

FEDERAL RESERVE BANK OF NEW YORK

Fiscal Agent of the United States

[Circular No. 4323]
March 29, 1956]

Offering of \$1,600,000,000 of 91-Day Treasury Bills

Dated April 5, 1956

Maturing July 5, 1956

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

Following is the text of a notice published today:

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, March 29, 1956.

TREASURY DEPARTMENT
Washington

The Treasury Department, by this public notice, invites tenders for \$1,600,000,000, or thereabouts, of 91-day Treasury bills, for cash and in exchange for Treasury bills maturing April 5, 1956, in the amount of \$1,601,945,000, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated April 5, 1956, and will mature July 5, 1956, 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, one-thirty o'clock p.m., Eastern Standard time, Monday, April 2, 1956. 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.

Others than banking institutions will not be permitted to submit tenders except for their own account. 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 Treasury Department 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, noncompetitive 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 April 5, 1956, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 5, 1956. 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, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are 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 is considered to be interest. Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are 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, Revised, 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.

This Bank will receive tenders up to 1:30 p.m., Eastern Standard time, Monday, April 2, 1956, at the Securities Department of its Head Office and at its Buffalo Branch. Please use the form on the reverse side of this circular to submit a tender, and return it in an envelope marked "Tender for Treasury Bills." Tenders may be submitted by telegraph, subject to written confirmation; they may not be submitted by telephone. *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.*

Results of last offering of Treasury bills (91-day bills dated March 29, 1956, maturing June 28, 1956)

Total applied for	\$2,566,040,000		
Total accepted	\$1,600,391,000 (includes \$242,311,000 entered on a noncompetitive basis and accepted in full at the average price shown below)		
Average price.....	99.451	Equivalent rate of discount approx. 2.173% per annum	
Range of accepted competitive bids:			
High	99.457	Equivalent rate of discount approx. 2.148% per annum	
Low	99.448	Equivalent rate of discount approx. 2.184% per annum	
(22 percent of the amount bid for at the low price was accepted)			
		Federal Reserve District	Total Applied for
		Boston	\$ 35,003,000
		New York	1,967,738,000
		Philadelphia	28,018,000
		Cleveland	81,123,000
		Richmond	14,608,000
		Atlanta	30,274,000
		Chicago	204,129,000
		St. Louis	31,952,000
		Minneapolis	12,040,000
		Kansas City	46,151,000
		Dallas	31,420,000
		San Francisco	83,584,000
		TOTAL	\$2,566,040,000
			\$1,600,391,000

IMPORTANT—If you desire to bid on a *competitive* basis, fill in rate per 100 and maturity value in paragraph headed "Competitive Bid." If you desire to bid on a *noncompetitive* basis, fill in only the maturity value in paragraph headed "Noncompetitive Bid." **DO NOT fill in both paragraphs on one form.** A separate tender must be used for each bid, except that banks submitting bids on a competitive basis for their own and their customers' accounts may submit one tender for the total amount bid at each price, provided a list is attached showing the name of each bidder, the amount bid for his account, and method of payment. Forms for this purpose will be furnished upon request.

No.

TENDER FOR 91-DAY TREASURY BILLS

Dated April 5, 1956

Maturing July 5, 1956

TO FEDERAL RESERVE BANK OF NEW YORK,
Fiscal Agent of the United States.

Dated at
.....1956

COMPETITIVE BID

Pursuant to the provisions of Treasury Department Circular No. 418, Revised, and to the provisions of the public notice on March 29, 1956, as issued by the Treasury Department, the undersigned offers

.....* for a total amount of
(Rate per 100)
\$.....(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 maturing Treasury bills amounting to\$.....
- By cash or other immediately available funds

**Price must be expressed on the basis of 100, with not more than three decimal places, for example, 99.925.*

NONCOMPETITIVE BID

Pursuant to the provisions of Treasury Department Circular No. 418, Revised, and to the provisions of the public notice on March 29, 1956, as issued by the Treasury Department, the undersigned offers a noncompetitive 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 maturing Treasury bills amounting to\$.....
- By cash or other immediately available funds

The Treasury bills for which tender is hereby made are to be dated April 5, 1956, and are to mature on July 5, 1956.

This tender will be inserted in special envelope marked "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 by a bank 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)

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).
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.

CONFIDENTIAL

PRESIDENT'S
REPORT TO DIRECTORS
for 1955



Federal Reserve Bank of New York

*Federal Reserve Bank
of New York*

PRESIDENT'S REPORT TO DIRECTORS
for 1955



CONFIDENTIAL

FEDERAL RESERVE BANK
OF NEW YORK

March 16, 1956

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

This *Report*, prepared for the directors but used also by the officers and made a part of the permanent records of the Bank, is designed to acquaint you with, or remind you of, the policies and operations of the Bank during 1955.


Last year, the Federal Reserve System was faced once again with the problem of devising and carrying out a credit policy appropriate to a vigorously growing economy. The inevitable problems associated with formulating and executing such a policy—the right degree of restraint, the best timing and coordination of actions, the need for anticipation when only the past is available as a base for judgment—had once again to be analyzed and decisions made. A host of associated decisions had also to be taken in administering the day-to-day operations included in the responsibilities of the Bank.

Looking back over the past year at this short distance, no considerable errors of analysis or decision are discernible. The economy expanded steadily throughout most of 1955, and toward the end of the year it had reached a state of virtually full employment of human and physical resources. There is reason to believe that credit policy helped to prevent speculative abuses from increasing the inflationary pressures inherent in such an economic situation. Further progress was made in improving our working methods and procedures, and thus in increasing productivity of the staff. There was a continuing effort to examine recent technological advances, in such fields as electronic data processing, so that we can adapt these advances to our needs. Our loyal and competent group of men and women employees worked throughout the year, with others in banking, to improve the performance of the whole banking system.

At the year-end signs of readjustment within the economy were accumulating, a not surprising development in view of the previous rapid rate of economic growth. Whether this readjustment would be orderly and prepare the way for further economic advance or whether it might have deeper economic repercussions was not immediately clear, but the high level and wide base of consumer incomes and expenditures and a broad program of projected capital expansion gave promise of favorable developments. In these circumstances credit policy became slightly less restrictive at the close of 1955, still keeping pressure on the banking system but not acting to increase that pressure as the new year began.

As usual, this *Report* is intended for use only by those officially connected with the Bank, since it discusses matters that cannot appropriately be discussed outside the Bank; it is therefore marked confidential.

Yours faithfully,


President.

CONTENTS

	Page		Page
OPEN MARKET OPERATIONS	2	Executive training	18
Taking up the slack in the money market, January—July	3	Group meetings	18
Increased restraint, August—December	3	Relations with New York City banks	19
The effects of credit policy on the money and securities markets	5	PUBLIC INFORMATION	19
DEVELOPMENTS IN TECHNIQUES AND PROCEDURES	6	New publication	19
Changes in operating procedures	7	Distribution of booklets	20
Repurchase agreements against Government securities..	7	Speeches and addresses	20
Introduction of the "C" Tax and Loan depositaries...	7	Relations with schools and colleges	20
Improvements in reserve projections	8	Guided tours	21
Information regarding money market flows	8	FOREIGN OPERATIONS	21
Operations in bankers' acceptances	8	Assets held for foreign and international account	21
Staff	10	Loans to central banks	22
Statistical summary of operations	10	Federal Reserve policy on gold loans	23
FISCAL AGENCY OPERATIONS	10	Gold movements	23
Public debt	10	New foreign accounts	23
Volume of work	11	FOREIGN RELATIONS	23
Issue and redemption of Savings bonds	11	Foreign travel	23
Telegraphic transfers of marketable securities	12	Foreign missions	24
Re-use of Treasury public debt securities	12	Session of the Center of Latin American Studies	24
Treasury Tax and Loan Account	12	Staff Group on Foreign Interests	24
Federal National Mortgage Association	12	Foreign visitors	25
International Bank for Reconstruction and Development	12	RESEARCH	25
Foreign Assets Control	13	Domestic studies and publications	25
Destruction of unfit currency	13	Foreign and international studies and publications	27
CHECK COLLECTION	13	Library	28
Saturday processing and dispatching of items of \$1,000 and over	13	PERSONNEL	28
Improved delivery of incoming air mail	13	Head Office salary liability	28
Nassau County clearing arrangement	13	Number of employees	29
Check Routing Symbol program	14	Salary administration	29
Government checks	14	Employee benefits	30
Postal money orders	14	Personnel improvement programs	31
CASH OPERATIONS	14	Personnel research	31
Postal deposit program	15	Federal Reserve Club	31
Expansion of vault facilities for coin and bullion.....	15	Cafeteria	32
WIRE TRANSFERS OF FUNDS	15	EXPENSES AND BANK PREMISES	32
Leased wire system	15	Operating costs and budget	32
LOANS AND CREDITS	16	Fluorescent lighting—Annex building	32
Loan Guarantees for Defense Production (Regulation V)	16	Change in tenant occupancy—Annex building	32
BANK SUPERVISION	17	Sale of 10 Gold Street property	32
Bank changes	17	Records storage and emergency relocation	32
Expansion of bank loans	17	BUFFALO BRANCH OPERATIONS	33
Staffing needs	17	Cash operations	33
Training program	17	Collections	33
Survey of investments by common trust funds	18	Wire transfers of funds	33
BANK RELATIONS	18	Loans to member banks	34
Technical assistance	18	Fiscal agency operations	34
Profit analysis	18	Operating methods	34
		Bank and public relations	34
		Personnel	34
		Branch building	35

PRESIDENT'S REPORT TO DIRECTORS FOR 1955

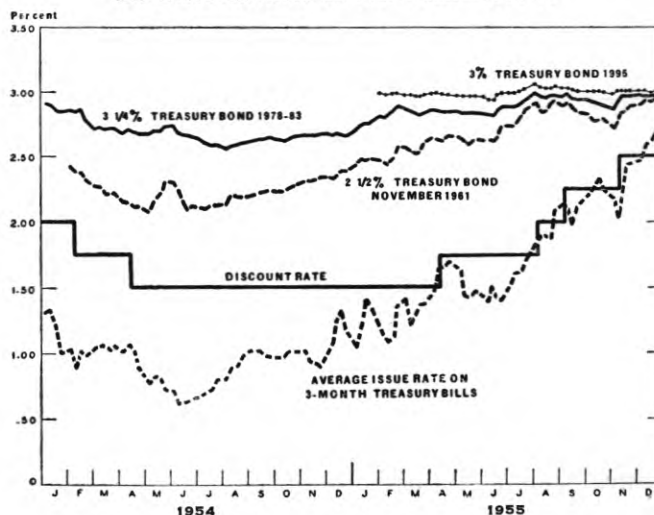
The year 1955 witnessed a remarkable expansion of economic activity in the United States. Recovery from the recession of 1953-54, which was already well under way at the beginning of 1955, moved ahead with a surge that carried income, employment, and production to new records. The principal impetus to expansion during the first half of 1955 was provided by consumer expenditures, particularly for new automobiles and houses. As the year wore on, consumer spending continued to increase, though at a declining rate, and business investment in plant, equipment, and inventories became an increasingly important source of strength.

Over the full year, the index of industrial production rose by 11 per cent to 144 per cent (seasonally adjusted) of the 1947-49 base period; by December, virtually every industrial sector in the index was at record levels. Total employment grew by 3½ million workers to more than 64 million, a new record for the end of a year, while estimated unemployment fell by 400,000 to only 3.6 per cent of the labor force. Gross national production also reached new records, rising by \$30 billion from the fourth quarter of 1954 to an annual rate of \$397 billion by the fourth quarter of 1955. Most of the indexes of economic activity were still pointed toward higher ground as 1955 came to an end, despite some slowing in important individual sectors of the economy.

Federal Reserve credit policy again played an important role in the unfolding economic scene. In the earlier months of 1955, policy was aimed at assuring the availability of sufficient credit to finance economic recovery and growth, while avoiding the excesses of credit and money expansion that might have stimulated an unhealthy and unsustainable rate of spending. Toward mid-summer, recovery became vigorous expansion and was accompanied by a series of price and wage increases which carried their own implications of inflationary pressures as the economy moved toward the current limits of productive capacity. During the first half of the year the Federal Reserve System had dealt with the situation by shifting away from ease and toward restraint in a series of gradual steps. In August, it began a program of outright restraint on the

availability of bank credit. Reserve positions of member banks were allowed to tighten, and as member bank indebtedness to the Reserve Banks grew, the discount rate was raised in three steps from 1¾ to 2½ per cent—the first in August, the second in September, and the third in November. As indicated by Chart I, the discount rate had also been increased once earlier in the year, in April, from 1½ to 1¾ per cent. As a result of the growing pressures on their reserve balances during 1955 and the sharply higher discount rate, commercial banks were forced to liquidate large amounts of Government securities in their efforts to acquire funds to meet the loan requests of their customers. Commercial bank loans grew by a record \$12 billion in 1955, but a large part of this growth was provided for by the sale or redemption of \$7 billion of Government securities, most of which was absorbed by nonbank investors at generally rising yields. A direct consequence of these developments was a growth of less than 3 per cent in the money supply during the year, much less than the 8 per cent growth in the dollar value of the economy's output. A large part of the growth in "money work" was apparently met by intensified use of the stock of money existing at the beginning of the year, which had been considerably enlarged during 1954 as a result of the System's policy of fostering greater liquidity and a growth in demand deposits at that time.

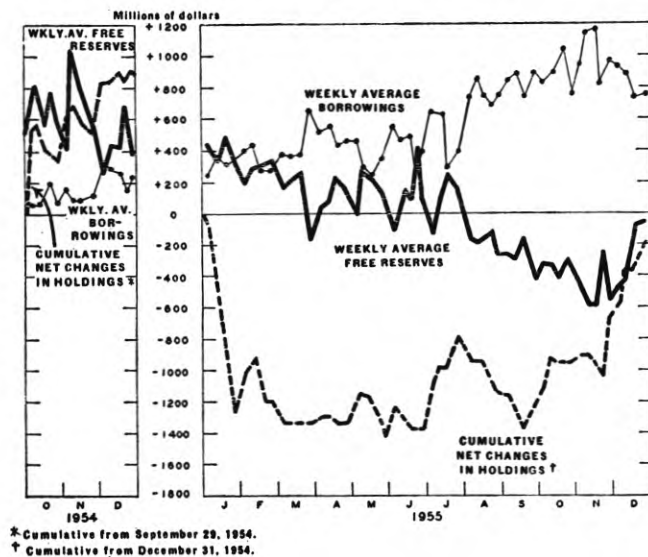
Chart I
Market Rates for Selected U. S. Treasury Issues and the Discount Rate of this Bank—1954-55



OPEN MARKET OPERATIONS

Open market policy played a leading role in the transition from ease to restraint in 1955, creating the conditions of reserve tightness against which higher discount rates could become effective. Chart II shows that open market transactions in Government securities actually absorbed \$148 million of reserves over the year, despite the marked expansion of demands for money and bank credit. Furthermore, other sources of reserves, such as gold inflows or an expansion in float, failed to balance the needs arising from the currency outflows and the expansion in deposits, and reserve requirements were not reduced during the year, as had been the case in 1953 and 1954. By not offsetting all of the strains that the money needs of a rapidly growing economy placed on the banking system, open market policy encouraged banks to allocate their resources carefully among competing demands for credit.

Chart II
Weekly Average Free Reserves and Borrowings and Weekly Cumulative Net Changes in Reserve Banks' Holdings of U. S. Treasury Issues—1954-55



At times the money market seemed to adjust easily to the growing pressures on reserve positions and to ignore signals of greater tightness ahead. For several weeks during the latter half of the year, for example, the money and capital markets failed to reflect the increasing pressures on the banking system as, for a variety of reasons, expectations spread that credit policy in the near future would stabilize or ease. At other times, cumulative strains threatened to develop, fed by

anticipations of more and more severe restraint. In such circumstances, although the discount mechanism functioned in close coordination with open market operations, it was necessary to place reliance upon the daily "feel" of the market in implementing policy.

Within the context of increasing restraint, open market operations were, as usual, directed toward smoothing out short-term and seasonal variations in the money market. As the degree of restraint mounted, increasing care was required to avoid sudden "knots" during critical periods which might have broken the underlying continuity of market developments and led to demoralizing disturbances. Also, the Treasury was again confronted with a heavy refunding and borrowing program, and the meshing of a restrictive credit policy with this program created particularly difficult problems. These problems required extensive System operations designed to stabilize temporarily the volume of bank reserves during periods when the Treasury was in the market and culminated on November 30 in an authorization by the Federal Open Market Committee to purchase "when-issued" Treasury certificates in order to put needed reserves into the market in a manner that would also more directly help avert so large an attrition as to suggest a financing failure.

Open market policy in 1955 may be viewed as falling into two periods. The first, lasting from the beginning of the year through July, was characterized by reduction of slack in the money market as policy moved from "ease" to "neutrality" or "mild restraint" and prepared the ground for further movement to "restraint." Open market operations during this period were largely confined to sales and redemptions of Treasury bills during January and February and purchases during July when seasonal reserve needs coincided with large Treasury operations. The second period, covering the last five months of the year, was marked by the shift of policy to more active restraint. Funds to meet seasonal needs were supplied sparingly by open market operations, and growing "net borrowed reserves" were accompanied by the three rounds of discount rate increases. Twice during this phase the intensification of pressure was temporarily slackened: first, during the brief interlude of "stabilized restraint" immediately after the announcement of the President's illness (Saturday, September 24); and again in late November and December, when Treasury financing operations were superimposed

upon usual year-end strains, which were aggravated by the cumulative force of the restrictive policy. Movements in free reserve balances over these two phases of policy are indicated in Chart II.

