1914/1964

FEDERAL RESERVE BANK OF NEW YORK • INCORPORATED MAY 18, 1914 •

Contents

1914-1964

In 1964 the Federal Reserve Banks marked the Fiftieth Anniversary of their opening. Throughout the year most of us have been learning, in one way or another, something about the early days of the System.

The year in which the banks opened, 1914, was one of turmoil and uncertainty. War had broken out in Europe in August, and the stock market was closed. As the holiday season approached, business was slow and jobs scarce. Against this setting, the Federal Reserve Bank of New York—and the other 11 Reserve Banks—opened for business on Monday, November 16, nearly a year after President Wilson signed the Federal Reserve Act.

The opening was spoken of as an occasion "marking the foundation of financial emancipation" and as the start of a new era in United States banking. But even the most optimistic observers were unable to foresee the vital role the System was to play in the economy of the country and the world. It was the half century that followed that showed the System's value and potential.

After one day of business, the assets of the Federal Reserve Bank of New York totaled $105 million. At the close of business exactly 50 years later, on November 16, 1964, assets exceeded $14.6 billion. But this difference is merely suggestive of the evolution of this Bank and of the entire System.

Most of the sketches in this booklet trace the origins of Federal Reserve functions and show how they have developed over the years. These vignettes originally appeared in this Bank's Monthly Review *throughout 1964. They appear here with some additional material giving a vivid picture of the early days of the System and of this Bank.*

It is with sincere pleasure and a touch of pride that we present you with this memento of our Golden Anniversary.

Alfred Hayes

December 1964

Alfred Hayes,
President

The Federal Reserve Act of 1913

December 23, 1963, marked the fiftieth anniversary of President Wilson's signing of the Federal Reserve Act. This action by the President followed many years of concern over the problem of freeing our growing and increasingly complex economy from the inflexible currency and credit structure that existed under the National Banking Act. The money panic of 1907 underscored the problem and the need for action. Less than seven months after the peak of the crisis, Congress passed the Aldrich-Vreeland Act, which created a commission to study and report on central banking systems. By 1912 a commission proposal—the Aldrich Bill—was introduced into Congress. This first legislative effort was unacceptable, primarily because it called for a single central bank.

In 1913 Representative Carter Glass, Chairman of the House Banking and Currency Committee, introduced what became the Federal Reserve Act—providing for a system of regional reserve banks with supervisory power vested in a Board in Washington. On September 18, 1913, this bill passed the House, and on December 19 it received approval of the Senate.

President Wilson

Harris & Ewing

Harris & Ewing

Carter Glass

The work of organizing the Federal Reserve System took almost the full year 1914. By April 2, a committee consisting of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency had determined that there were to be twelve Reserve Banks, had designated the twelve cities in which the Reserve Banks would be located, and had defined their districts.

The district to be served by the New York Bank originally included only the State of New York (the northern counties of New Jersey were added in 1915 and Fairfield County, Connecticut, in 1916). By mid-August 1914, the national banks in New York had elected six directors of the full nine-man board of the New York Bank. The remaining three directors of the New York Bank were appointed by the Federal Reserve Board on September 30.

The Federal Reserve Board had been fully constituted on August 10, following Senate approval of five members appointed by the President; the other two members were the Secretary of the Treasury and the Comptroller of the Currency.

All the Reserve Banks opened on November 16, 1914. At the close of business on that first

day the balance sheet of the New York Bank showed assets of $105 million, consisting of $103 million in gold and lawful money and $2 million in bills discounted for member banks.

Immediate Origins of the System

In the decades prior to the establishment of the Federal Reserve System, it became increasingly apparent that the country's financial system failed to meet fully the needs of a growing economy. These shortcomings were most dramatically revealed in fairly frequent "money panics."

New York City was the fulcrum of the banking system operating under the National Bank Act. Many out-of-town banks kept large deposits with New York banks, which in turn employed a large part of these funds in stock market call loans. In most years, seasonal currency withdrawals from the New York banks during the autumn harvest time were met without major difficulty. Occasionally, however, the withdrawals were so great or came at such a time that they triggered a money panic. In the absence of a "lender of last resort," the New York banks, undergoing heavy demands for currency—which constituted their legally required reserves against demand deposits—would restrain withdrawals by their correspondent banks. Failure by out-of-town banks to meet demands for cash would then often follow. With the outflow of currency from New York, moreover, banks would withdraw funds from stock market financing, interest rates would rise to extraordinary levels, and prices of stocks and bonds would drop sharply.

The New York Times: October 23, 1907


rk Times.

THE WEATHER.

Fair to-day and to-morrow; fresh northwest to west winds.

1907.—TWENTY PAGES. ONE CENT In Greater New York, Jersey City, and Newark. Elsewhere, TWO CENTS.

