of 1949, Mr. Knoke, Vice President in charge of the Foreign function, visited the central banks of Austria, Belgium, France, the Western Zones of Germany, Italy, the Netherlands, Switzerland and the United Kingdom, and the Bank for International Settlements. During part of this trip, Mr. Knoke was accompanied by Mr. Wallich, Chief of the Foreign Research Division of the Research Department, and on the remainder by Mr. Kriz of the same division. The purpose of these visits was to renew or establish personal contacts with the officials of the central banks and, at the same time, to obtain first-hand information on economic conditions and problems in the countries visited.

Mr. Sanford, Assistant Vice President in the Foreign function, and Mr. Moore, Manager of the Research Department, attended the Second Conference of Experts of the Central Banks of the American Continent held in Santiago, Chile, December 2-15, 1949. En route to and from the conference, they made brief visits to the central banks of Argentina, Brazil, Peru, and Uruguay.

Mr. Davis, Assistant Vice President in the Foreign function, in the course of a special mission to Tokyo on behalf of the Department of the Army, called on the Governor of the Bank of Japan and met other members of that bank's staff. He later visited Manila, where he studied the operations of the Central Bank of the Philippines and the local economy; on his return trip to the United States, he also visited the Bank of Thailand, the State Bank of Pakistan, and the National Bank of Belgium.

Foreign central bank visitors

During 1949 there was a marked increase in the number of representatives of foreign central banks who visited at this Bank in order to observe and study our methods and operations. Such visitors came from the central banks of Bolivia, Colombia, Finland, France, India, Italy, New Zealand, Norway, Pakistan, Turkey, and the United Kingdom, and also from the central banks which are now being organized in Cuba and Korea.

In addition to these visitors, we received the senior officials of a number of central banks, including the Governors (or Presidents) of the central banks of Belgium, Canada, Denmark, Greece, India, Iran, Italy, Mexico, New Zealand, Norway, Poland, Sweden, Switzerland, the United Kingdom, Venezuela, and Western Germany.

Staff Group on Foreign Interests

The Staff Group on Foreign Interests, including representatives of the Foreign, Legal and Research functions of this Bank and of the Board of Governors, held further meetings during 1949 dealing with such questions as the financing of Brazil's current needs (including a possible gold loan), United States gold policy, the price of gold, stabilization credits by Federal Reserve Banks, and proposals for a European monetary authority. The Group also, at meetings and by means of telephone conversations and correspondence, considered current questions dealing with System foreign missions.

LOANS AND CREDITS

The volume of advances made to member banks decreased, and fewer banks made use of our credit facilities during 1949, as compared with the preceding year. Average daily advances outstanding, however, showed a substantial increase over 1948, principally by reason of large temporary borrowings by the New York City member banks. A total of 2,257 advances, aggregating approximately $12.6 billion, were made to 308 member banks, all secured by obligations of the United States, compared with 2,715 advances of some $7.8 billion to 354 banks in 1948. Daily average borrowings last year were $58.2 million against $45.4 million the previous year. Outstanding advances in 1949 ranged from $1.4 million on December 30, a new low since June 30, 1943, to a high of $438.3 million on May 18. This peak compares with a high in 1948 of $493.1 million recorded on December 23 of that year. As in the previous year, the 1949 peak borrowings lasted for only one day and resulted largely from the borrowings of the New York City banks for the purpose of adjusting their reserve positions, which were under considerable temporary strain as the result of Treasury withdrawals and other money market influences. Outstanding borrowings of member banks outside of New York City reached a high of $52.5 million last year, compared with $38.3 million in 1948.

No applications were received during 1949 for industrial loans or commitments under section 13b of the Federal Reserve Act.

Consumer instalment credit

The authority under which the Board of Governors of the Federal Reserve System issued Regulation W expired June 30, 1949. The regulation, made effective September 20, 1948, was directed at controlling certain classes of consumer instalment credit in the principal amount of $5,000 or less. The permissible maximum maturities prescribed by the regulation for all extensions of consumer instalment credit and the minimum down payment requirements on all articles subject to the regulation, except automobiles, were eased on two occasions through amendments adopted by the Board of Governors and made effective March 7, and April 27, 1949.