Taking up the slack in the money market,

January—July

Beginning early in the year, open market operations were designed not only to offset the seasonal return flows of currency but also to take up some of the slack in the money market by reducing free reserves. From December 29 to January 26, the System sold or redeemed more than \$1.2 billion of Government securities. Toward the end of January, however, it appeared that a prospective sharp drop in free reserves early in February would add unduly to the strains related to a Treasury refunding program (which included the first offering of the long-term 3 per cent bonds). As a result, some \$230 million of bills were purchased for delivery in the week ended February 2. Once the refunding operations were completed and the expected temporary strains had been relieved, the absorption of reserves was resumed, and almost \$300 million of bills were sold or redeemed by February 24. Despite the reserves supplied early in the month, the average level of free reserves declined in February and average borrowings of member banks from the Reserve Banks increased.

The System Account undertook no outright purchases or sales in the market during March and April. However, natural market forces, especially the steady growth of required reserves, tightened bank reserve positions. Average free reserves had been reduced to less than \$100 million by April, and banks found it necessary to rely more and more upon security liquidation and borrowing to provide funds to meet requests for credit.

Policy execution during May, June, and July was complicated by large and often unexpected changes in float and in Treasury balances. Several Treasury debt operations carried out during the same period made it difficult to adjust open market operations smoothly to offset these movements. As a result, as Chart II shows, free reserves reversed the declining trend that had prevailed through the year to that point and fluctuated at levels generally well above zero during these three months. Despite the wide variations

in both free reserves and borrowings during these three months, however, market reactions were limited by the prevailing belief that the wide swings did not reflect fundamental changes in System policy.

The announcement of a Treasury cash and refunding offer on April 28, only two weeks after the first of the year's increases in discount rates, was received with little enthusiasm, in part because free reserves had just fallen substantially below zero for the first time, contributing to expectations of further tightening of System policy. These expectations were magnified as member banks reportedly came to believe that they could not rely on the "discount window" except to meet very temporary reserve shortages. Under these circumstances, it proved necessary to release funds to halt a deterioration in market conditions, and, as an aid in relieving temporary market strains, the rate on repurchase agreements was temporarily reduced. Subsequently, \$97 million of bills were purchased outright in early May, and the repurchase agreements entered into aggregated \$312 million, including \$159 million at the reduced rate. As a result of these measures, and the release of reserves by regular market factors, the developing pressures were largely relieved.

During the rest of May and early June, reserves were alternately withdrawn and injected, largely through outright sales or purchases, in an attempt to moderate the wide swings in reserve positions. Beginning on June 30, a substantial program of outright purchases was initiated. These purchases amounted to about \$400 million between June 30 and July 7, and were undertaken to prevent a drastic contraction of reserves that was expected just prior to the July 6 announcement of the Treasury's cash financing. Only a moderate amount of Federal Reserve assistance was necessary to maintain the money market on an even keel through the rest of the month.

Increased restraint, August—December

By the end of July, the accelerated expansion of the economy and the threat of inflationary pressures had caused Federal Reserve policy to become decidedly more restrictive. Discount rates were increased on August 4, to 2 per cent at three Federal Reserve Banks and to 2¼ per cent at a fourth Bank, as a positive expression of the policy of restraint. The other banks raised their rates

to 2 per cent shortly afterward, and then in September there was another round of increases. By September 13, all twelve Reserve Banks had advanced their rates to $2\frac{1}{4}$ per cent. Throughout the latter part of the year, open market operations were designed to implement a policy of increasing restraint, either through outright sales, as in August and most of September, or thereafter through a reluctant provision of reserve funds that did not fully meet the increased reserve needs arising from seasonal demands for money and credit.

During August and most of September, open market operations almost steadily absorbed reserves through outright sales and redemptions; total holdings of Government securities declined by \$582.9 million between July 27 and September 21. Temporary strains were avoided from time to time through the use of repurchase agreements. Average free reserves declined from \$92 million in July to minus \$89 million in August and minus \$285 million in September. Member bank borrowings averaged \$849 million in September, more than double the average level in the first six months of the year.

The President's heart attack toward the end of September temporarily injected a new factor into the situation and led to a brief hiatus in the System's effort to increase restraint. Government securities prices were marked up following the announcement and the stock market declined sharply, both reflecting the initial psychological reaction to the economic and political implications of the President's illness. In addition, the imminence of a Treasury financing operation added to the uncertainties of the situation. In view of these uncertainties, \$152 million of Treasury bills were purchased on September 27 and 28 to offset a projected reserve contraction, and extensive use was made of repurchase agreements. The halt in the movement of credit policy toward more restraint was short-lived, however, and early in October the movement toward greater restraint was renewed. Although \$244.6 million of Treasury bills were purchased outright between September 29 and October 17 to offset seasonal pressures, and repurchase agreements were outstanding every day in amounts ranging roughly between \$50 and \$175 million, net borrowed reserves remained fairly stable, varying between \$300 and \$400 million, close to the high levels reached at the end of September.

The increased reserve pressures during August-October were, paradoxically, accompanied by a decline in the yields of intermediate and long-term Government securities. The most important influence giving continued force to this perverse movement was the growing belief that interest rates were at or near their peaks. After the President's heart attack, this market sentiment tended to approach a conviction that Federal Reserve policy would not tighten further, or would even ease. One result was a tendency for part of the heavy tax switching at that time to involve maturity lengthening, and the resulting net demand for longer maturities helped drive their prices higher. The decline in Government bond yields after early September was accompanied by a considerable easing of yields on both new and outstanding corporate and municipal securities. During the latter part of October and early November, substantial nonbank demand also led to declines in bill yields.

Having maintained net borrowed reserves in the \$300-400 million range for some time, the System decided toward the end of October to let natural market forces absorb even more reserves. Net borrowed reserves reached \$466 million in the statement week ended November 2, and remained close to that level, or even higher, until early December. The increased strain on bank reserves led to an upturn in yields on Government securities in early November, and a re-evaluation of the near-term outlook for credit policy. As the month progressed, the maintenance of relatively high net borrowed reserves, combined with an increase in discount rates to $2\frac{1}{2}$ per cent, gave convincing and effective proof that the earlier expectations of some relaxation in the restrictive policy had been mistaken. By the end of the month, yields on outstanding corporate and municipal bonds had also turned up.

During the last week of November and throughout December, System operations were designed to maintain as much pressure on reserves as possible without disrupting the orderly functioning of the money and securities markets during the period of peak seasonal strains and of substantial Treasury borrowing operations. The squeeze from year-end pressures was more pronounced than usual because of the restrictive policy that had prevailed for some time, because of the still incomplete adjustment to the November change in discount rates, and because of market anticipations of further restrictive credit policy moves after the year-end. Both the form and timing of

the Treasury refunding operation, for which books were open on November 28-30, and of the cash financing, for which books were open on December 8, placed added pressures on already strained markets. Reserve projections showed that net borrowed reserves would rise further to the \$700-800 million range, unless something were done. Federal Reserve action was necessary to forestall progressive market deterioration. Consequently, outright purchases were made of \$256 million Treasury bills and repurchase agreements were entered into for a gross amount of \$493 million between November 24 and December 7. In addition to this aggregate (gross) release of funds of about three-quarters of a billion dollars, a decision was reached by the Federal Open Market Committee to deviate temporarily in this refunding from the general policy adopted in 1953 and to authorize the Account to purchase a limited amount of the 2½ per cent "when-issued" certificates, due December 1, 1956, which were a part of the Treasury refunding offer. Purchases under this authorization totaled \$167 million, all made on November 30 for delivery on December 8. These purchases were preceded and accompanied by purchases of "when-issued" securities for Treasury accounts, which reached a gross amount of \$267 million.

Despite the assistance given the market by these operations, sentiment in the Government securities market again deteriorated prior to the Treasury cash offering of \$1.5 billion of Tax Anticipation bills on December 8, and net purchases of Treasury bills totaling \$141 million were made on that day. In addition, repurchase agreements were liberally granted at maximum maturities, and dealers were given assurances that such agreements would be available to meet year-end needs. The liberal extension of repurchase agreements, and a general use of the maximum 15-day maturity, contrasted sharply with the earlier practice of usually limiting the term to a shorter period when such transactions were designed to offset relatively brief interludes of pressure.

The decline in the borrowed reserves of the banks did not counterbalance the seasonal pressures from all quarters, however, and interest rates generally continued to rise. The market rightly interpreted the data on reserve balances as a temporary phenomenon which did not portend a policy reversal in the direction of ease.

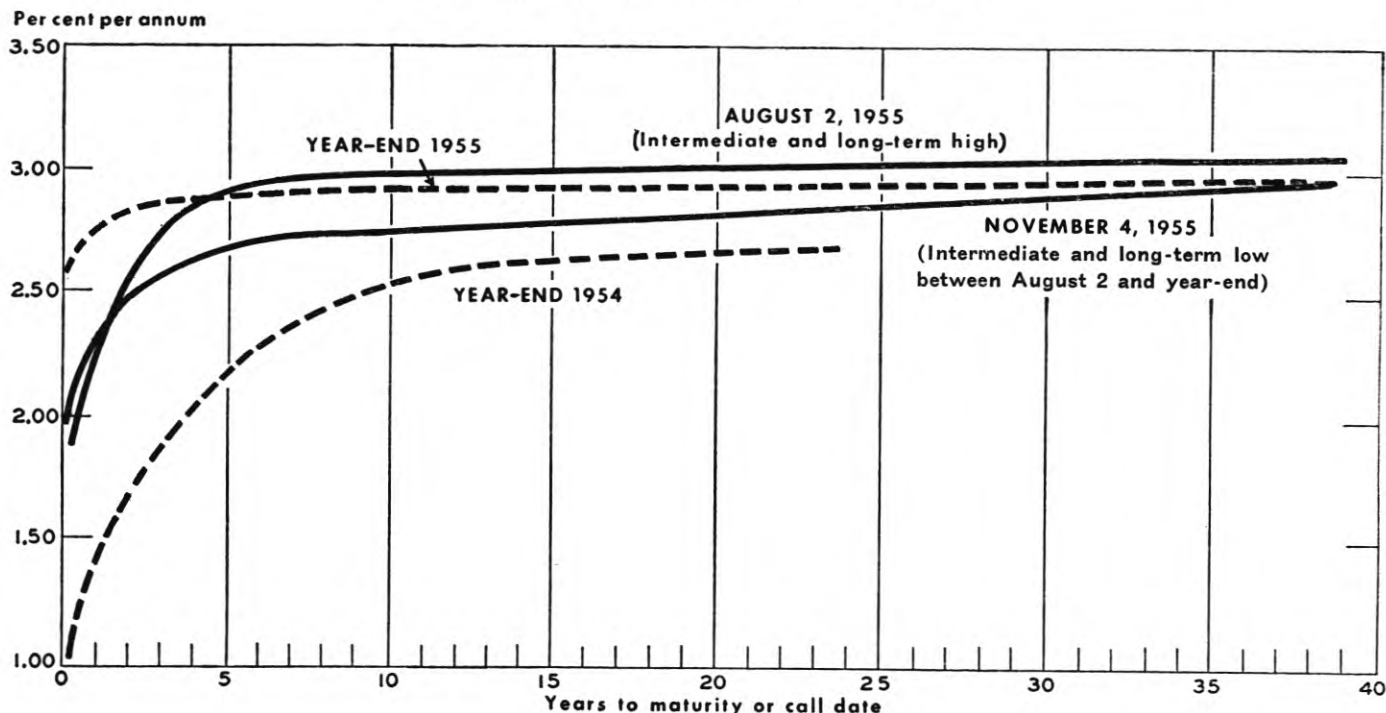
The effects of credit policy on the money and securities markets

The movement of credit policy from ease to restraint during 1955 was reflected in a gradual, though by no means uninterrupted, rise in all interest rates. Rates on various types of short-term private paper moved up repeatedly—dealers raising their offering rates for bankers' acceptances ten times to a level of 2½ per cent for 90-day bills at the year-end, while prime commercial paper rates were increased on twelve occasions to a level of 3 per cent by December 5. Customers' loan rates of commercial banks were also adjusted upward, the interest cost to borrowers with the best credit ratings rising by ½ per cent to 3½ per cent in two steps. Yields on Government securities of all maturities continued the upward movement that was discernible in the second half of 1954, when the economy first showed signs of revival following the 1953-1954 recession. The largest advances took place at the shorter end of the yield curve, bringing much of the curve virtually to a horizontal position, as shown by Chart III, on the next page. In addition, there was a substantial increase in yields on corporate and municipal bonds.

The rise in interest rates was, of course, an expected result of the higher discount rates and of the increasing pressures on bank reserves as the demand for bank loans increased. The rate adjustment process for the most part took place gradually, and did not break out into a runaway spiral at any time. Banks and the market generally became adjusted to tight money and learned to live with it, in contrast to the almost frantic reactions that took place with the successive increases of interest rates in the first half of 1953.

The average issuing rate on Treasury bills rose over the year from 1.175 per cent at the last 1954 auction to 2.688 per cent for the bills dated December 29, 1955, and the rates established in each weekly auction after November 21 set successive new highs for the period since the bank holiday in 1933. The rise in bill rates, however, was not uninterrupted. Thus, in May and June, demand from nonbank corporations together with the temporary easing of bank reserves resulted in a substantial decline in yields. Similarly, in the latter half of October, bill rates dipped considerably, partly in sympathy with declining yields on other Government securities.

Chart III
Yields on U. S. Treasury Issues on Selected Dates



Intermediate and long-term Government security yields moved over a narrower range than Treasury bill yields. The most notable deviation from the upward trend occurred during September and October, as discussed earlier in this *Report*, when market opinion veered toward the belief that credit policy might ease. However, increased restraint toward the end of October and in November, reinforced by the November discount rate increases, was accompanied by an upturn in yields. By the year-end, as indicated by the yield curves shown in Chart III, yields on most intermediate and long-term Government securities were close to the peaks reached in the summer.

The general upward trend in interest rates was also reflected in the municipal and corporate bond markets. Average market yields, as indicated by Moody's indexes of high-grade corporate and municipal issues, rose about $\frac{1}{4}$ per cent over the year. The rise in yields on outstanding issues was quite gradual during the first six months of the year, but pronounced increases occurred in July and August, and a number of new issues were postponed when bidding by underwriters led to net interest costs that some prospective borrowers considered to be excessive. In September and October yields on both outstanding and new corporate and municipal issues tended to decline, thus

paralleling the perverse movement of Government bond prices during these months. With some delay, municipal and corporate markets responded to the change in expectations in early November, and by December new issues met with a good response only when the offering yields were substantially above the lows of early November.

DEVELOPMENTS IN TECHNIQUES AND PROCEDURES

The Securities Department has continued to explore possibilities for improving open market operating techniques. A renewed effort was made in 1955 to improve and refine the reserve projections and the techniques for supplying or absorbing reserves with a minimum of overt interference in the market. In addition, to forestall temporary disruptions of the money market that might occur in the process of moving to higher levels of net borrowed reserves, more current data were obtained on the flow of reserves between the central money market and the rest of the country. Further progress was also made in improving communications within the Federal Reserve System, so that policy-making officials and their staffs might be kept currently informed of rapidly changing money market conditions and of System open market operations.

Changes in operating procedures

A number of occasions arose during 1955 for furthering the objectives of System policy by making purchases or sales for the System Account through transactions directly with various foreign accounts whose business is handled by the Federal Reserve Bank of New York. There were also a variety of circumstances, under the conditions of restrictive policy, where the aims of System policy were furthered by close coordination of the transactions executed in the market for foreign accounts (as well as those for Treasury accounts) with the operations being carried out for the System Open Market Account. While the Account Management has always endeavored to coordinate transactions for Treasury and foreign accounts with the aims of System open market operations, including direct purchases or sales between accounts, the need for constant attention to this synchronization of operations has grown commensurately with the growing size and importance of foreign dollar balances and foreign holdings of U. S. Treasury securities in recent years.

The distribution of transactions among dealers, both for System Account and for all the accounts, has continued to be systematically reviewed to assure equitable sharing of the opportunities to do business with the Trading Desk. As usual, the actual distribution of business was influenced by the broad concept of finding the "best price" under competitive conditions.

With respect to the number of dealers who actually engage in transactions with the Trading Desk, the Management has made it clear that any dealer can feel free to contact the Trading Desk at any time, and that transactions will be undertaken with any firm so long as it is a reputable, going business concern, provides the usual financial statements, and demonstrates a continuing active participation in making primary markets for Government securities on a national scale. During 1955 the Desk transacted business for the System Account with six bank and twelve nonbank dealers, and with an additional four nonbank dealers in executing transactions for other accounts.

The "cash" trading technique (same day delivery) was used more extensively in 1955 than heretofore and proved particularly valuable, as policy objectives became more restrictive, in responding quickly to changes in the money market. Dealers were frequently asked to make their bids or offers either for "cash" or regular delivery, as their

positions permitted, thereby keeping open the possibility of "cash" trading as late in the day as any one dealer could function on that basis. As a result, the Management was able to do a larger part of its trading for "cash" than might otherwise have been possible. Market purchases for the System Account during 1955 were divided 40 per cent for "cash" and 60 per cent regular delivery, and market sales were 12 per cent "cash" and 88 per cent regular.

Repurchase agreements against Government securities

Movement of credit policy toward greater restraint meant a more active role for repurchase agreements. In 1955, we executed 386 repurchase agreements totaling \$4,117,657,000, compared with 126 totaling \$2,413,400,000 in 1954. Repurchase agreements are well suited to dealing with the temporary "knots" in the money market that threaten to arise from time to time when reserve positions are subjected to mounting pressure, since they avoid whipsawing the market, as outright purchases and sales in quick succession might do. A major improvement in precision in the use of the repurchase agreement technique was accomplished by the institution of a continuous daily survey by the trading room personnel of money market pressures as reflected through the borrowing needs of nonbank dealers. Dealers' financing requirements, and the manner and extent to which they are being met, are explored with a view to obtaining a clearer picture of the availability and cost of funds, both in New York and in the entire country. In most cases the reported "marginal" needs have been satisfied only in part through repurchase agreements, if at all, in order to assure continued pressure on dealers to secure outside funds.