AID TRUST CO. OF AMERICA

It Has Twelve Millions, and as Much as May Be Needed Is Pledged.

J. P. MORGAN IS TO HELP

With Other Financiers He Acts at Night Meeting with Secretary Cortelyou.

THE SITUATION CLEARING

the train for New York, telegraphing first to the local Sub-Treasury to release $6,000,000 of Government money to the banks of this city upon their deposit with the Sub-Treasury of collateral.

The statement which was given out in Washington ran as follows:

"The Secretary of the Treasury is keeping in close touch with the business conditions throughout the country. In the matter of public deposits he will at times consult the needs of legitimate business interests and will not hesitate to deal promptly and adequately with any situation that may arise."

After the Secretary had gone there was given out at the department a statement showing that there still remain outstanding only $6,070,000 of the 4 per cent. bonds, which are being redeemed under the circular of April 2. In some quarters this was taken to mean that the $6,000,000 reported from New York to have been deposited had been sent there for the redemption of these 4 per cent. bonds.

The Examination.

While the financial community was busy yesterday in watching closely the efforts which were being made to rehabilitate the affairs of the Knickerbocker Trust Company, if possible, the State

KNICKERBOCKER WILL NOT OPEN

Conference of Bankers Deems It Unwise to Aid the Trust Company Further To-day.

EIGHT MILLIONS WITHDRAWN

Attorney General Jackson, Though, Will Take No Step to Close the Institution.

STILL HOPES FOR THE BEST

The nation experienced some or all of these conditions in 1873, 1884, 1893, 1901, 1903, and 1907, but each occurrence except the last led to only minor legislative changes. In 1907, the economy was in a recession and stock prices were trending downward over much of the year. As the seasonal demand for currency and credit built up at crop-harvesting time, a large trust company in New York experienced difficulties and suspended operations on October 23. Runs developed on two other New York trust companies, and correspondent banks stepped up their withdrawals of currency from national banks. The net losses of currency from New York banks to the rest of the country increased fourfold over seasonal norms during October and remained at peak levels through November. New York banks strongly discouraged or even rationed currency payments to correspondents, and the usual widespread disruption of payments followed. Call loan rates at one point were reported at 125 per cent per annum, and price declines in the securities markets worsened rapidly.

Eventually, the panic was stemmed. Gold flowed in from abroad, partially reflecting a balance-of-trade improvement and higher interest rates. Treasury deposits of currency in New York banks reduced the pressure on the central money market. Clearing houses served as self-assistance groups for local banks by placing the credit of the group behind each member. Nevertheless, in New York City alone three national banks, eight state banks, and four trust companies, with total deposits and other liabilities of about $110 million, had either failed or temporarily suspended operations.

The panic of 1907 spurred serious study of the basic problem. By May 30, 1908, a means of creating an emergency currency to stem panics had been provided in the Aldrich-Vreeland Act. This act of Congress also established the National Monetary Commission, to consist of nine Senators and nine Representatives, for the pur-

pose of examining the monetary and banking system and reporting on needed changes. The monumental study of this commission (twenty-four volumes of published material) and its recommendations for a central banking system became—in a greatly modified form—the basis for the Federal Reserve Act of 1913 which was "to furnish an elastic currency, to afford means of rediscounting commercial paper, [and] to establish a more effective supervision of banking in the United States."

The Banking System in 1914

In early 1914, the nation's commercial banking system was very different from the system we know today. For one thing, there were almost twice as many commercial banks—25,500, compared with 13,400 today. About 7,500 had national charters; the remaining 18,000 were chartered by states.

Demand deposits and currency totaled $11.6 billion in 1914, compared with the current money supply of about $160 billion. Currency then included national bank notes, gold coin, and gold certificates—all of which have now disappeared—as well as the still-familiar United States notes, silver certificates, and silver and minor coins. Federal Reserve notes, the bulk of today's currency, were of course unknown.

Banking services were neither as flexible nor as diversified as they are today. Bankers' acceptances, which were often used in Europe to finance domestic and foreign trade, were not commonly created by national banks until after passage of the Federal Reserve Act, or by New York State banks until shortly afterward. The Federal Reserve Act contains specific authorization for national banks to create bankers' acceptances. In New York, the State Banking Law of 1914 contains similar authorization for New York banks. At the time these acts were passed, one-third of the nation's exports and more than one-half its imports passed through the port of New York.

Markets in which banks could readily obtain and dispose of short-term earning assets were poorly developed by today's standards. Most of the relatively small amount of United States Government securities held by commercial banks was unavailable for trading, because these securities were required as legal backing for the outstanding notes of national banks.