Total registration with this Bank of those businesses covered by the regulation amounted to 14,779 as of June 30, 1949. During the period of enforcement, a total of 4,635 investigations were made by our Head Office and Buffalo Branch of all classes of registrants. Investigation of registrants was well ahead of the original goal of 25 per cent coverage. On the whole, compliance by registrants in the District was satisfactory.

RESEARCH ACTIVITIES

The changes in business trends which took place in 1949 required more than the usual amount of attention by our Research Department to the overall economic situation and prospects and to problems concerned with the determination of appropriate monetary policies. The research staff was also particularly concerned during the past year with problems relating to the devaluation of the pound sterling and some 30 other foreign currencies.

Research officers and staff participated in the preparations made for the visit to this Bank of 11 professors of money and banking from the Minneapolis District (under a scholarship program instituted by the Minneapolis Reserve Bank) and took part in conferences with the group during its two-day visit. They participated in a similar conference with a group of professors of money and banking, who attended the December convention in New York of the American Finance Association.

Domestic studies and publications

The Vice President of the Research function and members of the staff participated in the preparation of joint replies by the 12 Federal Reserve Bank Presidents to a questionnaire on money, credit, and fiscal policies, which was sent to each Federal Reserve Bank President by a special Subcommittee of the Joint Congressional Committee on the Economic Report. Our Research Department undertook editorial responsibility for the entire project. A number of special studies of the United States monetary and banking system was made by way of preparation for the more comprehensive work along these lines which will be called for if recent proposals for a National Monetary Commission or similar body are adopted.

In addition to several independent studies of the national business outlook, the domestic research staff cooperated with the Bank Relations Department in the preparation of quarterly reports and in the formulation of replies to several special questionnaires of the Board of Governors concerning business conditions in the Second District.

Considerable work was also done in the fields of national income and savings, Treasury finance, consumer credit, and business finance. In anticipation of a revision in the Board's index of industrial production, several memoranda were prepared on problems relating to the purpose and the construction of indexes of industrial production. As the results of the Census of Manufactures became available, tabulations of Second District data were undertaken and analytical studies of changes since the last (prewar) Census were initiated. Estimates of Second District income were refined further and an attempt was made to develop quarterly estimates of savings in our District. In the field of department store statistics, two new reports were added during the year.

During the year, research staff members made a number of appearances before college classes and seminars. Although not a part of the Bank's official organization, a seminar of our own research staff was held at irregular intervals (once or twice a month) to discuss current economic problems; at each meeting, some well-known economist or banker gave a talk on a designated topic.

Among the special jobs carried out during the year at the request of the Board of Governors were: (1) a sample survey of single-payment loans to individuals by member banks in this District, for the purpose of determining whether the present classification of such loans as consumer credit is justified; (2) a compilation of the balance sheet figures of J. P. Morgan & Co. and Brown Bros. Harriman & Co. for the years 1863-1928, and 1898-1927, respectively, in order to make possible the inclusion of private banking firms in the compilation of a national series of back data for "All Banks' Assets and Liabilities."

Special statistical charts drawn during the year totaled 119, some of these accompanying the various special research studies completed during the year, and others being furnished for officers and for other departments. Sets of charts (10 each) showing loans, investments, and deposits by geographic areas within this District were sent to those banks which report asset and liability items monthly. Sixteen charts were drawn at the request of the ECA for the use of the Anglo-American Council on Productivity.

In conjunction with the annual compilation of member bank operating ratios in the Second District, a special study was undertaken to measure the effect upon 1948 net profits of the charges arising out of setting up reserves for bad debt losses on loans, as permitted by a Treasury ruling in December 1947.

A few of the research papers which were prepared on domestic topics during 1949 are listed below:

- Population in the Second Federal Reserve District, 1940-48
- Individual Trust Funds
- Recent Changes in Personal Savings
- Weekly Analysis of Gains and Losses in Member Bank Reserve Funds, Second Federal Reserve District (a technical description)
- An Analysis of Movements of Federal Reserve Float
- Business Lending Practices of Life Insurance Companies
- Causes of the Liquidation of Bank Loans, 1929-35
- The Excess Profits Tax and Various Alternatives
- Structure and Growth of Income Payments in the Second Federal Reserve District, 1919-48
- Disposable Income and the Analysis of Consumer Behavior.