On several occasions during the year, particularly when credit policy was passing through an important transition, the repurchase rate has been varied both above and below the discount rate, using as a benchmark the latest average issuing rate on Treasury bills.

Introduction of the "C" Tax and Loan depositaries

As a result of a cooperative study by the Federal Reserve System and the Treasury of means to reduce fluctuations in the Treasury balances with the Federal Reserve Banks, a new class of Tax and Loan Account depositaries was introduced in 1955, effective July 29, comprising the forty-four banks each having total deposits of \$500,000,000 or more. Special calls on the Treas-

ury's accounts in these Class "C" banks* may be made in the morning for payment the same day, while previously scheduled calls may be partially or fully deferred or cancelled. In addition, the Treasury may redeposit in its Tax and Loan Accounts at the "C" banks excess funds accumulated in its General Account at the Reserve Banks. Decisions to employ any of these procedures are made by the Treasury in consultation with the officers of the Securities function at a daily 10 a.m. telephone conference. All variants of the new procedure were tested in actual practice during 1955, without distress to any bank and with considerable advantage to the System and the Treasury. This has helped to reduce short-run and unexpected fluctuations in the Treasury's working balance, although in certain periods of the year, particularly in December, when deposits in the "C" banks were too low to permit effective use of immediate calls, the balance still moved substantially away from normal levels and interfered to some extent with the achievement of desired reserve pressures.

Improvements in reserve projections

The most notable advance in improving reserve projections was the arrangement completed with the cooperation of the Treasury and the Reserve Banks to speed up the reporting of the Treasury's balance at each of the Reserve Banks. The balance as of the previous night's close is now reported to the officers of the Securities function by 9:30 a.m. the following morning, in time to be incorporated in new projections before the market opens. The projections of reserve influences are now revised daily, and the horizon of the estimates has been extended from two weeks to four weeks. New "spread sheets" embodying the latest estimates are submitted to the officers each morning by 10:30 a.m., and further revisions are made on days when there is a change in, or an addition to, the Treasury's call schedule. During the year arrangements were also made for all of these data to be distributed daily to all other senior System officials who wished to receive them. Continuing study and appraisal of our methods have resulted in a number of refinements in the estimating techniques that have helped to increase the accuracy and reliability of the projections, even though they still vary widely, at times, from subsequent actual figures.

* Class "A" banks are those with Tax and Loan Account balances of \$150,000 or less at the close of business July 28, 1955; Class "B" banks are all those banks, except "C" banks, with Tax and Loan Account balances of more than \$150,000 on that date.

Information regarding money market flows

An arrangement has been worked out with the leading New York banks to report daily, on a confidential basis, their net Federal funds position (i.e., purchases or sales) as of the previous night's close. In conjunction with previously available internal data on reserve position and borrowing, this new information on Federal funds helps to round out a picture of the relative ease or strain at the City banks through the close of the preceding day.

Broadened statistical coverage was supplemented during the year by wider and more frequent regular personal contacts with leading financial institutions in New York City. These contacts have provided a better understanding of developments as they occur, as well as advance information regarding large transfers of funds which there had previously been less opportunity to anticipate. From frequent conversations with the portfolio and money position managers at the largest banks, a better feel of the current status and future prospects for the New York money market is obtained. Contacts are maintained with several life insurance companies and underwriting houses and useful information has also been volunteered on the money market impact of their operations by several nonfinancial corporations undertaking sizable borrowing programs. The information obtained through these channels has made it possible to gauge more accurately the significance of cross currents flowing through the money market.

Operations in bankers' acceptances

Authority was granted by the Executive Committee later abolished of the Federal Open Market Committee, effective March 29, 1955, to the Federal Reserve Bank of New York to make open market purchases of prime bankers' acceptances for its own account, thereby reactivating direct System participation in the acceptance market. The action of the Executive Committee was taken in the belief that the System should assist in the further development of an acceptance market in the United States, with a view to improving this country's means of financing foreign trade and the functioning of international money markets. The New York Reserve Bank was authorized to buy and sell acceptances at market rates of discount at times and in amounts consistent with general credit policies and the instructions of the Federal Open Market Committee. Under this authority, aggregate holdings were not to exceed

\$25 million, and all purchase transactions were to be effected at market rates through nonbank dealers in bankers' acceptances. In addition, the Bank was authorized to enter into repurchase agreements in bankers' acceptances with dealers at the same rate as that applicable to repurchase agreements on Government securities.

The authority was granted at an appropriate time in that "free acceptances" were in plentiful supply, and the Bank acquired a portfolio of \$11.0 million in the first week of operations. These holdings reached an initial peak of \$19.7 million on April 21. Thereafter, holdings declined through July because of the seasonal decline in the aggregate volume of acceptances outstanding (see table below). The dominance of swap transactions between acceptance dealers and supplying banks, limiting the supply of "free acceptances," and the customary seasonal decline in outstanding acceptances, prevented the full replacement of maturities during the greater part of June and July. The low of \$10.3 million in acceptance holdings occurred on July 27, coinciding with the year's low in the market supply. The seasonal upturn in market supply in August and the months following was paralleled by an increase in the portfolio to about \$18 million in early October, with another increase to a new peak of \$23.8 million at the year-end. The amount of acceptances held by the Bank at any given time has not exceeded 3 per cent of the total volume of bankers' acceptances outstanding in the United States.

**Bankers' Acceptances Outstanding, and
Holdings by this Bank
(In thousands)**

End of Month	Holdings by this Bank		Total outstanding
	Purchased outright	Under repurchase agreements	
March	\$ 3,766	0	\$806,968
April	17,352	0	767,321
May	14,096	0	685,846
June	15,928	0	654,576
July	10,384	0	649,636
August	14,418	0	654,855
September	17,216	\$4,155	670,700
October	16,219	0	661,627
November	17,493	0	641,526
December	23,802	4,403	641,680

Gross aggregate purchases of bankers' acceptances totaled \$121.2 million during the period from March 31 through December 31. Partly because a high proportion of the acquisitions was in shorter

maturities, purchases by the Bank for its own account constituted nearly 9 per cent of the total supply reaching the acceptance market during this period. The proportion varied, of course, according to the availability of "free acceptances" in the market as well as the dictates of open market policy. (Purchases for the Bank's foreign correspondents have made it possible for the Bill (acceptance) Division of the Bank to observe an additional 11.5 per cent of the volume of acceptances passing through the market.) All purchases have been made at the rates quoted by dealers on endorsed bills. No sales have been made from the Bank's holdings. As a matter of operating procedure, it was intended that downward adjustments should be made only through the run-off of bills, and holdings were arranged (within the limits permitted by the acceptances available) to permit the flexibility afforded by daily maturities.

With a view to avoiding any interference with rate adjustments being brought about by basic market forces, Reserve Bank participation in the market has been "nonaggressive" in the sense that attempts to purchase acceptances have not been pressed when bills were scarce, and purchases have not been increased to take up any oversupply in the market when this was not consistent with other System policy objectives.

A gross total of \$54.8 million in acceptances was acquired by this Bank under repurchase agreements with dealers during the period from March 31 through December 30, of which \$4.4 million remained outstanding on the latter date. Repurchase agreements against acceptances have been outstanding on 49 business days since the Bank's entry into the market in March. Requests from acceptance dealers for such facilities occurred mainly during periods of rate adjustments, when the imbalance between demand and supply resulted in rising dealer portfolios which could not be financed elsewhere except at rates considerably higher than dealers' buying rates. There was also a demand for repurchases toward the end of December as dealers sought assistance in meeting the year-end money pressures. In general, the availability of repurchase facilities against bankers' acceptances has been coordinated with the availability of similar facilities against Government securities, and the rates on both types of repurchase agreements have been identical. The maturity of repurchase agreements against acceptances has never exceeded 15 days, and in most cases dealers have withdrawn acceptances within three or four days of the original sales contract.

Staff

There have been a number of changes in personnel during the year, as part of a newly instituted program of rotation and training aimed at diversifying the experience and skills of the operating staff.

Statistical summary of operations

This Bank, under the direction and authorization of the Federal Open Market Committee, made outright open market purchases of Government securities for the System Open Market Account for delivery during 1955 having a total face value of \$2.2 billion and sold, or presented for redemption, securities having a face value of \$2.7 billion. These outright transactions for the System Account thus withdrew \$497 million of reserves from the market. However, net purchases of bankers' acceptances, both outright and under repurchase agreements, totaling \$28 million, were made for the account of this Bank, and the total of United States Government securities held under repurchase agreement increased \$349 million during 1955. In sum, therefore, the net reduction in reserves resulting from System open market transactions was \$120 million. The following table shows the effect of System security operations and other factors upon the availability of bank reserves in 1955.

Factors Affecting Member Bank Reserves—1955 (In millions)

Factors of decrease

Decrease in Federal Reserve holdings of Government securities and bankers' acceptances	\$ 120
Increase in money in circulation	646
Increase in other Federal Reserve deposits and accounts	168
Total	\$ 934

Factors of increase

Increase in Federal Reserve float	\$ 732
Decline in Treasury cash and deposits	169
Increase in Federal Reserve Banks' loans, discounts, and advances	97
Increase from gold and foreign account operations	65
Total	\$1,063
Increase in member banks' reserves	\$ 129
Increase in required reserves	262
Decrease in member banks' excess reserves	\$ 133

Total holdings of Government securities by the Federal Reserve System at the end of 1955 amounted to \$24.8 billion, of which \$24.4 billion

represented securities held in the System Open Market Account and \$0.4 billion short-term securities held under repurchase agreements by the Federal Reserve Bank of New York. Purchases, sales, redemptions and exchanges of securities in the System Open Market Account during 1955 resulted in a decline of \$0.7 billion in bill holdings, a decrease of \$7.9 billion in certificates of indebtedness, an increase of \$8.1 billion in Treasury notes, and no change in the bond portfolio. This Bank's share in Government securities held by the System Open Market Account at the year-end amounted to \$6,199 million compared with \$6,357 million at the end of 1954. The net decrease of \$158 million reflected the total decline in the System Account and, in addition, the effect of the annual reallocation of the System Account on April 1.

In addition to the security transactions undertaken in the market for the System Open Market Account and on repurchase agreement for this Bank, a large volume of transactions was executed by the Securities Department for account of member banks, foreign and international accounts, Treasury accounts, and other investors. The total of such transactions, both purchases and sales, came to \$3.3 billion in 1955, including about \$660 million in transfers directly between accounts with the Bank. The following table shows that the aggregate of trading activity for these accounts was somewhat smaller in 1955 than in other recent years.

Trading in Securities by this Bank for Other Accounts (In millions)

	1955	1954	1953
Member banks	\$ 171.7	\$ 170.5	\$ 137.8
Foreign accounts	2,319.2	3,192.7	2,723.5
Treasury accounts	837.1	509.8	862.0
Other	16.6	8.9	18.7
Total	\$3,344.6	\$3,881.9	\$3,742.0

FISCAL AGENCY OPERATIONS

Public debt

On June 30, 1955, the year-old temporary \$6 billion increase in the statutory public debt limit to \$281 billion was extended for another twelve months, so that the Treasury might continue to meet the financial needs of the Federal Government. During 1955 the Treasury Department conducted ten (thirteen in 1954) refunding and new financing operations, four of which were Tax Anticipation offerings. At the year-end the statu-

tory debt was \$280.3 billion, an increase of \$2.1 billion from the previous year-end figure.

This Bank's share of the total dollar volume of the exchanges, issues and redemptions required by the Treasury's financing operations in marketable securities during 1955 was 63.9 per cent, a slight decline from our 1954 level of 64.4 per cent. Our share, by dollar volume, in the Treasury's financing operations in nonmarketable securities was 23.7 per cent, a substantial increase over the 1954 volume of 18.7 per cent, but still below the 1953 level of 30.6 per cent and the 1952 level of 39.5 per cent.

Treasury Financing Handled by this Bank

(In millions of dollars)

	1955		1954	
		% of country total		% of country total
Marketable issues				
Certificates, notes and bonds:				
Exchanged	\$ 27,477	73.3	\$ 29,700	60.1
Issued for cash	4,939	42.1	4,233	41.9
Redeemed	5,324	55.4	3,754	53.0
Treasury bills:				
Issued on exchange	3,988	70.1	6,165	77.3
Issued for cash	48,800	63.7	45,210	62.2
Redeemed for cash	46,790	63.4	52,431	72.2
Total marketable	\$137,318	(63.9)	\$141,493	(64.4)
Nonmarketable issues*				
Issued for cash	\$ 1,240	17.6	\$ 1,368	17.8
Redeemed	3,262	27.3	1,686	19.4
Total nonmarketable ..	\$ 4,502	(23.7)	\$ 3,054	(18.7)

* Includes Savings bonds, Armed Forces Leave Bonds, Savings notes, Special notes, International Monetary Fund Series, and Investment Series A and B bonds.

Volume of work

The volume of outstanding marketable securities handled by this Bank in 1955 declined 7 per cent from the 1954 volume, as shown in the following table:

(Number of pieces handled)

	1955	1954
Marketable issues:		
Issued	599,259	658,058
Exchanged	2,064,115	2,119,765
Redeemed	776,231	920,271
Total	3,439,605	3,698,094

This work includes handling Treasury financing operations; the refundings and new offerings of several Government agencies; and the servicing of unmaturing securities, such as denominational exchanges, exchanges of bearer securities for registered, registered for bearer, transfers of registered securities and telegraphic transfers of securities to and from other parts of the country.

The number of nonmarketable issues handled in 1955, as compared with 1954, declined less than 1 per cent, but rose approximately 47 per cent in dollar volume, as shown in the table below:

	Pieces handled		Amount (In millions)	
	1955	1954	1955	1954
U. S. Savings bonds:				
Issued	13,360,597	12,587,667	\$1,070	\$1,121
Redeemed	14,552,240	14,681,764	1,282	1,345
Reissued	842,848	1,501,078	194	243
Armed Forces Leave Bonds:				
Redeemed	7,639	11,043	2	2
Savings notes:				
Redeemed and reissued	16,980	13,680	1,697	360
Special notes, International Monetary Fund Series:				
Issued, redeemed and reissued ..	66	93	311	436
Investment Series A and B bonds:				
Redeemed and reissued	2,883	1,780	772	116
Total	28,783,253	28,797,105	\$5,328	\$3,623

Issue and redemption of Savings bonds

By an amendment to its regulations in February 1955, the Treasury Department sharply curtailed the acceptance of Savings bonds for safekeeping by Federal Reserve Banks. Along with the other Reserve Banks, we were instructed not to accept such bonds after March 31, except from "old accounts" the owners of which disclaimed any knowledge of the discontinuance of the safekeeping facilities; the exception in favor of these "old accounts" was to terminate at the year-end. The Treasury's instructions also provided that bonds once withdrawn from safekeeping could not be deposited again, except, that if the withdrawal was made to exchange the bonds for certain others, or to redeem part and reissue the remainder, the new bonds resulting from the transactions could be deposited. The following tabulation indicates the effect of the change on our Savings bonds safekeeping operation:

	1955	1954
New accounts (av. per mo. Apr.-Dec.)...	-0-	32
Bonds deposited (av. per mo. Apr.-Dec.)	946	3,933
Bonds withdrawn (av. per mo. Apr.-Dec.)	5,829	4,924
Total accounts at year-end	16,768	19,272
No. of bonds in safekeeping at year-end	474,879	524,673
Maturity value of bonds in safekeeping at year-end	\$58,662,455	\$64,206,570

In August 1955, the Treasury Department empowered us to authorize certain European offices (military) of domestic banking institutions to

issue (in addition to their previously granted authority to redeem) Savings bonds; we were also empowered to authorize Pacific military offices of those institutions to issue and redeem Savings bonds.

Procedural revisions during 1955 in our operations resulted in a 19.5 per cent reduction in our Savings bond staff, an annual salary saving for the operation of \$100,934.

Telegraphic transfers of marketable securities

The number of telegraphic transfers of Government securities in 1955 increased by more than 14 per cent over the preceding year. The number of pieces handled increased by approximately 4 per cent; the dollar volume decreased by about 5 per cent. We credited the account of the Treasurer of the United States with \$208,060 in fees received during 1955 for telegraphic transfer services, compared with \$171,900 in 1954. The volume of transfers in 1955 and the comparable figures for 1954 follow:

	1955	1954
Transfers (outgoing)	64,074	50,347
Transfers (incoming)	55,620	54,217
Pieces handled (outgoing).....	444,633	455,245
Pieces handled (incoming).....	371,498	327,625
Par amount, in millions (outgoing)	\$ 29,743	\$ 33,036
Par amount, in millions (incoming)	\$ 32,100	\$ 32,416

On December 12, the Treasury announced that effective January 1, 1956, only securities having a face value of \$5,000 and more would be accepted for transfer by wire (formerly, no minimum amount was specified).

Re-use of Treasury public debt securities

On July 1, 1955, the Treasury re-initiated a program (originally in effect from 1919 to 1921) of re-using fit marketable public debt bearer securities. Previously, all marketable securities taken in for exchange or telegraphic transfer were cancelled and retired and new securities issued in their place. This Bank's experience for the first six months of the re-use program has shown that approximately 94 per cent of the securities received by us have been considered fit and have been deposited in the general stock for re-use. This has reduced the shipments of cancelled securities to the Treasury Department from a monthly average of 46,081 pieces to 3,450. We estimate that 75 per cent of the fit pieces have been re-used. A complete review of the re-use program will not be made for some time by the Treasury Depart-

ment. However, savings by the Treasury in printing costs for July through December appear to be close to the original estimate of \$90,000 per annum. A contemplated reduction in this Bank's clerical staff as a result of the program had not materialized before the year-end because the Treasury has established additional controls to trace ownership of securities. We understand that the additional controls will remain for approximately a year, after which the need for them will be reviewed.