Even in 1914, payments by check were estimated to account for about 90 per cent of all business payments. Local clearing-house arrangements were efficient, but the collection of out-of-town checks often proved slow and costly. Many banks, particularly those outside financial centers, deducted exchange fees from the face value of checks drawn on their deposits. To avoid these charges, banks sought to route checks only to correspondent banks, and some of the travels of individual checks through these correspondent links proved absurdly time consuming.

Lending consisted primarily of short-term commercial financing based on promissory notes or secured by marketable staples. These notes were generally not very liquid; correspondent relationships—under which smaller banks could rediscount this paper with larger banks when pressed for funds—were of extreme importance in providing what liquidity there was. Correspondent deposits and discounting concentrated in money centers—especially New York City—where the banks did not themselves have ready access to a source of liquidity in times of stress. One of the purposes of the new Reserve System was to fill this void. As the

Wall Street, Panic of 1907

Brown Brothers

Reserve Bank Organization Committee, established under the Federal Reserve Act, began to deliberate on how many Reserve Districts to create (the law specified a maximum of twelve and a minimum of eight) and where to locate the Federal Reserve Banks, it was certain that New York City would have one of the Federal Reserve Banks.

A Note on Gold in 1914

Gold played a key role in the domestic as well as in the international payments system in 1914. This brief note touches on only a few facets of a vast and complex subject.

As a result of the resumption of specie redemption in 1879 (following its suspension during the Civil War) and with the enactment of the Gold Standard Act of 1900, the United States was on a full gold standard, characterized by free coinage and circulation of gold and the convertibility of paper currency into gold coin.

In November 1914, as the Federal Reserve Banks prepared to open for business, the United States had an estimated $1,835 million of monetary gold. Of this amount, $666 million was in the form of gold coin held by commercial banks and the public, $256 million in uncommitted Treasury balances, and $913 million in circulating gold certificates issued to the public and secured 100 per cent by gold in the Treasury. Gold coin and certificates outside the Treasury—roughly $1.6 billion—made up more than 40 per cent of the nation's supply of coin and currency. An estimated $800 million of the gold and certificates outside the Treasury was held by banks, serving as part of their legally required reserves.

The first *Annual Report* of the Federal Reserve Bank of New York stated that "gold is the most uneconomical medium of hand-to-hand circulation since, when held in bank reserves, it will support a volume of credit equal to four or five times its own volume." The Federal Reserve Act made possible more effective use of gold as a foundation for the domestic payments system. The expectation was that this improvement—and the base for a "more flexible" currency provided by Federal Reserve rediscounting of commercial paper—would contribute to the avoidance of money panics.

The Federal Reserve Act required that capital subscriptions of member banks be paid in gold or gold certificates. The Federal Reserve Board also urged member-banks-to-be to pay as much as possible of their required reserve deposits in gold or gold certificates. By December 31, 1914, the Reserve Banks held $229 million in these assets—more than 12 per cent of the nation's monetary gold. Required by the Federal Reserve Act to maintain gold reserves equivalent to at least 40 per cent of their outstanding notes and 35 per cent of their deposit liabilities, the Reserve Banks had, on this basis, excess gold reserves of about $138 million. One of the uses to which the Reserve Banks applied their gold was the establishment of an Interdistrict Settlement Fund, maintained in Washington. It was easy and inexpensive to settle payments between districts arising from check collections by notifying the Fund to transfer gold reserves from the account of one Reserve Bank to another. In time, these transfers replaced the expensive and cumbersome shipments of gold and gold certificates around the country that were common prior to the establishment of the System.

Resolution adopted by the New York Clearing House Association, Nov. 13, 1914

"RESOLVED, The Federal Reserve Bank of New York having applied for the clearing facilities of the Clearing House, the Clearing House Committee is hereby authorized to arrange the details to accomplish this object, under such regulations and for such annual compensation as the Committee may prescribe."

Incorporation of the Federal Reserve Bank of New York

The seal of the Bank indicates that the Federal Reserve Bank of New York was incorporated on May 18, 1914. This major step toward the opening of the Bank for business on November 16, 1914 required a number of preliminary actions. For example, the Organization Committee established by the Federal Reserve Act—composed of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency—had to complete the work of designating Federal Reserve Districts and of fixing the location of the new Reserve Banks within the Districts. The Committee then had to file with the Comptroller a certificate containing this information.

National banks, which were required to become members of the new system if they were to keep their national charters, had been given sixty days following passage of the act in which to signify their acceptance of its terms and provisions. The action was not required of state banks and trust companies, which were free to decide individually whether or not to apply for membership. By April 2, 1914, when the lines of the new Districts and locations of Reserve Banks were announced, 477 national banks had submitted their assent in this District, which then encompassed only New York State. Based

Circular No. 1.