Foreign and international studies and publications

In the foreign and international field, our research staff was predominantly concerned in 1949 with foreign exchange problems (rates, controls, and reserves of foreign countries), with the collection and analysis of data on international capital movements and the United States balance of payments in general, and with the international financial problems and policies of the United States. Much attention was devoted to various aspects of the sterling question—notably the British balance-of-payments position; the case for and against, and (later) the repercussions of, the devaluation of the pound sterling; and the special problem of the blocked sterling balances. During the summer, the staff assisted a team of United States Treasury investigators in a survey of the comparability of British and American prices for types of goods imported from the United Kingdom and of the potential effect of European currency devaluations on the foreign purchases of New

York retail establishments. Assistance was also given to the British-American Productivity Council in organizing and presenting material on productivity changes in selected American industries, for use in the guidance of similar British industries. Following the currency devaluations of September, a survey involving periodic interviews with some 40 large exporters was begun in order to appraise the effects of the devaluations upon American exports. Another field which required much of the Research Department's attention during the year was the progress of the European Recovery Program. Studies were made, in particular, of the intra-European payments plan, the activities of the OEEC, and the counterpart funds. Other subjects of special study during the year included the position of gold, the ITO program, the outlook for various commodities, "Point IV", and the work of the National Advisory Council.

Conditions in individual countries continued to require much attention, with especial regard to their central banking and monetary problems. Special studies were prepared concerning, among others, Britain, France, Sweden, Belgium, Bizonal Germany, China, and Japan.

Early in the year the Department completed its sampling of data from commercial banks in other Reserve Districts on the volume and promptness of export collections on Latin America. As a result of this sampling, our monthly survey of Latin American export credit experience, which had been based on reports from 12 New York City banks, was broadened to include three banks in the Boston, Chicago, and San Francisco Districts.

During 1949 the Department initiated the collection of detailed information from banks in the Second Federal Reserve District on international assets and liabilities of all member countries of the International Monetary Fund. This information was compiled in connection with a request made by the International Monetary Fund to the United States Treasury. Similar requests were made to all member countries in order to implement the repurchase provisions of the Articles of Agreement and to cross-check general balance-of-payments information submitted by each member to the Fund.

The Department also cooperated in a revision of the Treasury's monthly and quarterly foreign exchange report forms in order to provide permanently more detailed information concerning international capital movements through banking, brokerage and commercial channels in the United States. The revised forms, which distinguish between dollar assets and liabilities of foreign official institutions (including central banks), other banks, and "others", were used for the first time for the reports due at the end of January 1950.

Selected items from the many research papers completed during the year on foreign and international topics are listed below:

- The International Wheat Agreement
- Current Foreign Gold Developments
- Belgium's Long-Term Economic Problems
- Present Status of the ITO Proposals
- Some General Reflections on the Cuban Economy
- A Reappraisal of Swedish Economic Policy
- The Impact of the Rise in Coffee Prices on the Economies of Brazil, Guatemala, and Colombia
- Britain's Dollar Deficit with the Western Hemisphere
- The Effects of the Devaluation of Foreign Currencies on American Foreign Trade
- Tax Stimulants to Provide Foreign Investment in Connection with Point IV
- The Concept of Viability
- An Estimate of Future Direct Investment in Underdeveloped Areas
- The Dollar Gap and American Foreign Economic Policy Objectives

Foreign missions

Research officers and staff members carried out numerous foreign missions in 1949, in addition to participating with the Foreign Department in visits to foreign central banks. Mr. Roelse, Vice President, went to Brazil for several weeks early in the year (following his four-month stay there in the latter part of 1948) in order to participate in the final stages of the work of the Joint Brazil-United States Technical Commission (of which he was a member), including the writing and editing of the Commission's report. Mr. Glaessner continued in this period to serve as a member of the technical staff of the Commission, and participated in the writing of the report. Mr. Wallich, Chief of the Foreign Research Division, and later Messrs. Schlesinger and Adler, visited Guatemala to make preparations for and give guidance to a monetary and fiscal study of that country which the Bank of Guatemala is undertaking. Mr. Wallich also visited Havana to discuss the internal organization of the new Cuban central bank, and went to El Salvador in connection with the completion of a study of that country's public finances, and to Mexico to deliver a series of talks before the National School of Economy in Mexico City. Mr. Bloomfield, Chief of the Balance of Payments

Division, was loaned to the ECA in August for a six-month mission to Korea, accompanied by Mr. Jensen of the Auditing Department, for the purpose of drafting new monetary and banking legislation for that country. Mr. Coombs represented the Board of Governors and this Bank at the Twelfth Congress of the International Chamber of Commerce at Quebec; and spent seven weeks in Beirut as financial adviser to the United Nations Economic Survey Mission for the Middle East. Mr. Klopstock was on leave in March and April at Washington as a consultant with the State Department on the Berlin currency problem, and at the end of the year was preparing to leave for Germany to serve for a six-month period as consultant to the Finance Division of the American High Commissioner's Office of Economic Affairs.