Treasury Tax and Loan Account

The volume of work in maintaining Treasury Tax and Loan Accounts was greater in 1955 than in 1954 both in number of transactions and in dollar volume, as shown below:

	1955		1954	
	Trans- actions	Amount (In millions)	Trans- actions	Amount (In millions)
Funds:				
Deposits	235,748	\$13,304	222,770	\$11,850
Withdrawals ...	49,379	12,957	46,124	12,019
Collateral security:				
Deposits	5,276	\$ 4,655	6,830	\$ 5,294
Withdrawals ...	4,635	4,665	6,018	5,153
Statements rendered	18,280	—	17,296	—

A new category of Tax and Loan depositaries, designated "Class C," consisting of all banks with total deposits of \$500 million or more, was established on July 29, 1955. At the year-end eleven banks in our District were designated Class C depositaries.

Federal National Mortgage Association

On January 11, 1955, the Treasury Department through the facilities of the Federal Reserve Banks offered for cash \$500 million 2½ per cent FNMA Notes, dated January 20, 1955, to mature January 20, 1958. Total subscriptions for the country amounted to \$3,485,915,000; of this amount \$570,389,000 was allotted. Allotments through this Bank totaled \$144,869,000; we handled 343 subscriptions and issued 7,416 notes.

International Bank for Reconstruction and Development

This Bank as fiscal agent for the International Bank for Reconstruction and Development redeemed on February 15, 1955 \$10 million in 2 per cent Serial Bonds of 1950, due in 1955; and on May 25, 1955, exchanged for definitive bonds \$100 million of 3½ per cent Fifteen Year Bonds, due 1969, in temporary form. These operations are reflected in the table below, which also includes

servicing other outstanding obligations of the International Bank:

	Pieces handled		Amount (In millions)	
	1955	1954	1955	1954
Issued	-0-	82,334	-0-	\$150
Exchanged	145,422	76,360	\$301	180
Redeemed	6,516	6,158	10	10

Foreign Assets Control

Acting as fiscal agent of the Treasury Department in administering the Foreign Assets Control Regulations,* we received during the year 5,400 applications for licenses, bringing the total to 32,800 filed since the effective date of the regulations (December 17, 1950).

Destruction of unfit currency

During 1955, we verified and destroyed for the Treasury approximately 296 million pieces, aggregating \$415 million, of unfit United States currency (silver certificates and United States notes) in the \$1, \$2, \$5 and \$10 denominations, as compared with 243 million pieces aggregating \$358 million in 1954. Notwithstanding the 22 per cent increase in the number of pieces destroyed, the staff assigned to this operation was reduced from 13 to 10, thus resulting in an annual salary saving of approximately \$16,000.

CHECK COLLECTION

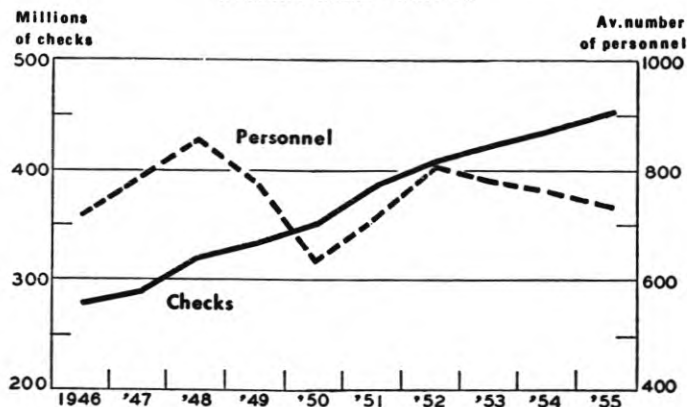
The number of commercial checks processed for collection by the Head Office in 1955 was 451 million, 3.4 per cent above 1954 and a new all-time high for the twenty-second consecutive year. Although personnel turnover was moderately less than in the preceding year, the difficulties in securing replacements continued, with the result that the average staff employed in this work was 730 in 1955, against 762 in 1954, a decrease of 4.2 per cent. This reduction in staff lessened our salary liability by \$26,301, but contributed to a \$78,297 increase in overtime. For the year, however, we showed a net improvement in the ratio of salary to the volume of work; in 1955 the salary cost per 1,000 items was \$5.76, compared with \$5.85 in 1954.

Saturday processing and dispatching of items of \$1,000 and over

In May 1955, after discussions with New York City representatives of the Association of Reserve City Bankers and the New York Clearing House

* These regulations, in effect since December 17, 1950, block assets in the United States of, and prohibit trade and financial transactions with, Communist China and North Korea and their nationals.

Checks Handled, and Operating Personnel
at Head Office—1946-55



banks, we began on an experimental basis to process and dispatch on Saturdays (not otherwise legal holidays) Second District country items of \$1,000 and over, when deposited before 10:30 a.m., with credit availability computed from Saturday. Through the end of the year, an average of 7,600 such checks was processed each Saturday. The average dollar amount of these checks was \$42.9 million, of which \$39.3 million represented deposits by New York City banks. Whether or not the net funds made available earlier to depositing banks by this procedure, when weighed against the costs and other aspects of the operation, warrant continuance of the program is now being evaluated by the officers of the Cash and Collections function.

Improved delivery of incoming air mail

In April 1955, with the cooperation of the United States Post Office Department, we initiated a plan to expedite the delivery of cash letters sent to this Bank by air mail. Under the plan, banks were requested to use a special gummed label on cash letters sent to us via air mail, the effect of which has been to expedite deliveries by reason of reduced handlings at post office distribution points. Approximately 160 banks, including some Federal Reserve Banks and Branches, are now using the labels which we supply.

Nassau County clearing arrangement

At the end of 1955, the Nassau County Clearing Bureau had completed two and one-half years of operation and had established itself as a notable example of how local area items can be collected. During the past year, the Bureau processed 17 million items, or an average of 68,000 items daily, the greater part of which would have passed through our hands had the Bureau not been in existence. This volume represents an increase of

21 per cent over 1954. Our contribution toward the cost of operating the Bureau in 1955, based on two-thirds of the total operating expenses less the cost of handling "intra-bank items" (items clearing between offices of the same bank), amounted to \$102,059, or \$6.13 per thousand items. In 1954, we had contributed \$89,647, which amounted to \$6.57 per thousand items cleared. At the close of the year, 29 banks with 101 banking offices in Nassau and Suffolk Counties were active participants.

Check Routing Symbol program

Continued support was given the Check Routing Symbol program sponsored by The American Bankers Association and the Federal Reserve System. The annual nationwide survey of checks drawn on par-remitting banks as of December 1, 1955, showed that 94.5 per cent bore the proper symbol in the approved location, an increase of 1.4 per cent compared with 1954. Improvement was shown in all districts; the First District once again led with 98.3 per cent compliance, while this District followed with 97.6 per cent.

Government checks

The number of Government checks handled at this Bank rose again during 1955 to 58.3 million. The upward trend, which is expected to continue, is almost entirely the result of the broader coverage and increased number of payments under the Social Security program.

In October, the Secretary of the Treasury announced that a centralized Government check payment and reconciliation system will be adopted during 1956 to achieve efficiency and economy in the Government's operations. Under this new system, the Reserve Banks will no longer pay Government checks as fiscal agents and depositaries, but will merely continue to clear the checks on behalf of the depositing banks, giving immediate credit to the depositing banks and presenting the items to the Treasurer of the United States for payment. Gradual transition to the new procedure, which will employ electronic equipment at a central facility operated by the Treasury, is scheduled to commence on August 1, 1956, and to be completed by mid-1957. The Government expects to realize savings approximating \$1.7 million annually when transition to the new system is complete. We expect substantial economies in our operations, resulting chiefly from a decrease in the number of personnel required under the revised procedure.

Postal money orders

The number of postal money orders processed, which for the past two years has been edging down from the 1952 peak of 54 million, declined 2.2 million further in 1955 to a level of 47.5 million. As a result of the decline and of greater efficiency, our operating costs in 1955 were approximately 15 per cent less than in 1954. We have been informed by the Post Office Department that 50 per cent of the nationwide decrease of about 10 million money orders a year is attributable to a substantial reduction in c.o.d. transactions handled through the mails, each of which resulted in the issuance by a post office of a money order in favor of the consignor. Also contributing in an important degree is the more extensive use of bank money orders and checks.

CASH OPERATIONS

The extent of our cash operations during the year, as compared with 1954, is illustrated below; all figures are in millions.

	1955		1954	
	Currency	Coin	Currency	Coin
Amount paid out	\$7,073	\$220	\$6,760	\$215
Amount received	\$6,919	\$217	\$6,893	\$219
Pieces counted	1,104	1,538	1,098	1,573
Pieces wrapped	—	284	—	271

The number and amount of counterfeits detected by our currency counters decreased from previous years, presumably reflecting a decline in counterfeiting, as shown in the following table:

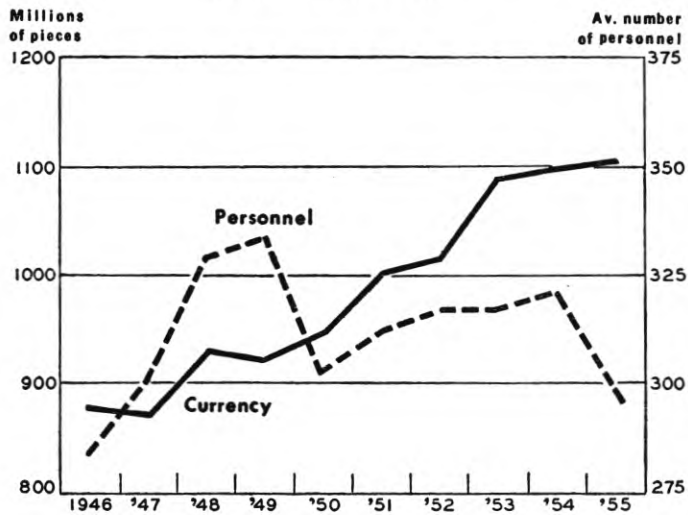
	1955	1954	1953	1952
Counterfeit currency:				
Pieces	388	508	1,136	920
Amount	\$8,082	\$8,909	\$17,722	\$15,057

Seventy-four per cent of the counterfeits detected during 1955 were of the \$10 and \$20 denominations. Thirty-six counterfeits in the \$100 denomination were detected during the year, compared with 26 during 1954.

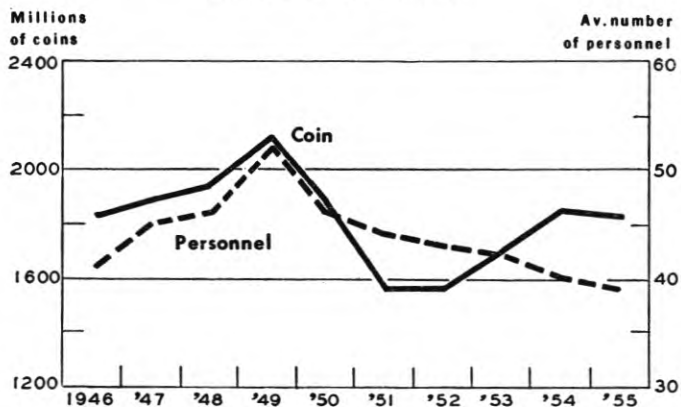
The steady demand during the year for coin of all denominations, except half dollars, depleted the stock we had accumulated early in the year. The Bureau of the Mint, however, was able to furnish us with additional stocks in the denominations which were in short supply. During the latter part of the year when the demand for pennies became particularly heavy, we arranged our payments in proportion to the amount on hand. Although this resulted in some slight postponement of payments in that denomination, the needs of our member banks were substantially met. Our excess of half dollars was distributed to other

Federal Reserve Banks at the direction of the Treasury Department.

Currency Handled, and Counting Personnel at Head Office—1946-55



Coin Handled, and Counting Personnel at Head Office—1946-55



Postal deposit program

A revision of the accounting districts by the Post Office Department, effective January 1, 1955, reduced the number of postmasters remitting surplus funds to this Bank. Accounts of postmasters located in the State of New Jersey, except those in Hudson and Bergen Counties, were transferred to the Philadelphia District and accounts of those located in Fairfield County, Connecticut, were transferred to the Boston District. Daily deposits, which averaged 1,396 during the first six months of operations ending December 31, 1954, averaged 1,118 during 1955. Total deposits for 1955 aggregated approximately \$913 million, of which \$56 million represented currency.

Expansion of vault facilities for coin and bullion

Early in the year we entered into a contract for the construction of additional compartments in E vault for storage of coin and bullion. This work, expected to cost about \$120,000, was substantially completed by the year-end. Sixty-one new compartments were constructed in what was an open area of the vault and 22 small compartments will be erected in three compartments originally designed for storage of gold bars on shelves. The new compartments provide much needed storage space for bars of gold held under earmark for foreign account, the volume of which has been increasing steadily for the past five years, and for bags of United States coin which heretofore had to be stacked on the open floor during periods of heavy inflow.

WIRE TRANSFERS OF FUNDS

There was a continued increase in 1955 in the volume of telegraphic transfers of funds made through Federal Reserve System facilities. During the year, our Head Office handled 380,000 transfers aggregating \$401 billion. This was an increase of 7 per cent in number, and 8 per cent in dollar amount over the comparable figures for 1954. Inasmuch as 81 per cent of the number of these transfers was dispatched by or received for the large downtown New York City banks, our Telefax equipment (originally installed in 1952 to handle such transfers between our office and the large banks) was overtaxed, and we were obliged to resort to messenger service to handle the excess. Accordingly, early in November, new equipment, called "Letterfax," basically similar to Telefax but having greater speed and capacity, was installed both in our office and in the 12 participating banks. With the new equipment, we have been able once more to eliminate messenger service and to give more rapid service in the transfer of funds.

Leased wire system

The development of "forms transmission" of transfers of funds and Government securities over the Federal Reserve leased wire system progressed favorably during 1955, although somewhat behind the time schedule anticipated in last year's Report. By this method, transfers can be transmitted in clear language instead of in code and in such a manner that the equipment automatically prepares the necessary advices and book-keeping tickets for the sending and receiving Federal Reserve offices.

At the close of the year the new installation was in operation at five Head Offices (including New York) and one Branch. The installation will be completed by the end of April 1956; by that time, all Federal Reserve offices should be using forms transmission equipment for transfers of funds, and all except Buffalo and Helena for transfers of securities. When completely installed, forms transmission will result in improved service to member banks and in reduced costs to the Reserve Banks, because of the elimination of the coding and decoding of messages and the typing of forms.

LOANS AND CREDITS

The shift in Federal Reserve credit policy from ease at the start of the year to mild restraint and then to active restraint resulted in an increasing use of the "discount window" by member banks. In the last six months of the year our total of daily outstanding advances to member banks was over \$38 billion, a daily average of about \$210 million. On December 29, 1955, the total advances outstanding soared to \$1,020,215,000, almost equaling the previous 32-year high of \$1,025,535,000, established in the latter part of December 1952. With demand for bank credit high and interest rates at levels attractive to lenders, we continuously sought to assure ourselves that Federal Reserve credit was not being improperly used, while avoiding any suggestion that the discount window is ever closed for proper use.

Central reserve New York City banks, because of the unusual demands made upon them to participate in loans made by correspondent banks, and to finance securities dealers and others, and because of large and sudden shifts of funds affecting their reserve positions, were our largest borrowers. During the last six months of the year they obtained approximately 79 per cent of the total credit we granted, compared with only 53 per cent in the first six months of the year. Banks located outside New York City also borrowed in greater numbers and in greater amounts in the latter six months of the year.

The Board of Governors revised Regulation A, governing advances and discounts by Federal Reserve Banks, effective February 15, 1955. The foreword to the revised regulation restates and clarifies certain guiding principles which are observed by the Federal Reserve Banks in making advances and discounts.

The following tabulation reflects the changes in member bank borrowings in 1955 in the Second

Federal Reserve District compared with the previous year:

	1955	1954	Change
Central reserve city banks accommodated	17	13	+ 4
No. of applications received.	439	115	+ 324
Amount (in millions)	\$18,125	\$4,307	+\$13,818
All banks accommodated	354	302	+ 52
No. of applications received.	3,451	1,939	+ 1,512
Amount (in millions)	\$21,521	\$5,312	+\$16,209
Average of daily outstandings \$	135.1	\$ 27.5	+\$ 107.6
High (December 29, 1955) ..	\$ 1,020.2	\$ 332.1	—
Low (January 1 and 2, 1955) \$	0.5	\$ 0.5	—

All borrowings by member banks in 1955 were secured by U. S. Government obligations.

As in the previous four years, we received no applications for working capital loans under Section 13b of the Federal Reserve Act, and inquiries concerning this type of financing during the year were infrequent. No loans of this type have been on our books since March 14, 1952.

Loan Guarantees for Defense Production (Regulation V)

Statutory authority for the V-loan program was further extended during 1955 for a one-year period to June 30, 1956 by amendment to the Defense Production Act of 1950. The number of guarantees outstanding, continuing the downward trend started in 1953, declined by 24 during the year from 69 to 45, most of the decline occurring in the first seven months of the year. During the year, the authorized face amount of loans guaranteed declined sharply from \$289 million to \$108 million. The termination of the \$76,750,000 V-loan to a large aluminum company accounted for a substantial share of the decline.

Our V-loan activity during the year was concentrated largely on servicing outstanding loans. We executed only 7 new guarantees of loans, against 23 in 1954. We purchased two distressed V-loans, one later being repaid, while the other, because of an improved financial picture, was reacquired by the private financing institution. At the year-end, two other V-loans totaling \$1,631,128, purchased in prior years, remained outstanding. Repayment in full of one of these loans is expected. The unpaid balance of \$1,625,778 on the other loan will probably be a loss—our first, and the only loss we expect under our current program. On the other hand, however, since the inauguration of the current V-loan program (September 1950), we have collected and credited to the respective guaranteeing agencies \$9,427,525 in interest and in guarantee and commitment fees, while our reimbursed expenses have been \$833,628.