FEDERAL RESERVE BANK OF NEW YORK

TEMPORARY OFFICE, 27 PINE STREET

New York City, October 28, 1914.

To the President,

Dear Sir :

Referring to the notice sent you by the Federal Reserve Board, calling for payment on November 2, 1914, of the first installment on the amount of capital stock of the Federal Reserve Bank of New York allotted to your bank by the Organization Committee, you are now advised that the amount to be paid should be one-sixth of the par value of the amount allotted to you without regard to any changes which may have occurred in the amount of the capital stock or surplus of your bank since the date of allotment.

The law requires this payment to be made in gold or gold certificates, and you are requested to make such payment, so far as may be practicable, in gold certificates of large denominations from the reserves held in your own vaults.

These should be delivered on November 2d, to the Federal Reserve Bank of New York at the office of the New York Clearing House Association, No. 77 Cedar Street, New York City, where, through the courtesy of that Association, arrangements have been made to receive the payment of the first installment of the capital stock.

Fractional amounts which cannot be paid in gold or gold certificates may be paid in lawful money.

The Federal Reserve Board has authorized the Federal Reserve Banks to pay the express charges involved in making this payment. The amount of such charges should not be deducted from the amount remitted, but a statement of the amount paid for expressage should be rendered after November 16th, for which remittance will be made or credit given in your account.

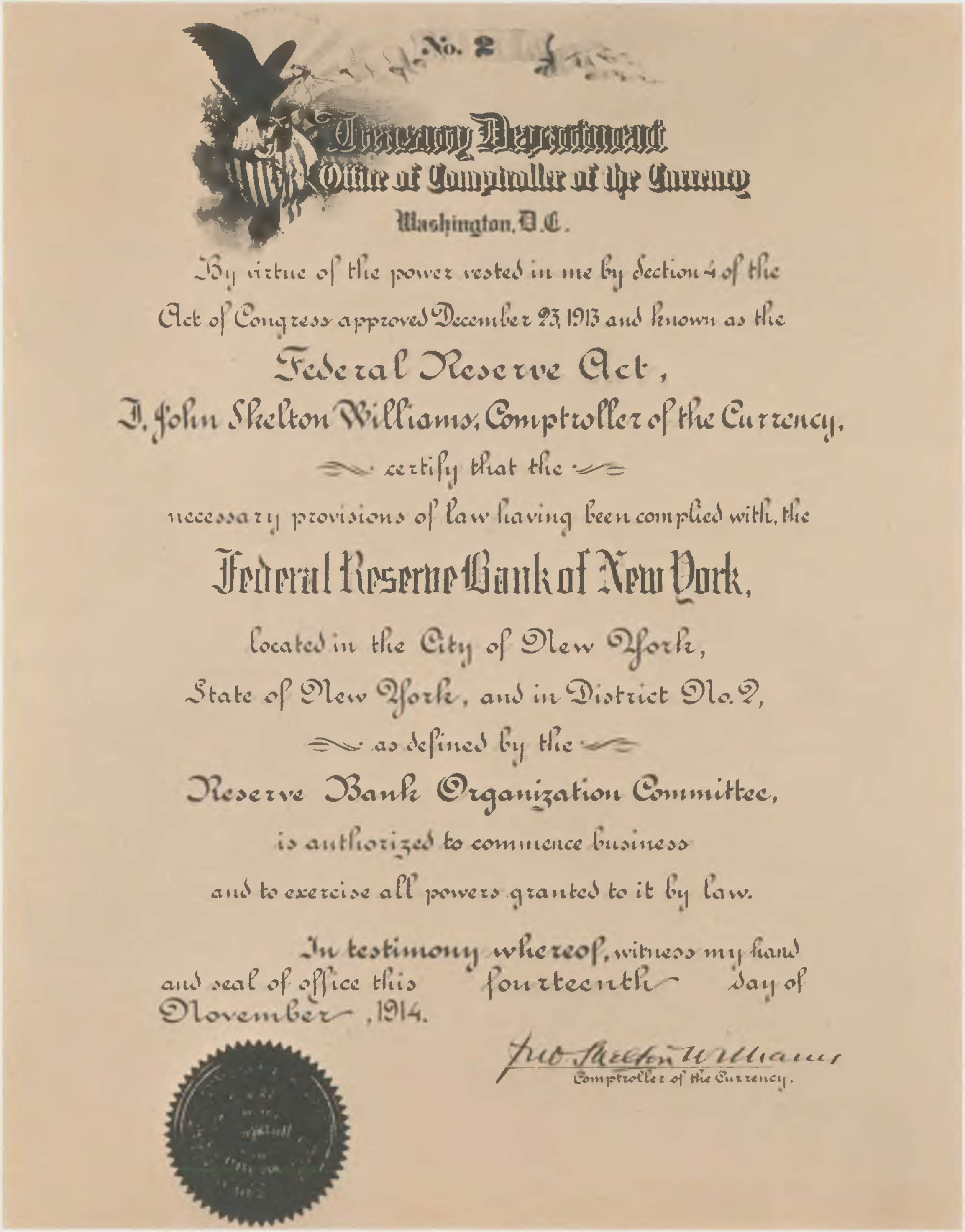
Unless otherwise requested, certificates of payment (which are not transferable) will be mailed to member banks, at their risk without registration.