LITIGATION

At the end of 1949 litigation involving claims on forged endorsements to which this Bank was a party had reached the lowest point in many years. While there was one potential claim involving upwards of $400,000 arising out of the frauds perpetrated against the Mergenthaler Linotype Company several years ago, that claim has not ripened into litigation against this Bank, although related claims against other banks are now in the courts. As of December 31, 1949, there were only five forged endorsement actions against this Bank, involving claims aggregating $12,720, in three of which our prior endorser had affirmatively agreed to indemnify us and assume all burdens of defense; the fourth has since been dismissed; in the fifth, there has been no activity for ten years, and the matter may properly be considered closed. These statistics of current actions compare with an average aggregate of nearly $100,000 in claims and from 12 to 18 actions pending at the times of the last five examinations of the Bank. During 1949 claims of $81,000 were disposed of without loss to the Bank and without recourse to our insurance coverage.

Our Legal Department has been extensively involved in an alien property matter arising out of the proposed return to an Italian insurance company of assets vested by the Office of Alien Property. The Trading With the Enemy Act provides that vested property may be returned to the foreign national from whom it was taken. A notice of intent to return must be published at least 30 days prior to return, so that creditors of the foreign national may attach property described in the notice as an incident to suits against the owner. In August 1949 the first such notice was published and promptly gave rise to attachments. This Bank held securities described in the notice aggregating some $510,000, and, between August and December 15th, several actions were started by the attachment of these securities. In addition, several judgment creditors sought to examine the Bank in supplementary proceedings. Opposition was asserted and these attempts were unsuccessful. One of the creditors attempted to attach moneys in the hands of the Bank described as "in the Treasury of the United States", apparently taking the position that the Treasurer's General Account on the books of this Bank might be subjected to attachment. The problems involved were, however, satisfactorily adjusted, and it is anticipated that arrangements will be made in the near future to release all attachments, substituting therefor surety bonds, and to return the securities to the owner under an order of return promulgated January 18, 1950.

Armand Schmoll, Inc. v. *The United States*

Pursuant to its function under section 522(c) of the Tariff Act of 1930 of certifying rates of foreign exchange for use in the conversion of foreign currencies to determine dutiable value in the collection of customs duties, this Bank in 1935 certified one rate, namely, the "official" rate, for the Brazilian milreis. Armand Schmoll, Inc., an importer of hides from Brazil, claimed that a lower "free" rate should have been certified in place of the "official" rate. In March 1939 that Corporation brought an action against this Bank in the Supreme Court of the State of New York seeking an order to compel this Bank to certify the "free" rate for the Brazilian milreis. Judgment was entered in favor of the Bank on the ground that a State court could not direct it in the manner in which it should perform its Federal functions. An appeal was taken to the Appellate Division of the Supreme Court where the judgment of the lower court was affirmed. This judgment was in turn affirmed by the Court of Appeals, and the Supreme Court of the United States declined to review the matter. Following the decision by the Supreme Court of the United States, in another case, that this Bank had authority under section 522(c) to certify more than one rate for a single foreign currency and that its certification of rates is not subject to review by the courts, the Corporation sought a reargument in the Court of Appeals which, on motion of counsel for the Bank, was denied.

Following this series of defeats, the Corporation protested the action of the Collector at the port of New York in determining duties upon a shipment of hides from Brazil in 1935 by using the "official" rate for the milreis certified by this Bank. In April 1946 the United States Customs Court issued a subpoena to this Bank in that action directing this Bank to produce all of its records and correspondence involving the rate certified by this Bank for the Brazilian milreis. The Bank's motion to quash the subpoena was granted by the court upon the ground that the certification of rates by this Bank was not subject to review by the courts, a point which had already been dealt with by the Supreme Court. After trial the court, on March 24, 1949, affirmed the action of the Collector. It was indicated in the opinion that the decision in favor of the Government was primarily based upon the success of the Bank's motion to quash the subpoena.