The accompanying table shows significant V-loan statistics:

	1955		1954	
	Number	Amount (In millions)	Number	Amount (In millions)
New V-loan applications...	8	\$ 14.6	25	\$ 75.0
Requests for increases in V-loans	8	\$ 4.0	12	\$ 12.5
V-loan guarantee agreements				
New agreements	7	\$ 15.4	23	\$ 65.2
Amendments	9	\$ 4.1	12	\$ 20.3
Terminations	31	\$177.9	56	\$155.1
In effect at year-end....	45	\$107.5	69	\$288.7
V-loan borrowings outstanding at year-end	—	\$ 66.5	—	\$192.5

BANK SUPERVISION

Bank changes

During 1955 the total number of commercial banks in this District declined from 778 to 726, and the number of member banks declined from 678 to 626. The declines resulted from the following changes:

National banks

Absorbed by other national banks	26
Absorbed by member State banks	14
Absorbed by nonmember State bank	1
Newly organized national bank	1

Member State banks

Absorbed by national banks	7
Absorbed by other member State banks.....	5
Absorbed by nonmember State banks	2

Nonmember State banks

Absorbed by member State bank	1
Admitted to membership	1
Converted to national bank	1
Newly organized nonmember State banks	3

In the ten-year period from 1946 through 1955, the total number of commercial banks in this District declined 220, from 946 to 726. During this period, 233 commercial banks were acquired by other banks while ten new banks were organized and three savings or industrial banks converted to State commercial banks. Following is a yearly distribution of the 233 commercial banks acquired through mergers in the period:

Year	Banks acquired	Year	Banks acquired
1946.....	21	1951.....	18
1947.....	12	1952.....	22
1948.....	15	1953.....	27
1949.....	14	1954.....	26
1950.....	22	1955.....	56

During the same ten-year period the number of member banks declined 188, from 814 to 626. The percentage of banks that are members, 86 per cent at the year-end, has remained virtually unchanged over this period. One nonmember bank, formed through the union of a State bank and a national bank, was admitted to membership during the year.

There were 56 bank mergers in 1955, of which 34 took place in the first half of the year and the remaining 22 during the second half. Notwithstanding the continued decline in the number of commercial banks in 1955, the establishment of new branches and the organization of four new banks brought about an increase in the total number of banking offices from 1,924 to 1,974.

Expansion of bank loans

As indicated elsewhere in this *Report*, the business boom in 1955 generated a heavy demand for credit in the Second District. At the year-end, the loan portfolios of member banks were \$3.4 billion higher than at the previous year-end, while demand deposits were \$1.7 billion higher. To help finance the loan expansion, member banks reduced their holdings of U. S. Government securities by \$2.9 billion, of which \$2.4 billion were in issues maturing within 5 years. The loan portfolio increase resulted mainly from increases in business loans, which were \$2.1 billion higher, and in mortgage and consumer loans, which were almost \$600 million higher.

Staffing needs

The increased lending activities of our State member banks during the year placed additional burdens on our examining staff. The number of mergers of national banks with State member banks, particularly the merger of the Chase National Bank with the Bank of the Manhattan Company to form The Chase Manhattan Bank, a State member bank, also increased the supervisory duties of our staff. Our examining staff was expanded from 80 to 88 during 1955 to enable us to carry the increased work load, and we are seeking additional personnel because we consider that a complement of 100 examiners is desirable for our present volume of work.

Training program

Because of the specialized nature of our work, and because most of our trained examiners and assistants have learned their skills on the job, we

place great reliance on our training program in staffing the department. The program for young men without experience, including those obtained through our college recruitment program, consists of 18 months to 2 years of closely supervised work on the job and in an "examiners school." After that time the man will be a reasonably competent assistant; another 2 to 3 years are needed for him to become a senior assistant examiner. In many cases, however, the training process of the college recruits is interrupted by military service. The length of the training program for men with some past experience in banking, either in this Bank or elsewhere, varies with the amount of prior experience, but normally requires at least 6 months. To develop a competent bank examiner takes on the average from 5 to 8 years; our senior examiners are men with more than 20 years' experience in banking and examining work.

Survey of investments by common trust funds

The swift expansion in recent years of pension funds and of common trust funds has led to requests for information about the investment of such funds. The Board of Governors last year asked us to conduct a survey of common trust funds; it is expected that a survey will be made annually. In this District, 24 banks operating 41 common trust funds with assets in excess of \$300 million were asked to participate.

BANK RELATIONS

Technical assistance

Our Bank Relations work in 1955 consisted mainly of bank visits and giving technical assistance to member banks. Our technical assistance staff has rendered services to member banks in three fields of bank operations—check handling and bookkeeping, loans, and audit and control procedures. The following table shows the number and type of technical assistance surveys that were conducted in 1955 and in the years 1950-54:

	1955	1950-54
Check	83	628
Loans	105	338
Audit	54	503
	242	1,469

At the year-end, we had 54 pending requests for surveys, 13 for check handling and bookkeeping, 35 for credit files and loan operations, and 6 for audit and internal controls. Requests for audit

surveys have diminished and in the future will consist primarily of occasional requests for follow-up visits. Our examiners report that our work in this field has brought about a substantial improvement in audit controls, particularly in the smaller banks.

Profit analysis

As part of our technical assistance program, we have developed a new service, called "profit analysis—a guide to bank policy," which we propose to offer our member banks beginning in 1956. One part of the analysis consists of segregating a bank's operating costs functionally. From operating cost standards that we have established for banks of comparable size, our analysis of a bank's operating costs will enable the bank to measure its costs against the standards and thus focus attention on operations, the costs of which exceed standard costs. The other part of the analysis consists of a segregation of earnings from use or investments of demand and time deposits, and capital funds, and a determination of the net earnings from each type of use or investment. From the analysis a bank will be better able to determine more accurately advisable interest rates on time deposits, service charges on demand deposits, and investment policies.

Executive training

An important collateral advantage of our technical assistance program is the opportunity it affords our staff members to obtain first-hand knowledge of member bank operating problems. Most of the staff has been recruited from the Bank Examinations Department; selections have been based upon potentiality for development. Since 1950, we have had a total of 19 technical assistants; six of them have returned to the Bank Examinations Department as examiners and four have become officers of member banks. Those who have returned to bank examining work have taken back a broader perspective and a wider knowledge of the banking problems with which they will be concerned.

Group meetings

In 1955, we virtually completed a second series of group meetings held at this Bank for member bankers. The first series, which began in 1949, afforded the chief operating officer of each member bank in the Head Office territory an opportunity to visit the Bank and discuss monetary and economic topics of current interest with our officers

and research staff. The second series, which began in 1953, extended the same opportunity to junior officers or promising senior clerks of our members. Each day-long program of meetings includes an extensive visit to our operating departments, a flannelboard presentation of "The Role of Money in the Economy," and a panel discussion of commercial bank operating problems. These meetings have provided an excellent opportunity for the younger people and future senior officers of our member banks to become acquainted with their central bank and its role in the economy.

We plan to continue these meetings in the future, asking each bank to send a second or third person from among their senior officers, branch managers, or junior staff members.

Relations with New York City banks

For the past several years, we have made a special effort to improve our relationships with those officers of the large correspondent banks in New York City who call on banks in our District. Our Bank Relations officers and special representatives have entertained their correspondent-bank counterparts at luncheon, have given them an opportunity to see the operations of our Bank, and have discussed our bank visiting program with them. Through these officers we have encouraged visits to our Bank by groups of junior officers and trainees from the City banks. We have invited and received frequent requests for information on Federal Reserve operations, laws and regulations. Through these efforts, we feel we have established a working relationship with representatives of New York City banks that is free of the feeling of "competition" which has occasionally marked Federal Reserve-correspondent bank relationships in the past.

PUBLIC INFORMATION

Our program of public information continued to be concentrated on two goals. One is to create an understanding of what we in the Bank and in the Federal Reserve System are doing and why we are doing it. The other is to keep the Bank and the System aware of attitudes of the public toward us. The following statistics, from the records of the Public Information Department and Publications Division, give some indication of the Bank's contacts with the public. In all contacts with the public by staff members throughout the Bank, there is a sustained effort to cooperate with the Public Information Department to foster the

Bank's reputation as a source of dependable information, quickly and easily available.

Some Public Information Statistics

	1955	1954
Film showings	382	235
Film audiences	31,856	24,149
Guided tours	1,278	1,133
Visitors	8,453	7,089
Speeches	219	186
Speech audiences	13,110	15,200

Publications Distributed

	1955	1954
<i>Booklets</i>		
<i>A Day's Work at the Federal Reserve Bank of New York</i> . . .	37,977	42,456
<i>Bank Reserves</i>	7,392	13,065
<i>Coins and Currency</i>	61,630	27,254
<i>Money Market Essays</i>	9,707	7,312
<i>Treasury and the Money Market</i> . .	8,978	15,333
<i>Selected Economic Indicators</i> . . .	19,492	—
<i>Money: Master or Servant?</i>	122,134	—
<i>Periodicals</i>		
<i>Annual Report</i>	21,963	21,723
<i>Monthly Review</i> (av. per mo.) . . .	25,200	22,537
<i>National Summary of Business</i>		
<i>Conditions</i> ¹ (av. per mo.)	20,425	23,052
<i>Trend of Business</i> ² (av. per mo.) . .	2,710	2,668
<i>Weekly News Review</i> ³ (av. per wk.)	23,355	21,200

¹ Available to member banks only

² Available to member banks' chief executive officers only

³ Available to member banks for redistribution to their customers

New publication

In 1955 we published another illustrated booklet, *Money: Master or Servant?*, designed, like *A Day's Work at the Federal Reserve Bank of New York*, to increase public understanding of the important role of money and banking in our economy. The publication represented the culmination of our work as liaison agent between the Joint Council on Economic Education (associated with the National Council for the Social Studies) and the System Committee on Education and Publications. We gave 5,300 copies of the unbound pages of *Money: Master or Servant?* to the two Councils for incorporation into their jointly sponsored volume, *A Teachers' Guide to Money, Banking, and Credit*. In the last week of June, we began to receive deliveries of the booklet from the printer, and started our distribution. By the end of October the demand had exhausted our first printing of 90,500 copies. We ordered a second printing of 125,000 copies, which became available in November; in that month we distributed 23,814 copies, and in December, 7,820.

Distribution of booklets

During 1955 we continued to distribute publications of the Board of Governors and the other Federal Reserve Banks. The following table shows the volume of these distributions in 1955 and the volume in the year before (these booklets are included in the descriptive list that we supply to people inquiring about System publications):

	1955	1954
<i>The Federal Reserve System, Purposes and Functions</i> (Board of Governors)	5,919	5,227
<i>Your Money and the Federal Reserve System</i> (Minneapolis)	2,827	1,689
<i>Quest for Stability</i> (Philadelphia)	1,935	535
<i>Forty Years of the Federal Reserve Act</i> (Philadelphia)	1,482	450
<i>Exercises in the Debits and Credits of Bank Reserves</i> (Philadelphia)	1,336	1,051

Our experience has indicated that people find it convenient to be able to get in one place publications of all the Federal Reserve Banks and the Board. The increase in the number of copies distributed in 1955 over 1954 tends to confirm this view.

Speeches and addresses

During 1955 members of the staff at the Head Office gave 219 talks, 33 more than in 1954, on money and banking and allied subjects. The talks were made at such occasions as meetings with Second District bankers held in the Bank, meetings of county bankers associations, and of such nonbank organizations as service clubs, professional societies, schools, colleges, and teachers' conferences. We began using the two new flannelboard presentations developed late in 1954—one dealing with the credit market, the other with indicators of business and credit conditions—and we trained several staff members to use the presentations. To accommodate foreign visitors to the Bank, we developed a Spanish version of our original flannelboard presentation on "The Role of Money in Our Economy."

Early in the year, we prepared a descriptive sheet outlining talks that staff members are ready to give to bankers' meetings, civic clubs, and other interested groups. The talks cover several subjects: "The Role of Money in Our Economy," "The Functions and Uses of Bank Reserves," "The Credit Market," "Business Conditions," and certain phases of Federal Reserve operations. The Bank Relations Department distributed the sheets to bankers on a limited and experimental basis to enable us to "test the market" for such talks and also to make sure that we would not

assume more obligations to speak than we could handle satisfactorily.

Relations with schools and colleges

During the year, we increased our efforts to strengthen our relations with schools and colleges, especially with high school teachers of social studies and college teachers of money and banking. We offered our new booklet, *Money: Master or Servant?* to the Superintendent of Schools in New York City as a teaching aid to high school teachers of economics and received permission to send it to high school economics chairmen who wanted to use it. As a result, we received requests for more than 11,200 copies from New York City high school teachers.

For the third consecutive year, we held a three-day seminar on central banking in October for a group of 25 teachers of money and banking selected from Second District colleges and universities. We especially encouraged applications from schools not represented in two earlier seminars, and our Seminar Advisory Committee selected ten applicants from these institutions. Of the 66 accredited colleges and universities that offer courses in money and banking in the Second District, 62 have now had their teachers file applications for membership in one or more of our seminars. Of this number, 40 have had representation in our seminars, while 22 have not. As in previous years, the purpose of the seminar was to provide teachers attending with accurate and current information on central banking operations and policies, and achieve at the same time a "multiplier effect" in promoting the objectives of our public information program.

During the year we continued to mail to teachers of money and banking in our District copies of the full texts of speeches made by officials of the Federal Reserve System on credit developments and monetary policy. To determine the teachers' reaction to receiving selected material from other banking sources, we sent copies of the full text of a statement on bank mergers made to a Congressional committee by the New York State Superintendent of Banks. Of the 181 teachers on the mailing list, 33 responded within a week, 17 more responded within 30 days. All who replied, without exception, asked us to continue sending materials on banking irrespective of the source.

With a view to furnishing teachers in Second District colleges and universities with visual aids that might help them with their teaching, we obtained from the Board of Governors 100 copies

each of ten different 15" x 19" charts, enlarged from the *Federal Reserve Chart Book*, and offered them on a first-come, first-served basis to those teachers who requested them. The demand for copies far exceeded our expectations and we could not satisfy all requests. We reported this enthusiastic response to the Board of Governors and to the System Committee on Education and Publications, recommending a wider and repeated offer of the large charts.

In 1955 we cooperated with the American Economic Association and allied social science associations in arrangements for their joint annual meetings, held in New York City, December 27-30. These meetings, attended by more than 4,000 of the country's leading economists, statisticians, marketing, and financial specialists from industry, government, and educational institutions, are an important means for presenting new research findings and for discussion of problems of mutual interest. GEORGE GARVY, senior economist, served as chairman of the joint local arrangements committee, while other staff members served as chairmen of administrative committees, such as publicity, registration, hotel arrangements, employment bureau, and information; many others assisted in various capacities to assure the smooth running of the sessions.

Several participants in the program were drawn from the Bank personnel as well, delivering speeches, reading papers or serving as discussion leaders of sessions in fields of their special interest. I made an address ("Reflections of a Central Banker") at a joint luncheon meeting of the American Economic and American Finance Associations on December 29.

We also arranged to display at the meetings Federal Reserve publications and other materials that other Reserve Banks and the Board of Governors sent us for exhibiting. The display was manned by members of our Research and Public Information staffs who accepted requests for publications and offered assistance to visitors. During the four-day period 116 people asked for 2,855 copies of Federal Reserve publications, 95 people desiring 1,169 copies of this Bank's publications. In setting up our booth, we cooperated with the Congressional Joint Committee on the Economic Report by furnishing space for a display of their publications.

Guided tours

Both the number of tours of the Bank and the number of visitors to the Bank reached a new

peak in 1955. During the year, we continued to make tours of the Bank especially appealing to college and high school groups, and the number of these student visitors increased by more than 1,200 over the 1954 level of 4,587. Also, several employees have been trained to conduct tours in French and German so that we are now able to conduct tours in four foreign languages: French, German, Italian, and Spanish. We have, wherever possible, arranged discussion sessions for touring groups on Federal Reserve operations and policy, often using our flannelboards as a visual aid for more effective presentation.

FOREIGN OPERATIONS

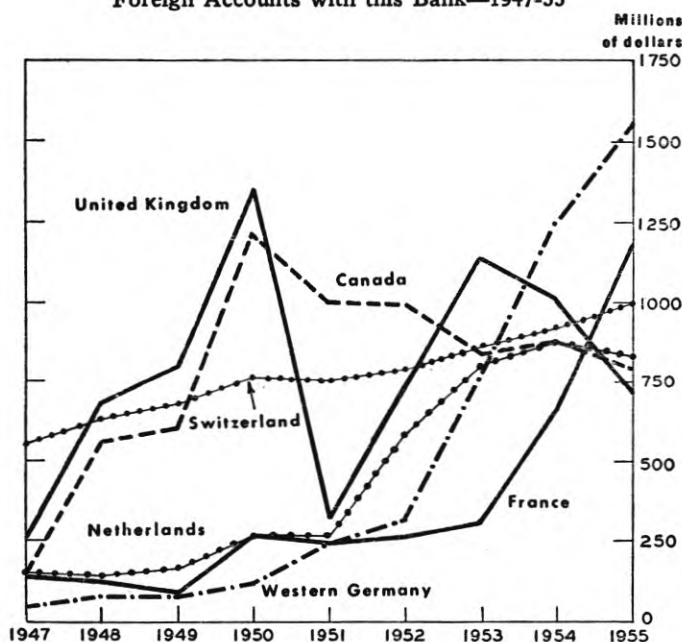
Assets held for foreign and international account

Gold and dollar assets held at this Bank for foreign account reached a new all-time peak of approximately \$10 billion on December 23, continuing in 1955 the generally steady rise that began early in 1952. Holdings at year-end were \$9.8 billion, compared with \$9.1 billion at the end of 1954. The gold and dollar assets of the International Monetary Fund and the International Bank for Reconstruction and Development held at this Bank, which are not included in the above figures, rose by \$66 million during the year to \$3.8 billion.