A form of letter to be returned with your remittance is herewith enclosed, which you are requested to complete by filling in the blanks.

In accordance with the desire which the Secretary of the Treasury has expressed to the Board of Directors of this bank, that the operation of the Federal Reserve system shall be declared established on November 16th, the Directors are endeavoring to complete the necessary organization to receive the reserves to be transferred by member banks, and to transact such business as will be undertaken at the outset. Further notice in relation to the transfer of reserves will be sent you at an early date.

FEDERAL RESERVE BANK OF NEW YORK,
Benj. Strong, Jr.,
Governor.

Circular No. 1 of the Bank, which was addressed to the Presidents of the member banks, set November 2, 1914, as the date for payment of the first installment on the capital stock of the Bank allotted to them. As the circular points out, the law required that payment be made in gold or gold certificates.



No. 2

Treasury Department
Office of Comptroller of the Currency
Washington, D.C.

By virtue of the power vested in me by Section 4 of the Act of Congress approved December 23, 1913 and known as the

Federal Reserve Act,

I, John Skelton Williams, Comptroller of the Currency,

certify that the

necessary provisions of law having been complied with, the

Federal Reserve Bank of New York,

located in the City of New York,

State of New York, and in District No. 2,

as defined by the

Reserve Bank Organization Committee,

is authorized to commence business

and to exercise all powers granted to it by law.

In testimony whereof, witness my hand and seal of office this fourteenth day of November, 1914.

Jno. Skelton Williams
Comptroller of the Currency.

This Certificate formally authorized the Federal Reserve Bank of New York to "commence business and to exercise all powers granted to it by law." John Skelton Williams, Comptroller of the Currency, and also a member of the Federal Reserve Board, signed the certificate on Saturday, November 14, 1914, two days before the Bank opened. The No. 2 at the top of the certificate refers to the Second Federal Reserve District.

on the provision that subscriptions equal 6 per cent of capital stock and surplus of each member bank, the capital subscription of this Bank was estimated to exceed $20 million.

With the minimum subscription requirement ($4 million for each Federal Reserve Bank) thus satisfied, the Organization Committee designated as incorporators five of the commercial banks which had filed applications for membership. The five incorporators of the New York Bank, in the order of their listing, were the National Commercial Bank, Albany; National Park Bank, New York; Marine National Bank, Buffalo; First National Bank, Syracuse; and Irving National Bank, New York. (As a result of various changes in organization, none of these banks survives under the same name today.) These incorporators executed a certificate of organization specifying the name, the jurisdiction, the capital structure, the membership, and other attributes of the new Bank. The certificate also stated that it "is made to enable those banks executing same, and all banks which have subscribed or may thereafter subscribe to the capital stock of such Federal Reserve Bank, to avail themselves of the advantages of this [Federal Reserve] act."

The completed certificate was filed with the Comptroller of the Currency on May 18, 1914. Under the terms of the Reserve Act, incorporation was automatic upon this filing.

Although the corporate life of this Reserve Bank began on that day, much remained to be done before the November opening. In the intervening time, positions on the Board of Directors were filled as prescribed by the Federal Reserve Act, bylaws were adopted, and accounting procedures established.

The franchises of the Reserve Banks were originally granted for a specified period of twenty years—perhaps an echo of the historical controversies involving the first and second Banks of the United States, and quite possibly also a reflection of the uncertainty of how the new System would work out. This limiting feature was removed by Congress in 1927.

Incorporators of the Federal Reserve Bank of New York

None of the five incorporator banks that executed the Certificate of Organization of the Federal Reserve Bank of New York is doing business under the same name today.

- The National Commercial Bank, Albany, is now the National Commercial Bank and Trust Company, Albany.
- National Park Bank, New York, merged into the Chase National Bank, which is now The Chase Manhattan Bank.
- Marine National Bank, Buffalo, converted to a state bank and is now the Marine Trust Company of Western New York.
- First National Bank, Syracuse, merged into the First Trust and Deposit Company of Syracuse.
- Irving National Bank, New York, converted to a state bank called the Irving Bank of New York, which is now the Irving Trust Company.