The Corporation appealed to the United States Court of Customs and Patent Appeals. Counsel for the Bank appeared, filed an exhaustive brief and argued, as amicus curiae. In December 1949 the court affirmed the decision of the lower court and held that the rates of foreign exchange certified by this Bank were final and conclusive. It is believed that this decision will terminate the litigation which has been vigorously contested for more than a decade.

PERSONNEL

The number of employees at the Head Office declined by 330, or about 8.7 per cent, during 1949. Fiscal agency operations again required fewer employees, continuing the contraction begun in 1944, but, for the first time since 1939, there was also a reduction in the number of employees engaged in all other work. A large share of the curtailment in staff during 1949 took place in the Check Department, where personnel was reduced 194, or 20.9 per cent, through more efficient operations.

At the close of business December 31, 1949, there were 3,441 employees at the Head Office, a reduction of 1,296, or 27.3 per cent, from the peak employment of 4,737 reached on July 27, 1944. In large measure, curtailment in staff during the past five years has been the product of voluntary separations. However, dismissals in 1949 were greater than they were in 1948 because of further reductions in our fiscal agency operations and the increased efficiency in check operations. Even in times when overstaffing exists, there is, of course, always some hiring to fill particular jobs unsuitable for excess employees or requiring skills so specialized that we must at infrequent intervals go outside the Bank to find them. We have been extremely careful, however, to hire no new employee to fill a job which could be filled by an excess employee, and for this reason hiring in 1949 fell sharply.

Another development of the last five years has been the marked reduction in the ratio of female to male employees. Women employees totaled 3,050, or 64.4 per cent of staff, on the peak employment date in 1944, but the number had declined to 1,696, or 49.1 per cent of staff, by December 31, 1949. The fact that many women voluntarily left our staff minimized the need for involuntary separations.

The following table, covering the years 1945 through 1949, presents some basic statistics on Head Office employment.

	1945	1946	1947	1948	1949
Employees, close of business Dec. 31	4,294	4,142	3,755	3,771	3,441
Employees, average number, engaged in work reimbursable by U. S. Govt. and its agencies	1,584	1,218	824	690	590
Employees, average number, all other	2,662	2,949	3,066	3,141	3,050
Applicants	6,002	8,346	7,405	8,050	4,531
Hired	1,043	948	565	767	282
Separations*	1,116	1,100	952	751	612
Dismissals (included in Separations)	120	246	402	158	210

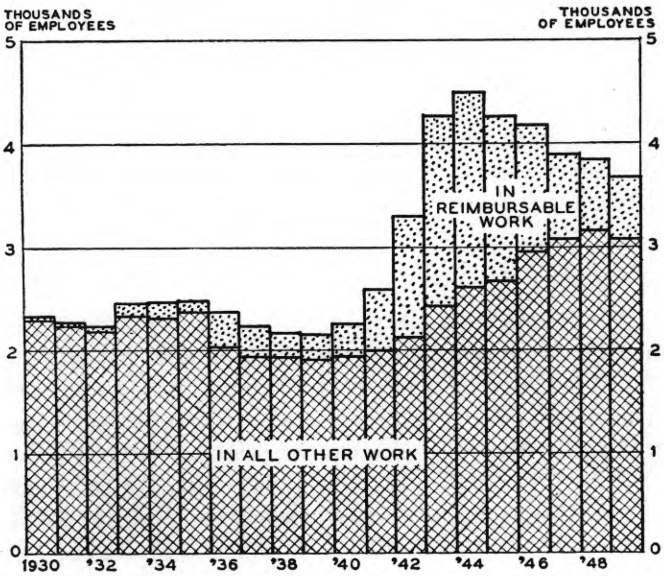
* Includes those who became officers, were dismissed, resigned, retired, or died.

It is gratifying to be able to report that of all employees at the Head Office, about 800, or 23 per cent, have been with the Bank for 20 years or more, and almost 400 have 10 to 19 years of service. While 2,250 employees have been with the Bank for less than 10 years, it should be noted that there has been a net increase of 1,200 employees in the past decade.