The Bank of France account increased \$515 million largely because of substantial United States aid payments to the French Government. More than four-fifths of the increase was invested in United States Government securities and the balance was converted into gold. The French account, totaling \$1,174 million at the year-end, was the second largest on our books, topped only by that of Western Germany. The latter continued its remarkable accumulation of dollar reserves; at year-end its holdings totaled \$1,552 million, up \$306 million for the year. The new funds were largely invested in United States Government securities and in part converted into gold. The accounts of the central banks of a number of other countries also contributed substantially to the over-all rise in the assets we hold for foreign and international account. Mexico's account rose by \$148 million, half of the new funds being used to purchase gold in replenishment of the previous year's losses. The Indonesian account increased \$123 million, all of which was invested in Government securities. The accounts of the central banks of Switzerland and Greece were up by \$83 million and \$71 million, respectively, for the year. On the other hand, the account of the Bank of England

declined to \$722 million, a decrease for the year of \$291 million, of which \$167 million was in earmarked gold and \$100 million in Treasury bills. About \$140 million was paid out of the Bank of England account at the year-end to the United States Treasury in settlement of the amount due against its \$3.5 billion postwar loan from the United States. The European Payments Union account of the Bank for International Settlements decreased \$139 million to a year-end balance of only \$8 million. This decline occurred principally because, beginning in September when the London gold price fell below the equivalent of \$35 per fine ounce, debtor countries in the EPU found it advantageous to make their monthly settlements in gold rather than in dollars. The Canadian, Cuban, and Colombian accounts declined by \$86 million, \$79 million, and \$69 million, respectively. The accompanying chart shows the movements since 1947 of the six largest foreign accounts on our books.

Gold and Dollar Assets at Year-Ends in Principal Foreign Accounts with this Bank—1947-55



As indicated in the accompanying table, foreign central banks showed increasing interest in investing their dollar reserves in United States Government securities, mainly Treasury bills. The trend toward increasing investments in United States Government securities has probably been encouraged to some extent by the exemption granted to some foreign central banks by the Internal Revenue Service and by the reduction or elimination of withholding taxes resulting from additional tax conventions negotiated by foreign countries with the United States; another factor, of course, has

been the higher yields available on Treasury bills, compared with the maximum rate obtainable on 90-day time deposits.

The net increase of \$97 million in earmarked gold for foreign account, shown in the table, resulted mainly from net purchases of \$68 million from the United States Treasury and imports of \$58 million, offset in part by transfers of \$32 million from three foreign accounts to the International Monetary Fund.

Total Assets Held at this Bank for Foreign and International Accounts

	(In millions)		
	End of 1955	End of 1954	Change
<i>Foreign accounts</i>			
Earmarked gold	\$ 5,722 (a)	\$ 5,625 (b)	+\$ 97
Deposits	402	490	— 88
U. S. Government securities...	3,543	2,908	+ 635
Miscellaneous securities, commercial paper, and bankers acceptances	126	104 (c)	+ 22
Total foreign accounts....	\$ 9,793	\$ 9,127	+\$666
<i>International (IMF and IBRD) accounts</i>			
Earmarked gold	\$ 1,219	\$ 1,183	+\$ 36
Deposits	67	41	+ 26
U. S. Government securities...	2,065 (d)	1,989 (d)	+ 76
Miscellaneous securities	434 (e)	506 (e)	— 72
Total international accounts	\$ 3,785	\$ 3,719	+\$ 66
GRAND TOTAL	\$13,578	\$12,846	+\$732

(a) Includes \$298.5 million held as collateral to loans made by domestic commercial banks and \$1 million held as collateral to a loan by Federal Reserve Banks.

(b) Includes \$225.6 million held as collateral to loans made by domestic commercial banks and \$136.1 million held as collateral to a loan by Federal Reserve Banks.

(c) Does not include a small amount of bonds denominated in foreign currencies.

(d) Includes noninterest-bearing, nonnegotiable demand notes as follows: 1954, 1.5 billion; 1955, 1.6 billion.

Loans to central banks

Loans on gold, both in number and dollar amounts, reached a low point for the postwar period. New loan arrangements, including one renewal, aggregated only \$28 million and involved only two borrowers.

The Bank for International Settlements made active use of its \$25-million standby arrangement, drawing amounts of \$3 million to \$10 million, for periods up to a week, on 16 occasions. The maximum amount outstanding at any one time was \$10 million, in February. This arrangement was renewed in October, for the second time, to run for a 12-month period. The latest renewal includes a commitment charge on that part of the loan facility not used in any calendar month. Although one purpose of this credit was initially to enable the BIS to finance EPU monthly settlements, it

is now required by the BIS primarily in connection with its own day-to-day operations.

The Central Reserve Bank of El Salvador borrowed \$1 million against gold shortly before the year-end under a \$3-million arrangement entered into in December. The loan was extended to assist El Salvador in covering a temporary dollar shortage, pending receipts from seasonal exports.

The final installment on the \$160-million loan to the Bank of Brazil, as fiscal agent of the Brazilian Government, described in my 1954 *Report*, was paid as scheduled in October 1955.

Federal Reserve policy on gold loans

In a letter dated December 8, 1955 to the Reserve Banks, the Board of Governors of the Federal Reserve System approved a statement of "Policy on Gold Loans" that had been the subject of discussion in this Bank and with the Board's staff for more than a year. The current policy is basically much the same as that in effect in recent years. Loans on gold and commitments for such loans are ordinarily made to foreign monetary authorities to assist them in meeting seasonal dollar shortages or other shortages of a clearly temporary nature. In exceptional circumstances, however, gold loans or loan commitments may be made for other purposes, as, for example, to help implement a program intended to restore and maintain balance of payments equilibrium.

Gold movements

Gold transactions conducted by us for the United States Stabilization Fund declined considerably during the year. Whereas in 1954 foreign accounts purchased \$422 million and sold \$106 million to the Treasury, such purchases and sales in 1955 amounted to only \$88 million and \$20 million, respectively. France was the principal buyer, in the amount of \$68 million.

Several factors account for this tapering off in gold transactions with the Treasury. First is the growing preference for investments on the part of our foreign correspondents. Equally, if not more important, is the re-opened London gold market where central banks can deal in gold at prices that are better than the effective buying and selling prices of \$34.9125 and \$35.0875 fixed by our Treasury Department. In addition, to the extent that central banks may not hold or wish to acquire gold in London, sales and purchases of gold held under earmark in our vaults may be effected between central banks, directly, or through the facilities afforded by the Bank for International

Settlements, which buys and sells gold for its own account, or through the International Monetary Fund which, for a small commission, arranges "match offs" between central bank buyers and sellers.

It is not surprising, therefore, that transfers (as shown below) of gold held under earmark in our vaults increased substantially in number and dollar amount over the previous year.

	1955	1954
Transactions	166	53
Amount in millions	\$807	\$393

Of the \$807 million total of transfers, \$250 million represented transfers between foreign accounts and domestic banks in the pledge and return of collateral against loans. Another \$30 million of the transfers resulted from subscription and other payments to the International Monetary Fund by member countries. Approximately \$520 million of transfers represented purchases and sales or in some cases swaps of gold between New York and other centers. The Bank for International Settlements was again the principal source of activity, receiving in its earmarked gold account \$180 million from ten central banks and delivering \$193 million to eight accounts. Direct transfers between foreign accounts amounted to \$152 million; the International Monetary Fund was instrumental in arranging \$120 million of these transfers. Germany, Mexico, Switzerland and France were the principal purchasers, accounting for \$276 million. England showed a net loss of \$167 million in its earmarked gold account as a result of transfers, followed by Cuba and Canada which sold \$50 million and \$25 million, respectively.

New foreign accounts

The central banks of two "new" successor countries of Indo-China opened accounts with us during the year—the National Bank of Cambodia in February, and the National Bank of Viet-Nam in October. The National Bank of Laos also expressed an interest in having an account with us but by the year-end had not yet accepted our letter of terms and conditions.

The wartime account of the Netherlands Ministry of Finance, after being inactive for several years, was closed in June.

FOREIGN RELATIONS

Foreign travel

In April and May, JOHN EXTER, vice president, assigned to the Foreign function, visited the

central banks of the United Kingdom and eleven European countries. At the Bank of England, Mr. Exter met PETER P. LANG, manager, Foreign Department, who left in March to visit that bank to study the London bullion and foreign exchange markets, and together they visited at the Bank for International Settlements and the central banks of Switzerland and France. Mr. Exter was accompanied on the remainder of his trip by PHILIP J. W. GLAESSNER, an economist in our Research Department. In September, Mr. Exter attended the annual meetings of the International Bank for Reconstruction and Development and the International Monetary Fund held in Istanbul, Turkey. He also visited the central bank of Turkey at Ankara, and en route back stopped again at the Bank of England.

During October and November, HORACE L. SANFORD, assistant vice president, assigned to the Foreign function, visited the central banks of Mexico, of the Central American countries, and some of the South American countries. Mr. Sanford was accompanied on this trip by FRANCIS H. SCHOTT, an economist in our Research Department.

The purpose of these trips was to establish or renew personal contacts with the officials of the central banks, to discuss with them operations that are carried out for or through their accounts at this Bank or elsewhere in the United States, and to observe economic conditions in the countries visited. All the banks visited gave our representatives a cordial welcome, and were as keenly interested as we in discussing economic and credit developments, and in improving our mutual operations.

THOMAS J. ROCHE, foreign exchange officer, then a special assistant in the Foreign Department, spent the first week of November at the Bank of Canada for further observation and study of the factors influencing the Canadian-United States dollar exchange rate.

Foreign missions

ARTHUR I. BLOOMFIELD, senior economist, returned to the Bank in January, after having served since September 1954 on a Foreign Operations Administration (now International Cooperation Administration) Mission to Indo-China. Mr. Bloomfield assisted in setting up independent currencies and central banking arrangements for the states of Viet-Nam, Cambodia, and Laos. To follow up on the work performed by Mr. Bloomfield, FRANK SCHIFF and ALAN HOLMES, economists in the Research Department, left for Viet-Nam in

February to serve as consultants on the same mission. Mr. Schiff spent seven months and Mr. Holmes six months in that country, during which time they made brief visits to the central banks of a number of nearby countries; en route to and from Viet-Nam they also visited several other central banks.

GEORGE GARVY, senior economist, at the request of the International Bank for Reconstruction and Development, served as Chief Economist of a survey mission to Colombia for approximately two and one-half months beginning in March, and thereafter served on a part-time basis in Washington to assist in the preparation of the report.

HENRY G. AUBREY, an economist in the Research Department, served in Pakistan for approximately four months, beginning in February, as Economic Consultant to the Harvard-Pakistan Planning Board Project. The purpose of the project, a joint endeavor of the Government of Pakistan and Harvard University, financed by the Ford Foundation, is to develop plans for the economic development of Pakistan.

PHILIP J. W. GLAESSNER, at the request of the State Department, left in September to join a mission employed by the Chilean Government to study the economic and financial situation in Chile. Mr. Glaessner is expected to return to the Bank in May 1956.

WARREN D. McCLAM, an economist in the Research Department, who since February 1954 had been on leave from the Bank in Switzerland with the Monetary and Economic Department of the Bank for International Settlements, resigned effective February 15, 1956.

Session of the Center of Latin American Studies

JOHN J. CLARKE, assistant general counsel; HORACE L. SANFORD, assistant vice president; and MIROSLAV KRIZ, chief of the Foreign Research Division of the Research Department, lectured in Spanish at the third annual session of the Center of Latin American Monetary Studies in Mexico City. Mr. Clarke spoke on the functioning of clearing houses in the United States, Mr. Sanford on correspondent relations between central banks, and Mr. Kriz on the subject of research activities of central banks. (On his way to the session in Mexico City, Mr. Clarke made a one-day stopover in Havana, where he visited the clearing house.)

Staff Group on Foreign Interests

The Staff Group on Foreign Interests, which consists of representatives of the foreign, legal,

and research staffs of this Bank and of the Board of Governors, held three meetings during the year. As in previous years, the group reviewed developments relating to international financial and economic policies. It also considered various aspects of the foreign operations of American commercial banks: particularly, the revision of the Board's Regulation K and of the provisions of Section 25 of the Federal Reserve Act, which would give effect to the recommendations of the System's Special Committee on Foreign Operations of American Banks; the report on bankers' acceptances prepared by the Committee at the request of the Federal Open Market Committee; and the establishment of the American Overseas Finance Corporation. As in the past, the group assisted in the staffing of missions requested by foreign central banks and governments, and by United States Government and international agencies.

Foreign visitors

In June, 17 persons connected with foreign central banks or governments, who were participants in a trainee program of the International Monetary Fund, spent a two-day period at the Bank observing our operations and attending lectures and seminars on subjects pertaining to the Federal Reserve System.

In September a similar group of 18 persons, trainees at the Center of Latin American Monetary Studies in Mexico, spent four days at the Bank in similar activities and on outside programs we arranged.

In October the International Bank for Reconstruction and Development, under a project similar to that of the International Monetary Fund, sent us, for a two-day period, a group of 11 trainees for similar orientation and instruction in Reserve System matters.

Throughout the year, we continued to receive a steady flow of official visitors from foreign central banks and governments. Thirty-three different countries were represented by 80 persons; 24 of the visitors were senior officers of central banks. As is generally the case, the largest number of visitors—20—came from England; Canada was represented by 9 and the Philippines by 5. In addition to an official of the Bank of France who remained with us throughout the year, as is the custom of that bank, many officers and staff members of other central banks remained with us for periods ranging from a week to several months to observe operations, methods, and policies of this Bank and of commercial banks in New York, and

in some instances of banks in other cities. Our visitors came from Australia, Canada, Costa Rica, Denmark, Finland, Formosa, Germany, Iran, Korea, Mexico, New Zealand, Norway, Pakistan, the Philippines, Saudi Arabia, South Africa, Southern Rhodesia, Thailand, and the United Kingdom.

RESEARCH

The attention of our research staff was primarily focussed on assisting in the formulation and implementation of monetary and credit policies during a period of rapidly rising business activity. At the same time, our economists studied closely the impact of boom conditions abroad on the internal and international financial position of foreign countries, and the monetary and other policy measures adopted abroad in response to inflationary pressures and balance-of-payments difficulties.

Domestic studies and publications

In an effort to improve the forecasts on bank reserves and money supply prepared by staff members, considerable attention was given to integrating estimates of gross national product and its various components, Treasury financing needs, the availability of nonbank funds, the demand for various kinds of bank credit, and other factors affecting bank reserves. The regular work of preparing short-run projections of bank reserves and Treasury balances for the use of the Open Market Account management also was considerably intensified.

Despite the greater concentration on current problems, several important long-range studies were completed. Perhaps the most important of these was a study of the effects on bank liquidity of the lengthening of Treasury debt, and the problems for System policy that may be involved. An examination of the theory and behavior of the rate structure of Government securities also was completed. Other studies dealt with discount rate policy, changes in the velocity of money, the long-range prospects for housing demand, and stock market developments, including the importance of institutional investment in that market.

Our research staff, together with the Bank Examinations, Credit, and Legal Departments, contributed from time to time to the framing of recommendations on the position to be taken by the Bank on legislative proposals to revise banking laws. A comprehensive study was prepared of proposals made to Congress that would allow commercial banks to resume the underwriting of

revenue bonds, and a similar appraisal is under way of proposed legislation to liberalize the limitations on branch banking.

A major project undertaken by our statistical staff was a survey of commercial loans at member banks in the Second District. The survey was part of a System-wide project to obtain information on the business and location of borrowers, terms, and interest rates. The job of designing the sample, sending out the forms, editing them after their return, and preparing them for tabulation required the full time of three staff members for more than two months; other staff members participated on a part-time basis, and four statistical clerks were borrowed from other departments for approximately seven weeks. The results of the survey are being tabulated in Washington by UNIVAC; the analytical work will be completed during the current year.

Several other surveys were made as part of programs initiated by the Board of Governors. Among such studies were spot surveys of mortgage availability, residential building prospects, and the automobile market. Other surveys made at the request of the Board of Governors covered mortgage warehousing loans at weekly reporting banks and loans by weekly reporting member banks to brokers against Government securities that had been borrowed by the broker from another bank against customer stock exchange collateral. In addition, a special survey was made at the request of the Senate Committee on Banking and Currency of the total amount of loans at weekly reporting banks, regardless of the purpose of the loan, that were secured by stocks and bonds.

As part of our continuing program of broadening the coverage of statistical series and improving their usefulness and reliability, we initiated a confidential series of downpayments and maturities on loans made by Second District banks for consumer automobile purchases. In addition, our wage indexes were substantially revised. In the field of department store statistics, the monthly series on sales, stocks, and orders was revised and indexed. A weekly index of New York City sales was prepared, and indexes of sales in the New York-Northeastern New Jersey and Buffalo metropolitan areas were added to the monthly report. Further statistical tests were made of data collected in annual surveys of the ownership of deposits in order to improve these surveys. Members of the research staff also made summaries of, and contributed comments on, proposals made by System-sponsored committees for the improve-

ment of inventory, employment, and savings statistics. A basic paper suggesting a new approach was submitted to a System committee considering the desirability and feasibility of establishing a regular series on interregional flows of funds.