Early Response of the Commercial Banks

During 1914, as the Federal Reserve System was about to be launched, one of the major questions was how well the System would be accepted by prospective member banks. There existed considerable evidence that not all important commercial banking interests were in accord with the principles of the Federal Reserve Act. While the measure was being discussed in Congress in 1913, an apparent consensus among bankers had favored the earlier Aldrich proposal, which had pointed toward a more centralized institution with greater representation for banking interests. Even Benjamin Strong, then president of Bankers Trust Company, New York, and shortly to become the first Governor of the Federal Reserve Bank of New York, had expressed serious misgivings about the Federal Reserve System as it had emerged from Congressional debate.

In addition to disagreements on principles, there were also practical questions of potential disadvantages of membership, such as the absence of interest payments on reserves deposited with a Federal Reserve Bank and the expected adoption of a par check collection mechanism among member banks by the Federal Reserve System. Under the earlier National Banking Act and existing state banking laws, a considerable portion of required reserves could be—and usually was—deposited in earning accounts. Furthermore, the smaller banks in particular looked with disfavor at the possibility of par check collection, since many obtained a sizable portion of their earnings from exchange fees deducted from the face value of the checks sent to them by other banks for payment. These banks were also apprehensive over the additional supervision of the Federal Reserve authorities, while both large and small state-chartered banks felt further uncertainty as to whether or not they could legally withdraw from the System once they had accepted membership.

There were, of course, powerful factors working toward broad bank membership. These included the service facilities that the new System was about to develop, and the knowledge that membership contributed to an over-all strengthening of the commercial banking structure. Of even greater importance was potential access to the Federal Reserve "discount window." The previous absence of a "lender of last resort" had often led to embarrassment for individual banks and had contributed to damaging money panics affecting the entire financial system.

The first evidence of the response of the banking community proved highly encouraging. By April 2, 1914, no less than 7,471 national banks had applied for stock in the Federal Reserve Banks, leaving only 15 choosing to relinquish their charters rather than join the System. Since national banks held about half of the banking system's deposits, acceptance of

membership by this overwhelming majority was of critical importance.

The pace of entry proved considerably slower among the estimated 9,000 state banks and trust companies who met the Reserve Act's capital requirements for membership. By the end of 1916, 37 state-chartered institutions had joined the System and 119 more had become members by converting or reorganizing as national banks. Meanwhile, however, evidence was accumulating that membership did provide tangible benefits to offset some of the apparent disadvantages. Moreover, the passage of an amendment to the Reserve Act on June 21, 1917—when the number of state-chartered members had risen to 53—assured state members that they could withdraw if they desired. Between that date and the year end 197 banks entered the System, and in 1918 an additional 686 became members.

By the fall of 1919, five years after the inauguration of the Federal Reserve System, it was clear that commercial banks generally supported the System. Its membership included almost one-third of all commercial banks, and these members held over 70 per cent of all deposits in such banks. Today, a half century later, 45 per cent of all commercial banks, accounting for over 83 per cent of commercial bank deposits, are Federal Reserve members.

Second District Membership

Year	National Banks	State Banks & Trust Co's.	Total
1914	480	0	480
1915	615[1]	1	616
1916	623[2]	2	625
1917	624	43	667
1918	622	101	723
1919	636	122	758

[1] 131 banks in New Jersey added through readjustment of district boundary to include the eleven northernmost counties.

[2] 15 banks in Fairfield County, Conn., added as a result of change in district boundary.

Organization and First Actions of the Board

Many important Washington figures gathered in the office of the Secretary of the Treasury on Monday morning, August 10, 1914, to witness the swearing-in of the new Federal Reserve Board. It must have been a solemn occasion. War had broken out in Europe the previous week, bringing with it great uncertainty and perplexing financial problems.

The men who were to confront these problems had come to Washington from different backgrounds and regions. The Federal Reserve Act had specified that no two of the five men appointed by the President could come from the same Federal Reserve District and that two should be experienced in banking or finance. The new body was to exercise general supervision over the Federal Reserve Banks.

President Wilson had spent several months making the selections, and the Senate did not confirm all the appointments until the end of July. Charles S. Hamlin, a Boston lawyer who was then serving as an Assistant Secretary of the Treasury, was designated Governor of the Board (equivalent to the present Chairman). The Vice Governor (Vice Chairman) was to be Frederick A. Delano, a railroad executive from Chicago. Paul M. Warburg, a member of a New York banking firm, and W. P. G. Harding, president of a national bank in Birmingham, Alabama, were selected as the members with banking or financial experience. The fifth appointee was A. C. Miller, a former professor of economics at the University of California, who was serving as Assistant to the Secretary of the Interior.