Length of Service	Number of Employees	Percentage of Total Number of Employees
35 years or more...........	2	.06%
30 years to 34 years inclusive	268	7.85%
25 years to 29 years inclusive	153	4.48%
20 years to 24 years inclusive	374	10.95%
15 years to 19 years inclusive	236	6.91%
10 years to 14 years inclusive	132	3.86%
5 years to 9 years inclusive	1,248	36.53%
Less than 5 years..........	1,003	29.36%
Total (Jan. 31, 1950)......	3,416	

The chart appearing below illustrates the fluctuations in yearly average Head Office employment during the past twenty years, and shows the proportion of employees assigned to reimbursable work performed for the United States Government and agencies thereof.

Fluctuations in Yearly Average Head Office Employment
1930-1949



Head Office salary liability

The following figures, covering the years 1945 through 1949, show employee salary liability (including reimbursable salary) as of the close of business on December 31 of each year.

	1945	1946	1947	1948	1949
Salary liability (in thousands of dollars)	$9,515	$11,242	$10,621	$11,496	$10,929

The reduction of about $567,000, or some 4.9 per cent, in salary liability for 1949 as compared with 1948 was proportionately less than the decline in personnel because the curtailment of staff took place chiefly in the lower salary grades.

Salary administration

We made a salary survey in the Metropolitan Area of New York City during September 1949 which assured us that a proper relationship continued to exist between the salary rate structure at the Head Office and the rates paid in the community for comparable jobs. The community rate structure appeared to be slightly higher than in the preceding year. Rates paid for clerical jobs evidenced a firm tone while increases were reflected in rates paid for some non-clerical jobs, particularly in the building service and maintenance fields.

In addition to the salary survey, we reviewed and evaluated, on a continuous year-round basis, all jobs performed in the Bank in order to assure a proper internal alignment of such jobs. Changes in methods and procedures, and expansion or contraction of functional activities, frequently made necessary a revision of job descriptions in order to reflect properly the scope and level of the actual duties performed. This maintenance phase of the Job Evaluation Program required the review and evaluation of 196 jobs, or approximately 29.6 per cent of the total number of filled jobs at the Head Office.

Personnel Department operations

During 1949 the organization and operations of the Personnel Department were reviewed and some changes were made. A number of personnel records were converted from hand to mechanical operations for greater efficiency. The staff of the Personnel Department declined by 14 persons, or about 12 per cent, during the year.

Blue Cross Hospital Plan and Surgical-Medical Plan

At the year end, 3,102 persons, or 88.7 per cent, of our Head Office staff held membership in the Blue Cross Hospital and Surgical-Medical Plans, which provide hospitalization and medical-surgical benefits. In 1949 the expense to the Bank, which pays two-thirds of the total cost, was $93,992, and to the employees $49,385. This expense was a little higher than last year because of a moderate increase in rates, effective in May 1949, under the hospitalization plan, and, in addition, an increase in the percentage of staff participation, offset to some extent by a reduction in the number of our employees. During the year, members of our Head Office staff filed 593 claims for hospital care (4,907 days) which would have cost the insured $68,026; and 582 claims for medical and surgical care amounting to $35,753. We have received favorable comments about these benefits from many staff members.

Group life insurance

The staff continued to avail itself of the opportunity to participate in our Group Life Insurance Plan, which provides coverage of $1,000 to $6,000, depending upon sex and salary, at a cost of 60¢ per month per $1,000 of coverage. At the year end, 2,593 persons, or 74.1 per cent, of the Head Office staff, had group life insurance policies, compared with 2,822 or 74.5 per cent on December 31, 1948. Of the sixteen Head Office staff members who died during the year, fourteen were insured and their beneficiaries received a total of $64,500 from the group life policies.

Red Cross blood donor service

The Bank's staff, through the Federal Reserve Club, has cooperated with the New York Red Cross Chapter's peacetime blood donor service since its inception in June 1947. The purpose of this service is to make blood available without charge to the sick and injured in the five boroughs. During 1949, members of the staff withdrew 183 units (500 c.c. per unit) from the accumulated blood donations made by them. The 183 units represented a saving of about $5,500 in expense for blood and blood derivatives, neither of which is covered by Blue Cross contracts. Our participation in the program has resulted in a sizable dollar saving for some members of the staff, an extreme example being that of a woman employee who was spared about $900 in expense last year because of blood made available to her husband through our participation in the program.