As in the past, other functions in the Bank requested assistance by our research staff on certain operating problems. A number of series regularly prepared in the Bank's operating departments were appraised as to their usefulness for forecasting and analytical purposes. The data studied included the daily settlements at the New York Clearing House, flows through the Interdistrict Settlement Fund, and wire transfer records. Staff members also worked closely with the Bank Examinations Department to achieve greater accuracy in bank call reports. As part of this project a special article was prepared for the *Monthly Review* on the importance of accurate call reports and the uses to which such data are put. This article was subsequently reprinted and distributed to all banks in the District. For the administration of margin requirements under Regulations T and U, developments in the stock market are now continuously analyzed and reported. A monthly summary of stock market activity is now regularly prepared, and a number of specific problems arising in stock market regulation have been analyzed. The statistical staff also began during the year to collect daily figures for the Securities Department on the purchase and sale of Federal funds by New York City banks.

Research officers and staff members continued to participate in meetings of various System committees. One of our senior economists served as chairman of the System Committee on Real Estate Mortgage Credit, and of an *ad hoc* committee appointed by the Board of Governors to handle a request from the Senate Committee on Currency and Banking for statistical information on common stock investments of personal trust funds and for the development of a long-range program for collecting current statistical information on personal trust funds. He also served as secretary of the Committee on Current Business Developments and as a member of the *ad hoc* Committee on Reserve Requirements and of the *ad hoc* committee to prepare a System-wide conference on the interregional flow of funds. Several other staff members served on other System committees and participated in regular meetings of the System committees on Agriculture, Current Business Developments, and the *ad hoc* Committee on Real Estate Credit.

Titles of some of the more important studies on domestic topics prepared during 1955 were:

Credit and the Stock Market

The Clay Report on the National Highway Program

Estimated Purchases of Government Securities by Nonfinancial Corporations in 1955

Short-term Debt and Liquidity

Prospects for Nonfarm Residential Construction

Employment and Income in New Jersey

The Theory of the Term Structure of Interest Rates in the Light of Empirical Observations, 1951-1954

Foreign and international studies and publications

In the foreign field, close attention was given to monetary and financial policies abroad in response to the emerging strains and stresses in a number of foreign countries as business activity in the major industrial areas rapidly increased. In reviewing monetary developments abroad, close attention was paid to foreign monetary policies and techniques, with special regard to credit control instruments; budgetary and debt-management problems and policies, as well as developments in the principal money markets abroad, also were covered. In the international field, several major studies were made of the implications for the Federal Reserve System and the New York money market of the rapidly rising foreign dollar holdings. In this context, related subjects were explored, such as the increase in foreign dollar assets over the last 30 years, the tendency of foreign central banks to invest an increasingly large part of their monetary reserves in United States Government securities and time deposits, and the decline of gold purchases by foreign countries from the United States Treasury. Current developments in the foreign aid, foreign trade, and foreign investment fields were appraised and their effects on the United States balance of payments analyzed. Various aspects of tax exemption of income from investments of foreign central and other banks were investigated. The balance of payments of foreign countries and areas, changes in exchange rates and exchange controls, and intra-European trade and currency arrangements were studied.

As in previous years, current developments bearing on the problems of currency convertibility and freer international trade were followed closely in order to help in arriving at realistic appraisals of the prospects and conditions for further advances toward these objectives. Studies were also made of the bankers' acceptance markets in London and New York and the conditions and pros-

pects for interest arbitrage among the principal money centers. Comparative studies were made, for the operating departments of this Bank, of the tax status of foreign central banks and of the reimbursement of expenditures incurred by foreign central banks as government depositaries and fiscal agents. As in the past, staff members reviewed in detail the economic and financial background of applications submitted to this Bank by foreign central banks for loans against gold collateral. The research staff prepared, for the Senate Committee on Banking and Currency, a review of postwar stock market developments abroad, which was later published in a Committee document. One of our senior economists, together with JOHN EXTER, vice president, assigned to the Foreign function, served on a committee of experts appointed to assist the Philippine Central Bank Survey Commission.

Among the more significant studies on international and foreign topics were the following:

Commercial Bank Reserve Requirements in Foreign Countries

Recent Changes in the International Status of the Dollar

Tax Exemption for Foreign Central Banks on Earnings from Investments in Short-Term Treasury Securities

Interest Arbitrage, Exchange Rates and Dollar Reserves

Foreign Balances in the United States, The Historical Record, 1920-1955

Some Aspects of the Bankers' Acceptance Markets in London and New York

Recent Changes in the Mechanism of Gold Distribution

The Price of Gold and Currency Convertibility

Central Bank Rediscount Rates and Policies in Latin America

The Potential Impact of Rearmament on the German Economy

Norway: An Appraisal of Nine Years of Inflexible Money Rates

The Indian Banking System and Private Finance

Altogether, more than 400 memoranda and studies on international and foreign topics were prepared during the year, of which about one half were in response to requests by officers of the Bank. Articles on international or foreign topics were prepared for each issue of the *Monthly Review*; in addition, beginning with July, a survey of money markets abroad and of the principal exchange and currency developments was introduced as a regular monthly feature of that publication.

Library

Officers and staff members continued to make intensive use of the Reference Library during the year. Requests for information averaged 900 per month, 75 per cent of the requests originating within the Bank. The staff received on the average 225 monthly requests for information, mostly by telephone, from individuals and institutions outside the Bank, usually concerning the Federal Reserve System or financial or statistical information not readily available elsewhere. The Library circulated a monthly average of 823 books, 7,708 periodicals, and some 2,000 newspaper clippings to Bank personnel. The Bank's staff also made heavy use of materials directly within the Library. The rate of acquisition of new material has continued to climb, with 3,566 books, pamphlets, and new periodical titles added during the year. The Library continued to issue the daily *Newspaper Review* (2,400 copies) and the biweekly *Library News* (375 copies) to restricted mailing lists.

PERSONNEL

Notwithstanding a rise in the volume of the Bank's work during 1955, reflecting the general rise in business volume, our staff was smaller than in 1954. Although there was some understaffing, the smaller size of staff was significantly related to improvements in work procedures and a rise in efficiency; the result was that in 1955 fewer employees were required to accomplish the Bank's work than in 1954.

The advance in productivity was achieved in the face of a slight increase in the rate of turnover. Also reflecting the rise in business activity, the labor market remained tight throughout the year, and the attraction of other job opportunities to some of our employees was great. Nevertheless, we were able to fill our requirements for a greater number of new employees in 1955 with fewer interviews of job applicants than in 1954. In total, we interviewed 5,650 applicants last year to fill 640 full-time and part-time jobs; in 1954 we interviewed 5,762 applicants to fill 477 full-time and part-time jobs. This more efficient filling of our needs without lowering our standard of quality resulted from a more effective selection of advertising media and improved programming of such advertising, a flexible variation in starting salaries, and a stronger emphasis on our recruitment programs.

Because most of our office messengers, junior typists, and proof machine trainees are recent

high school graduates, we intensified our efforts to recruit persons to fill most of these jobs through the schools. For example, we held discussions with officials in 22 schools, and as a result gained 77 employees for these beginning jobs. Further, we consulted guidance teachers in 10 suburban high schools and asked them if they would recommend qualified graduates for jobs leading to career work in senior clerical and some supervisory positions in the Bank. We asked the teachers to confine their recommendations to those students who were not planning to attend college, but who would be interested in making use of our educational program. Through the guidance teachers we obtained a few new employees in 1955; we expect that within a few years this program may bring more young and capable persons into our employ.

Our college recruitment program was also intensified in 1955. From our visits to 15 colleges we were able to recruit ten graduating seniors who were placed in training positions in the Bank Examinations Department. Since the inception of the program in 1952, we have employed 23 college graduates from 13 different colleges; all but three of these graduates remain in our employ, though seven are now in the Armed Forces. The new employees obtained in this way have been placed with the Bank Examinations Department for a period of 24 months. When their training period ends, we will assign several of these employees to jobs in other departments to broaden their knowledge of Bank operations and to give them further training in management techniques; thus far three of these trainees have been placed in other departments in the Bank.

We took a further step in 1955 to obtain qualified employees from colleges. We arranged to participate on a trial basis with Radcliffe College in their management training program by permitting their students in management to obtain on-the-job training within the Bank. During the 1955-56 school year, two students will have spent a total of 10 weeks in training here. We hope in this way to secure upon graduation a number of capable young women qualified to assume responsible positions in the Bank.

Head Office salary liability

On December 31, 1955, the salary liability (including reimbursable salary) for the staff at the Head Office was \$14,782,877; the comparable figure in even thousand dollar amounts for previous year-ends was \$14,203,000 (1954), \$14,515,000 (1953), \$14,100,000 (1952), and \$13,576,000 (1951).

Number of employees

The following table and chart present some basic statistics on Head Office employment:

	1951	1952	1953	1954	1955
Employees, average number ..	3,614	3,803	3,763	3,657	3,470
Employees, average number engaged in work reimbursable by U. S. Government and its agencies	530	540	494	406	321
Employees, average number, all other	3,084	3,263	3,269	3,251	3,149
Employees, close of business December 31	3,775	3,744	3,773	3,517	3,442
Applicants	9,092	6,229	6,842	5,762	5,650
Hired	1,245	835	855	477	640
Voluntary separations	765	836	705	529	617
Dismissals	87	30	129	191	98
All separations	852	866	834	720	715

The largest decline in departmental employment was the reduction of 36 employees in the Savings Bond Department; 14 other departments also had reductions in staff, while nine had increases. Our rate of turnover rose from 18.41 per cent in 1954 to 19.26 per cent in 1955.

At the year-end, 39 employees of the Bank were in the Armed Forces; 14 entered service, and 15 returned to us from service, in 1955.

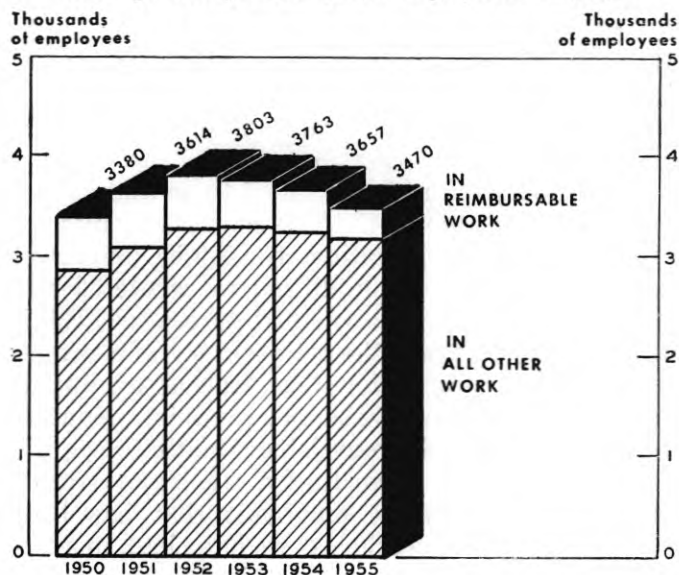
At the end of 1955, 22.7 per cent of the staff had been with us 20 years or more, and 18 per cent of the staff, or 629 employees, had been with the Bank for 25 years or more. The following table shows a distribution of Head Office employees according to their length of service.

Length of service	Number of employees	Percentage of total number
35 years or more	180	5.2
30 years to 34 years, inclusive	137	4.0
25 years to 29 years, inclusive	312	9.1
20 years to 24 years, inclusive	155	4.5
15 years to 19 years, inclusive	117	3.4
10 years to 14 years, inclusive	829	24.1
5 years to 9 years, inclusive	333	9.7
Less than 5 years	1,379	40.0
Total (December 31, 1955)	3,442	100.0

Salary administration

Our continuing program of semiannual salary surveys among the more progressive employers in the community showed that the Bank in February 1955 was paying somewhat more than the community to both clerical and nonclerical workers. Our August salary survey, however, revealed that the community was paying more than we were, particularly to clerical employees. The marked shift in our position relative to the community was attributable to the unusually rapid advance of community salaries between our first and second

Average Yearly Head Office Employment—1950-55



surveys. The August survey disclosed all the bank firms and a number of nonbank firms in the survey had granted unusually large salary adjustments in the preceding six months. Altogether, some 16 of the 28 firms in the community made special salary adjustments, ranging from an average of about 4 per cent for nonbank firms to 6-8 per cent for banks. Most of these increases were granted on a merit basis.

Our customary year-end consideration of salaries was advanced, and increases in amounts larger than usual were made in the first half of November. We increased clerical salaries 6.92 per cent on average, and our nonclerical salaries, which were in a more favorable position, 4.24 per cent. The increases were distributed on a merit basis.

Before granting the increases, however, we had to develop a new, higher salary structure to prevent an undesirable preponderance in the upper areas of each grade. Under the new structure, the minimums for clerical salaries were increased from a high of 15.8 per cent in Grade I to a low of 5.4 per cent in Grade XVI; for nonclerical jobs the minimum for Grade NI was raised 3.8 per cent, and for Grade NXI, 6.4 per cent.

Adjustments were made at the same time in the starting salaries of certain junior jobs that we were finding it difficult to fill; changes were also made in the progression programs for some of our trainee jobs.

During 1955, under our job evaluation program, we completed a comprehensive analysis and review, begun in 1954, of 74 senior administrative

and specialist jobs throughout the Bank; 14 were raised one grade, and two were reduced one grade. We have now begun the companion analysis of jobs ranking just below the senior positions—assistant chiefs, administrative assistants and the like. During 1955, we also reviewed the descriptions of 132 jobs, revising 26 of them and changing the point value of 19. The changes resulted in higher grade determinations for 5 jobs, and lower grades for 2 jobs. In addition, we wrote 35 new job descriptions, and abolished 20 others. While we continue to regard the maintenance of a proper alignment of jobs within the Bank as an important element in good personnel administration, we have come to feel that our job evaluation program has come of age; accordingly, we have reduced somewhat the relative emphasis that has been placed upon it. Nevertheless we have had, in absolute terms, an active year in this field.

The work of the Payroll Section contracted further during 1955 as a result of the transfer of certain operations to the Disbursing and Tabulating Division for machine processing. This reduction in work volume was accompanied by a further reduction in staff. It is our aim to develop in the Payroll Section a small, highly productive staff to handle that irreducible minimum of work that cannot be performed economically on automatic business machines.

Employee benefits

1. *Noncontributory active service death benefit.*—In the past year the number of deaths among staff members of the Head Office totaled 17. Death benefits to their beneficiaries under group insurance amounted to \$74,733, and an identical amount was made available by our Retirement System. These benefits were provided without cost to the employees.

2. *Major medical insurance.*—At the request of numerous staff members we undertook in the past year a study of the possibility of arranging on a group contract basis for insurance against the expense of prolonged illnesses and serious injuries, which are covered inadequately or not at all by our Blue Cross-Blue Shield contracts. After weighing carefully the advantages and disadvantages of several plans, we concluded that Health Service, Inc., an insurance company wholly owned by the Blue Cross Associations throughout the country, offered the best contract. In order to determine whether a sufficient proportion of the employees and officers wished to enroll in such a plan, we conducted a survey. The results showed

that the probable enrollment of employees with salaries below \$5,000 was insufficient to qualify that group for the insurance under the terms of the proposed contract. For example, in the \$4,000-\$5,000 salary bracket, only 48 per cent of the employees indicated a desire to enroll; only 30 per cent of those earning less than \$4,000 wished to enroll. To have added these groups, or any portion of them, to the group whose salaries are \$5,000 or more would have reduced the percentage below that required by the insurance company. Therefore, under the terms of the contract the insurance was offered only to those with salaries of \$5,000 or more. Early in 1956 we sent to the members of this group the necessary material for enrollment, and 611 Head Office staff members authorized payroll deductions for the full monthly premiums (\$5.14 with dependents, \$1.94 without). The plan went into effect on February 26, 1956.

3. *Blue Cross Hospital and Blue Shield Surgical-Medical Plans.*—Enrollment of employees and officers in the Blue Cross Hospital and Blue Shield Surgical-Medical Plans at the end of 1955 totaled 3,046 or 87.3 per cent of our total staff, compared with 3,145 or 88.1 per cent in 1954. About one half the number of those employees not enrolled are covered through other members of their families or under other plans. The annual premium cost to the Bank of this insurance amounted to \$129,089, compared with \$132,848 during the preceding year; these sums represent two-thirds of the total cost of the insurance. Blue Cross paid 703 claims for hospitalization made by members of our Head Office staff in 1955; payments totaled \$100,295 or 83.7 per cent of premiums. Blue Shield paid 925 surgical-medical claims totaling \$47,842 or 61.0 per cent of premiums. (Because the hospitals allow Blue Cross a discount in the settlement of bills for hospitalization services, the \$100,295 payment by Blue Cross was in satisfaction of hospitalization bills—claims against Blue Cross—totaling \$122,134.)

4. *Medical services.*—The services of our Medical Division were made available to our staff on 32,004 occasions in 1955. The services included medical counseling, treatment of compensation cases by our licensed Compensation Medical Bureau, physical examinations of applicants for employment, and annual re-examinations for employees. The services also included 2,590 visits to the Dental Section of the Division.

5. *Red Cross blood bank.*—Staff members in 1955 contributed through the Federal Reserve

Club a total of 362 units of blood, 241 units of which were credited to our account. Withdrawals during the year—236 units—met the needs of the employees and their families and, as usual, without cost to them. In February, and again in August, the Red Cross set up a bloodmobile unit in our gymnasium for the convenience of donors from our staff and from other banks in the vicinity.

Personnel improvement programs

During the latter part of 1954 we established a new supervisory development program, under which a group of 10 to 12 supervisory staff members meets for a period of four consecutive days to discuss and analyze problems of supervision. Since the inception of the program, 21 groups, comprising a total of 224 employees, have participated. We feel that these sessions have helped to establish a better understanding of the Bank's aims and objectives and of its personnel policies, and that they will help our supervisory personnel to deal more effectively with the many day-to-day problems that they encounter. To increase the usefulness of the program, we have organized a series of follow-up, or refresher, sessions for those who have participated in the basic program. Five refresher sessions, attended by a total of 53 employees, have already been conducted.