Under the new law the Secretary of the Treasury and the Comptroller of the Currency were ex-officio members. Thus, Secretary William Gibbs McAdoo and John Skelton Williams completed the "Supreme Court of Finance," as the Board was informally called. (The Federal Reserve Act was amended in 1935, removing the provision for ex-officio membership, making all seven positions appointive, and changing the official title to the Board of Governors of the Federal Reserve System.)

When the members of the new Board assembled for their first meeting the Thursday after being sworn in, they had to make a choice between immediately completing the organization of the Reserve Banks or developing emergency programs to counteract the financial disturbances caused by the war. The latter course was adopted, resulting in the establishment of a gold pool and a cotton loan fund.

One of the earliest and most trying financial consequences of the war was a highly abnormal condition in the foreign exchange market. The

balance-of-payments position was deteriorating seriously in August 1914, with both the trade and capital accounts contributing to a large deficit. Exports declined sharply because of the disorganization of ocean shipping and the virtual collapse of European credit markets, the usual source for United States export financing. At the same time Europeans were dumping holdings of American securities in the New York market, and a large amount of American obligations held by foreigners was scheduled to mature in the near future. Discussing this situation, the first *Annual Report* of the Federal Reserve Board observed: "The securities markets were badly demoralized, prices fell with alarming rapidity, and the country was exposed to a serious and disastrous drain of gold."

In response to this problem the Federal Reserve Board took the initiative in calling a conference of private bankers to discuss emergency action. The larger banks throughout the country agreed to subscribe $100 million to a gold pool, which could be used to settle American debts to Europe and thus help restore confidence in the dollar.

In addition, a very serious problem confronted the cotton-producing states. Since 60 per cent of American cotton production was normally exported, interruption of Atlantic shipping and the closing of the United States and British cotton exchanges resulted in a major financial crisis in the South. Cotton exporters needed credit to finance their higher-than-normal inventories, but Southern banks were already overextended. To provide relief, the major banks in the North, cooperating with the Federal Reserve Board, agreed to establish a $100 million cotton loan fund, from which credit could be made available to the cotton exporters.

Operations actually required under the gold exchange fund were small, and under the cotton loan fund virtually zero. However, the two plans had a highly beneficial psychological impact. Thus, even before the Reserve Banks opened, the new System had demonstrated its usefulness to the country.

The original Federal Reserve Board, 1914. Standing: *Paul M. Warburg, Member; John Skelton Williams, Comptroller of the Currency, Member; W. P. G. Harding, Member; A. C. Miller, Member*. Seated: *Charles S. Hamlin, Governor; William G. McAdoo, Secretary of the Treasury; Frederick A. Delano, Vice Governor*.

Pierre Jay

Pierre Jay, this Bank's first Chairman and Federal Reserve Agent, served in those offices 12 years—longer than any other man. At the time of his appointment by the new Federal Reserve Board on September 30, 1914, he was vice president of the Bank of The Manhattan Company. He left the Federal Reserve Bank of New York at the end of 1926, when he was appointed American member of the Transfer Committee of the Reparation Commission.

Chairman Jay was credited with making scholarly and painstaking studies of a multitude of novel and complex problems of early Federal Reserve operations. One of these was explaining to the banking community and various sectors of the public the significance of the new Federal Reserve System.

Benjamin Strong said that he worked so quietly and modestly that few people outside his immediate circle of associates realized the influence he exerted in the Bank, the System, and the whole business community.

Chairman Jay had a broad knowledge of economic matters, fine analytical abilities, and was a master of tactful diplomacy.

He was 79 when he died in 1949.

Underwood & Underwood

Benjamin Strong, Jr., was founder and principal guiding spirit of this Bank in the formative years of the Federal Reserve System. The Bank's directors at their first meeting named Mr. Strong as Governor. That was six weeks before the Bank opened for business. Governor Strong was 42 then and president of Bankers Trust Company.

Governor Strong was a man of energy and courage. Historians say no one exerted more influence on the early development of the Reserve System and that no central banker has been more influential to this day. During his 14 years as Governor of the Bank, he was a dominant force in American monetary and banking policies.

During the 1920's, Governor Strong was the leader of a move to promote more effective cooperation among the world's central banks, and he traveled extensively to carry out this objective.

Governor Strong kept this reminder in the top drawer of his desk:

To the Governor of this Bank: Never forget that it was created to serve the employer and the working man, the producer and the consumer, the importer and the exporter, the creditor and the debtor; all in the interest of the country as a whole.

Governor Strong died in office in 1928.

Opening Day, Monday, November 16, 1914

At 10 a.m., Monday, November 16, 1914, the Federal Reserve Bank of New York opened for business. The Bank had been incorporated May 18, 1914 and its directors elected and appointed by September 30. Pierre Jay had become Chairman of the Board of Directors and Federal Reserve Agent. At the first board meeting, on October 5, Benjamin Strong, Jr., President of Bankers Trust Company of New York, was elected Governor of the Bank. An acting deputy governor and a secretary-counsel also were appointed during October. Temporary offices were located at 27 Pine Street.