Retirement System

Since the Retirement System of the Federal Reserve Banks was organized in 1934, its benefits have been liberalized from time to time; another such liberalization took place in 1949. The chief changes were adoption of the best consecutive five (rather than ten) year average salary, known as "final average salary", as a basis for computing all normal pension benefits, and a change from ¾ of 1 per cent of final average salary on a cash refund basis to 1 per cent of such salary on a straight life basis for computing the pension portion of service retirement benefits. The Federal Reserve Banks bear some 60 per cent of the cost of the benefits provided by the Retirement System, including all of the cost of the most recent change in benefits. During the year 21 members of our staff retired, thereby raising the number of retired employees to 281 (165 on service retirement at age 65, 89 on special service retirement, and 27 on disability retirement).

Leadership training

Our in-bank training programs again emphasized conference sessions in leadership training. Covering virtually every level of supervision, the leadership sessions stimulated a keener appreciation of the substantial benefits derived from good human relationships. With the completion of the current group of conferences, now under way, 39 officers and 391 employees will have taken part in the program at the Head Office; similar conferences were also arranged at the Buffalo Branch.

Payroll deductions for Series E Savings Bonds

The Bank continued to present to the staff the merits of purchasing savings bonds by means of payroll deductions. In particular, we promoted vigorously the United States Treasury's "Opportunity Drive" which covered the period May 15-June 30, 1949. At the year end, 2,157 Head Office staff members, or 61.5 per cent of the total, were participating with an average deduction of 3.50 per cent of salary; the corresponding figures for a year earlier were 2,024 persons, or 52.7 per cent of the staff, and the average deduction was 3.2 per cent of salary.

Federal Reserve Club

The Federal Reserve Club, which had its 31st anniversary in 1949, continued to afford members of our staff an exceptionally diversified program of social and recreational activities and special services. The employee publication, which is one of these services, was changed in format during 1949 and under its new name, "THE FED", is now published bi-weekly instead of weekly. Through the years the Club has had the interest and support of most of our employees, and, at the present time, 89 per cent of our men and women are members. Its leadership has shown a keen perception of the interests of our staff and has altered the Club's program to conform to the members' desires.

BUFFALO BRANCH OPERATIONS

The volume of work handled at the Branch during 1949 was higher than during 1948. Current expense and cost of Federal Reserve currency totaled $797,050 in 1949 as compared with $735,850 in 1948. Fiscal agency and other reimbursable work aggregated $30,553 as against $28,355 in 1948. Improved operating procedures installed during 1949 partially offset the increases in operating expenses caused by the greater volume of work handled, the higher costs of rented equipment and supplies, and the 10 per cent salary increase granted on November 1, 1948.

Personnel

During 1949 the number of employees at the Branch decreased from 176 to 170. There were 40 separations from service, and 34 new employees were engaged. The following tabulation, as of the close of 1949 and of the preceding four years, shows the number of employees at the Branch and the total employee salary liability:

	1945	1946	1947	1948	1949
Number of employees	221	211	164	176	170
Salary liability (in thousands of dollars) ...	$398	$467	$390	$455	$448

All 170 employees have signed authorizations for deductions from payroll for the purchase of Series E bonds, the total deductions amounting to 6.13 per cent of the payroll at the end of the year. In addition, 56 employees are participating in a special payroll savings plan, to the extent of 3.73 per cent of the total payroll, providing for deposits in a local savings bank. All but seven employees are enrolled in the Blue Cross and Blue Shield plans for hospitalization and surgical benefits. Some of the seven, however, are covered under a similar plan through other members of their families. A total of 134 employees, or 79 per cent, are participating in the new group life insurance plan as revised in 1948.

In the latter half of 1949 a survey was conducted of wage and salary rates paid to clerical, supervisory, building maintenance and service employees, and personnel practices in five banks, two insurance companies, and twelve industrial concerns in the Buffalo area. Results of the study assured us our pay schedules compared favorably with salary rates for similar jobs.

Leadership training sessions were conducted during April 1949 at the Branch by William E. Marple of our Head Office staff. They were attended by all four officers and 25 supervisory employees.