To supplement our supervisory development program, we recently enrolled all our chiefs as associate members in the Management Service of the Research Institute of America. Associate members receive memoranda and newsletters dealing with management techniques and practices. Although membership in the Institute has been limited to our chiefs, we have arranged for the material to be distributed to all our supervisory employees. The information and ideas provided by the Institute will keep our supervisory staff abreast of new developments in the management field.

The Executive Training and Development Program continues to be an important part of our training activities. Under this program our senior officers are requested to select employees with exceptional native ability and outstanding performance records. These employees are then rotated through a series of selected job assignments, each of which is designed to broaden the individual and to prepare him for greater responsibilities. During 1955 we continued to emphasize the role of this program in the development of promising

staff members by making a number of carefully selected rotational transfers.

The year 1955 was the first full year of operation of our new Performance Review Plan. The purpose of this plan is to assist us in identifying more readily the strong and weak points of an employee's performance, and thus assist employees to develop their capabilities more fully. In addition, the plan helps us to identify employees of unusual promise for supervisory development and executive training.

During 1955, 100 proof machine trainees and operators in the Check Department completed the Visual Perception Program. We also sponsored another Improved Reading Course for a group of 10 officers and senior staff members whose assignments require a substantial amount of reading. Finally, we continued our program of sending female employees whose jobs require frequent use of the telephone to the New York Telephone Company for advanced training in voice personality; during 1955, 23 attended this course, making a total of 129 who have completed the training since 1951.

Personnel research

In the past year personnel research received substantially increased emphasis. Reflecting this greater emphasis were certain changes in staff assignments. The present Chief of the Salary Research Division formerly held the post of Chief of the Domestic Research Division in the Research Department, and the Assistant Chief of Salary Research held the position of Economist in the Foreign Research Division. Their background and experience in economic research is now being brought to bear upon problems in personnel research.

We have already initiated a comprehensive study of our medical leave program, and plan to analyze closely such problems as absenteeism and turnover; several other studies are also projected. Our aim in all our personnel research work is to produce operationally useful results; we are interested in acquiring the knowledge that is necessary to gauge accurately the effectiveness of personnel policies and their administration, and to develop remedial measures when these seem to be called for.

Federal Reserve Club

In the 37th year of the operation of the Federal Reserve Club, 90 per cent of the staff of the Bank

voluntarily subscribed to membership. The Club continued to provide special services for social, recreational and educational opportunities for the staff.

The Club Store remained one of the most popular of the Club services, selling a wide variety of merchandise. For the fiscal year ended May 31, 1955, total Club Store sales amounted to \$140,406. Among its other services, the Club issued more than 12,500 checks for the convenience of members, maintained a reading and circulating library that lent 1,503 books, purchased 433 new books for its members, and placed 169 subscriptions to various periodicals. The Club also sponsored a variety of recreational activities, such as an athletic program, stage presentations, dances, hobby groups, a boat ride, and a party for children related to staff members.

A primary activity of the Club is to encourage our staff members to continue their education. In 1955, 177 members of the staff completed 497 study courses under the Club's educational program. The Club offers counsel to staff members in the selection of a school or college, and courses of study. The Bank supports this activity by reimbursing the students for 50 per cent or 100 per cent of the costs of tuition, books and fees, the rate of reimbursement varying with the student's scholastic achievements. In 1955, the amount of reimbursement by the Bank was \$17,874; 97 per cent of this amount was on the basis of 100 per cent reimbursement.

Cafeteria

The Food Supply Division served 674,216 meals during 1955 (a daily average of 2,686), compared with 739,784 (a daily average of 2,936) in 1954. To provide this service, the Bank spent \$234,221 in 1955, or 47.2 per cent of total cost, compared with \$231,183 in 1954, or 46.0 per cent of total cost. The decrease in the number of meals served results mainly from the reduction in the size of the staff during the year.

EXPENSES AND BANK PREMISES

Operating costs and budget

Total gross expenses of the Head Office amounted to \$25,021,000 during 1955, a decrease of \$146,000 compared with 1954. Net expenses, however, increased by \$190,000 because of a decline in reimbursable expenditures, primarily in the cost of work performed for the United States Treasury Department and in connection with the

V-loan program. Total gross expenses during 1955 fell short of budgeted expenses by \$5,000, whereas net expenses exceeded the budget by \$311,000.

Fluorescent lighting—Annex building

During the year, fluorescent lighting was installed on the first three floors of our Annex building at the request of our tenant, Great American Insurance Company, with appropriate adjustment in the terms of the existing lease to provide for some amortization of cost. As a result of this installation, six of the eight floors above street level now have fluorescent lighting and air conditioning. We do not expect to incur any expense for extending the installations any farther, because the other two floors are used for the storage of old records of this Bank.

Change in tenant occupancy—Annex building

The Great American Insurance Company leased the sixth floor of the Annex building earlier in the year but vacated the space under a surrender agreement on December 15, 1955. The floor was leased to Whitehill Agency for a term of five years beginning February 1, 1956. The Whitehill Agency had leased 10 Gold Street from us for many years.

Sale of 10 Gold Street property

On December 28, 1955, the Bank sold the property known as 10 Gold Street, New York City, on which was a three-story building, for \$125,000 to the Pacific Fire Insurance Company, the occupant of the adjoining property at 12 Gold Street. The property was originally purchased in 1920 to assure light and air to the upper floors of our Annex building at 95-97 Maiden Lane, which was then under construction. With the recent installation of air conditioning and fluorescent lighting in our Annex building, our reason for holding the 10 Gold Street property had lessened. Furthermore, we could foresee no need for the building space, because up to this time the building has been considered unsuitable for our operations; it had been leased almost from the time of its acquisition.

Records storage and emergency relocation

On November 28, 1955, the Records Storage Office was transferred from Ossining, New York, to Ithaca, New York, occupying space rented from Cornell University. A retired employee, who was formerly Chief of the Personnel Relations Divi-

sion, Personnel Department, was reemployed and placed in charge of the office at its new location and the remaining staff of three was recruited locally. The purpose of the office is to insure the protection of vital duplicate records from which the business of this Bank could be resumed in the event of an emergency. An understanding was also reached with Cornell University that it would cooperate with this Bank by providing space and facilities to serve as a relocation office if an emergency should arise in which the Bank's operations were disrupted. Because of the contingent aspects of emergency planning, no formal or precise commitments were entered into.

BUFFALO BRANCH OPERATIONS

The recovery and boom in 1955 pushed business activity, marked by plant expansion and high employment, to record-high levels in the Branch territory, despite a drop in grain shipments and milling. The composite index of business in Buffalo was higher for each month of 1955 than the index for the corresponding month in 1954 and reached a new all-time peak in December 1955. In Rochester, the composite index was above the 1954 level for all months except January, and during 1955 averaged 5 per cent above the previous record year of 1953. Operations at the Branch, reflecting this sustained high level of activity, increased moderately for the most part from the volume of 1954; the notable exception was the more than fourfold increase in the amount of our loans to member banks.

Current nonreimbursable expenses of the Branch in 1955 totaled \$1,182,631 (\$6,414 less than budgeted), compared with \$1,123,200 in 1954. Fiscal agency and other reimbursable expenditures aggregated \$56,465, against \$75,023 in 1954.

Cash operations

The following table summarizes the operations of the Cash Division of the Branch for the year, compared with 1954:

	1955	1954
Currency and coin:		
Paid out to banks	\$372,783,000	\$351,456,000
Received from banks	\$330,003,000	\$327,657,000
Net outflow	\$ 42,780,000	\$ 23,799,000
Currency counted (pieces)	50,902,000	53,632,000
Coin counted (pieces)	69,608,000	84,770,000
Coin wrapped (pieces)	29,749,000	27,822,000

The use of armored trucking service for the pickup and delivery of currency and coin to mem-

ber banks in the Branch territory resulted in a saving of approximately \$55,000 over the cost that would have been incurred had the same shipments been made by registered mail. This door-to-door service is provided in eight of the fourteen counties assigned to the Buffalo Branch; the number of banking offices served increased from 70 to 72 during the year.

Thirty-nine counterfeit notes amounting to \$557 were detected by our currency sorters during 1955, compared with 58 notes aggregating \$670 in 1954.

Collections

The Branch handled the collection of 41,162,800 checks and postal money orders aggregating \$10,939,100,000 in 1955, compared with 39,397,000 items amounting to \$10,013,248,000 in the previous year. The average number of items handled daily rose from 156,959 in 1954 to 163,996 in 1955.

A survey completed as of December 1, 1955, disclosed that 98.1 per cent of the checks passing through the Branch and drawn on banks located in the Buffalo Branch territory bore the check routing symbol and transit number in the approved location. This is a slight improvement over the 1954 percentage of 97.8.

The continued use and improvement of air transportation through the Buffalo Airport, and the use of motor carriers locally and between the Branch and Rochester banks, greatly facilitated the handling of checks during the year. During 1955 six banking offices were added to the group being served by motor carrier for the pickup and delivery of checks. Fourteen banks and branches now receive this service, including four Rochester banks. Practically all the banking offices between Buffalo and Rochester that handle a large volume of checks now receive direct deliveries by motor carrier, thus solving a mutual problem of late deliveries that had resulted from other methods of transportation.

The Branch handled 73,475 noncash items totaling \$28,892,400 during 1955, compared with 55,450 items aggregating \$28,499,000 in 1954.

Wire transfers of funds

The Branch processed 15,372 transfers of funds totaling \$6,783,693,000 during 1955, compared with 15,102 transfers aggregating \$6,994,918,000 in 1954. During December, the new "forms" transmission equipment for effecting transfers of funds over the leased wire system was installed at the Branch. The equipment, part of a System-

wide installation, automatically produces for each transmission (which is in clear language and eliminates coding and decoding) the necessary entry tickets at the sending and receiving stations. The equipment at the Branch was put into operation in January 1956.

Loans to member banks

The amount of loans granted by the Branch in 1955 was more than four and one-half times the amount granted in 1954, as shown in the following table:

	1955	1954
Number of loans.....	633	309
Number of borrowing banks	52	42
Amount (in thousands)....	\$928,995	\$202,205
Discounts earned	\$178,819*	\$ 31,153

* Highest since 1933, when it was \$225,258.

Fiscal agency operations

The Branch issued 10,426 Series E, H, J and K Savings bonds totaling \$16,164,750 in maturity value, compared with 10,682 bonds aggregating \$19,414,550 in 1954, and redeemed 10,820 Savings bonds, 1,135 Treasury Savings notes, and 2,901 other Government securities. During the year the Branch redeemed 37,643 Government coupons totaling \$1,528,100, compared with 40,222 coupons in 1954 valued at \$1,469,400. In addition, the Branch forwarded to the Head Office for re-issue or redemption 22,149 Savings bonds amounting to \$9,854,630. The Branch also handled for 35 banks 337 transactions for the purchase or sale or other disposition of securities totaling \$292,544,700, compared with 322 transactions aggregating \$273,000,000 handled for 28 banks during 1954.

Operating methods

In 1955 the Branch continued its practice of assigning certain employees classified as administrative assistants to planning work. The work consists of studies of systems and methods, expenditures, preparation of the budget, and the like. The work also includes the maintaining of necessary information in the event of disruption of operations at the Head Office or Buffalo Branch. This planning program will be continued during the coming year.

Bank and public relations

Bank and public relations activities during 1955 included 354 visits to banks and branches, of which

265 were to member and 89 to nonmember banks. Special Representatives from the Head Office also made 138 visits to banks in the Branch territory. Officers and employees attended 88 meetings, and made 120 addresses to banking, civic, and educational groups. Included in the addresses were 11 flannelboard presentations on "The Role of Money and Banking in Our Economy" and "The Credit Market." Federal Reserve films were shown on 44 occasions to a total of 3,521 persons. The Bank's currency and coin exhibit was displayed at 17 member banks. During the year, 744 visitors were conducted through the Branch to observe its operations, including 57 teachers from public and parochial schools in Buffalo who were our guests on October 20 in conjunction with Business-Industry-Education Day sponsored by the Buffalo Chamber of Commerce.

Technical representatives from the Head Office conducted 42 surveys in member banks on audit and credit control, bookkeeping and transit operations, and loan and discount functions. Our Branch officers made seven special surveys on applications for the establishment of branches.

Personnel

At the year-end, the Branch had five officers and 206 employees. The total number of employees at the year-end was the same as at the beginning of the year, although a high of 212 was reached in July and a low of 200 in February. There were 68 separations from service, of which 82.4 per cent were for personal reasons, such as marriage, maternity, and illness. Two employees were retired under the System Retirement program because of physical disability and one employee died during the year. Sixty-eight new employees were engaged after interviewing 486 applicants. The rate of turnover was 33.2 per cent, compared with 15.1 per cent in 1954; the main reason for this rise was a 67 per cent turnover in the Check Division, compared with 32 per cent in the same division in 1954. An unusually high "leaving" rate in the Check Division resulted from 22 resignations, a large majority for maternity and other personal reasons. In addition, openings in other divisions are frequently filled by promotions from the Check Division.

Salary liability on December 31, 1955 was \$741,716, compared with \$712,872 at the end of 1954; promotional increases of \$6,000 and merit increases of \$8,000 granted in 1955 contributed to the higher salary liability.

During 1955, 78.5 per cent of the Branch employees authorized payroll deductions for the purchase of Series E bonds, the total deduction amounting to 2.9 per cent of the payroll at the year-end. In addition, 29.3 per cent of the employees authorized a total deduction of 3.1 per cent of the payroll for deposit in their savings accounts with a local savings bank.

All but 28 employees were enrolled in the Blue Cross and Blue Shield Hospital and Surgical-Medical Plans. Almost all of those not enrolled are provided for through other members of their families or through other coverage. In 1955, 467 days of hospitalization were paid for by Blue Cross covering 54 claims by Branch employees; the claims totaled \$9,016 while premiums amounted to \$8,581, a utilization rate of 105.8 per cent. Under the Blue Shield contract, 144 claims totaling \$3,794 were paid; premiums amounted to \$5,368, a utilization rate of 70.7 per cent. Toward the end of the year a survey (a companion to the survey made at the same time at the Head Office) was made to determine employee interest in a major medical plan instituted by Health Service, Inc. to supplement the Blue Cross and Blue Shield coverage. The survey indicated that the majority of Branch employees receiving salaries of less than \$5,000 were not interested, but that 83 per cent of those whose salaries were \$5,000 and more desired to subscribe to the plan. Twenty-six Branch employees were enrolled under the major medical plan, which went into effect on February 2, 1956.

Under the Branch medical program 262 employees received physical examinations, 244 had chest X-rays, and 39 were given electrocardiographs during the year. Absences during 1955 for illness totaled 2,284 days; 1,248 of these days were taken by 14 employees on extended medical leave and the remaining 1,036 days by 191 employees.

Sixteen senior Branch employees designated as assistant Federal Reserve examiners spent a total of 49 days aiding examiners from the Head Office in the examination of banks in the Branch territory. This work has provided valuable training for these employees in addition to acquainting them with the operations of commercial banks.

The Branch continued the program of hiring senior high school girls to work on Saturdays and after school, starting in the early spring of the year, for training in the work of the Check Division. Upon graduation in June these girls were added to the staff as full time employees.

Sixteen employees and one officer attended approved educational courses—at the Graduate School of Banking; the New York State Bankers Schools of Public Relations, and of Agriculture; the American Institute of Banking; the University of Buffalo; Canisius College, and other schools—for which the Branch paid \$1,046 covering tuition and incidentals.

Toward the end of the year seven division chiefs were enrolled with the Research Institute of America in a newsletter program designed to train supervisors in handling human relations problems. A supervisory training program, which will become effective early in 1956, has also been arranged for lower level supervisors.

During the year 31,661 meals were served in the Branch's cafeteria, an average of 126 daily. The Branch absorbed 48 per cent of the cafeteria expenses in 1955.

Branch building

Final detailed plans and specifications of the new Branch building, which were in preparation at the end of 1954, were completed early in 1955; they were reviewed by the Board of Directors of the Branch on March 10, 1955, and approved by the Bank directors' Branch Building Committee on March 24. The detailed plans and specifications, together with detailed cost estimates, were submitted to the Board of Governors, which on May 12 authorized the invitation of bids for the construction.

Bids were received from six of seven previously selected general contractors or construction firms and were opened at the Branch on June 21, disclosing a low base bid of \$3,718,000 by the William L. Crow Construction Company of New York City and other bids ranging upward to \$4,093,177. Twenty-four alternative bids had also been obtained on items in the specifications, and by accepting several of the alternates, the Crow Company's bid was scaled down to \$3,666,298. Our architects then prepared some further estimates of cost which totaled \$4,129,318; this total included estimates of \$137,600 for vault doors and \$50,000 for vault equipment not contained in the Crow Company's proposal, and also included architects' fees, compensation for the clerk-of-the-works and certain other incidental expenses. On the basis of these estimates, the Board of Governors on July 14 approved acceptance of the Crow Company's bid of \$3,666,298, and authorized the expenditure for the building program of approxi-

\$4,325,000, which includes some 5 per cent for contingencies. The contract was awarded to the William L. Crow Construction Company and signed on July 14.

Bids were later obtained from Diebold, Incorporated and the Mosler Safe Company to supply vault doors, lowering platforms and related equipment; a contract was signed with Diebold, Incorporated on September 29, 1955, to furnish this equipment at an aggregate cost of \$123,582.

On July 19, 1955, the William L. Crow Construction Company started excavation work at the site. Ground-breaking ceremonies, attended by Bank

and Buffalo Branch directors and officers and many of the Branch employees, were held on July 21 after a joint meeting of the directors. Excavation work was almost completed in September, and pile driving of 520 piles was finished late in October. By the end of the year, pile capping was completed and a major portion of the concrete for the basement floors and walls had been poured, despite adverse weather that prevailed through November and December. Basement floors and walls were nearly completed by February 1, 1956, and erection of steel was begun then. Present schedules are that we will be open for business in our new building in the spring of 1957.