Check collections

The Branch collected 26.1 million checks totaling over $7.1 billion during 1949 as compared with 24.8 million checks amounting to $7.5 billion in 1948. The gain in volume reflects an increased use of Federal Reserve collection facilities by banks which had previously collected their checks through correspondent banks. This is further reflected in the increased reimbursements made to member banks during the year for postage covering their cash letters sent direct to other Federal Reserve Banks and Branches, and in the increased charges absorbed for Buffalo member banks in connection with the consolidated shipments of checks which the Branch sent by air express to various Federal Reserve Banks and Branches daily.

Further progress was made during 1949 in the Branch territory in improving poorly designed checks and in employing the new check routing symbol. A survey completed in December 1949 disclosed that 82.6 per cent of the checks which passed through the Branch's Check Division, drawn upon banks located in the Buffalo Branch territory, bore the new routing symbol and transit number in the approved location, as compared with 74.8 per cent in December 1948.

During the first quarter of 1949 additional IBM sorting and listing machines were delivered to the Branch, making it possible to revise methods of operation so as to process all New York State checks through these machines. The Branch also adopted a new method of sorting checks through these machines according to the transit number and routing symbol, instead of the previous method of sorting by bank name and location. During the latter half of the year, a constant study of air transportation schedules and facilities, the development of a larger night force to concentrate on handling other Federal Reserve District checks as promptly as they are received, and an arrangement for special transportation of Buffalo Branch air mail to the Buffalo Airport post office station in time for dispatch on afternoon planes, have helped to speed up substantially the collection of checks payable in other Federal Reserve Districts. The last mentioned step has eliminated the holding of air mail cash letters at the Buffalo Branch until other mail was ready for dispatch, and has avoided a further delay of two to four hours which occurred previously when the air mail cash letters were deposited in the central post office for subsequent delivery to the airport. A study of the results accomplished through these changes and improvements during the last six months of 1949 provided the basis for issuing a new time schedule on February 1, 1950, advancing by one day the credit availability for items payable in 20 Federal Reserve cities. A similar advance of one day in credit availability for items payable in three Federal Reserve cities was made on July 1, 1949.

Bank membership and bank relations

The University Bank, Alfred, New York, applied for membership and was admitted to the System in December 1949. The Wyoming County Bank and Trust Company, Warsaw, New York, withdrew from membership in June 1949, largely because of the capital requirements for operating out-of-town branches.

Bank relations activities included 364 visits to banks and attendance at 73 meetings. Substantial assistance was given to seven banks during the year in installing adequate farm credit files, and additional supplies for the files were provided to 36 banks already using this service. The Branch also cooperated with the Head Office in making a survey of salaries paid to officers and employees of member banks in the Branch territory (the survey is described elsewhere in this report).

Loans to member banks

A total of 261 loans aggregating $207.1 million was granted to 34 member banks, as compared with 263 loans amounting to $145.2 million to 38 member banks in 1948. Discount earned amounted to $21,768 as compared with $20,906 in 1948. The highest amount of loans outstanding at any one time during 1949 was $19,880,000 on December 29, and the longest period of borrowing of any one bank was 57 days. At the end of the year no banks were in our debt.

Cash operations

The volume of paper currency flowing in and out of the Branch increased modestly above that handled in 1948. A total of 47,705,514 pieces of paper currency was counted in 1949 as compared with the previous peak of 47,143,214 pieces counted in 1948; 51,331,400 pieces of coin were counted as against 47,408,573 in the previous year; and 8,235,000 pieces of coin were wrapped, this total representing a decline of approximately 1,100,000 below the number of coins wrapped in 1948.

A total of 158 counterfeit notes and one raised bill aggregating $2,170 were detected by the Branch money counters, as compared with 58 counterfeits totaling $686 discovered in 1948.

Accounting procedure

During the latter part of 1949 a study was made by our Head Office and the Branch to develop a more complete accounting procedure at the Branch. As a result of this study the Branch started operating its own general ledger and handling all the payments of its expense items on January 3, 1950. The change in procedure, which should involve little additional cost, will place on the officers of the Branch the primary responsibility for supervision and control of the Branch's accounts and expenses. It will make readily available at the Branch information regarding transactions and expenses which has heretofore been obtainable only after communication with the Head Office, and it should result in more prompt payment of the Branch's bills and clearing up of suspense items. In addition, the new procedure will place the Branch accounting methods on a basis similar to the practice in all of the other 23 Federal Reserve Branches.