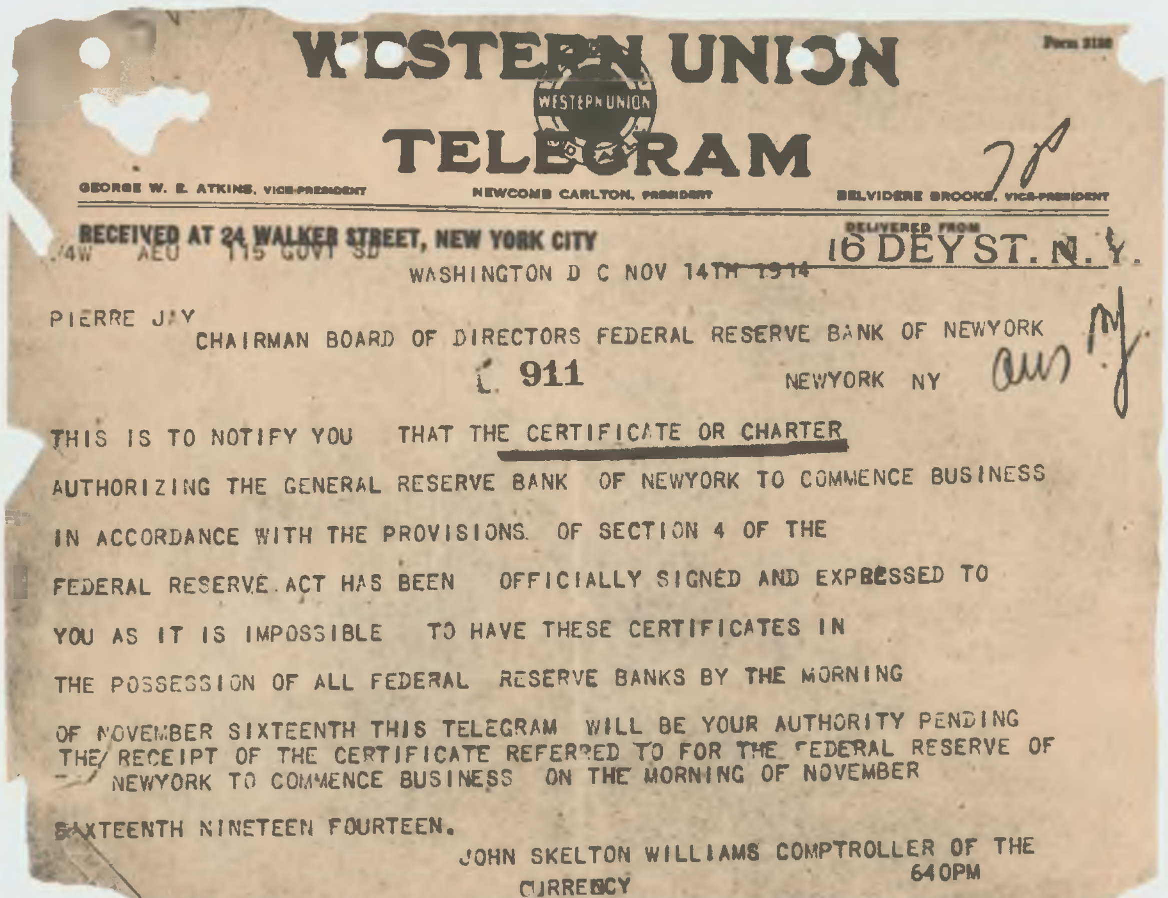
On October 26, Secretary of the Treasury

The telegram on the right was the Bank's authority to "commence business" on Monday morning, November 16, 1914. It was sent from Washington at 6:40 p.m. on the Saturday before. The certificate or charter that the telegram refers to is reproduced on page 6. Note the typographical error in the Bank's name on the second line of the telegram.

W. G. McAdoo notified the twelve Reserve Banks that the Comptroller of the Currency planned to authorize their opening on November 16. Chairman Jay replied that he would endeavor to assemble a temporary organization so that the Bank could, in fact, begin to operate that day. Governor Strong wired Secretary McAdoo that the need to provide suitable safeguards for handling the amount of money involved in the Bank's opening might make it impossible to comply literally with the opening date announcement. Mr. Jay and Governor Strong promised, however, to do everything possible to meet the date.

Two weeks before the scheduled opening banking rooms were subleased at 62 Cedar Street. (The site of that building—a block from the Bank's present 33 Liberty Street address—was on what is now the Chase Manhattan Plaza.) The Bank moved into the Cedar Street quarters only one week before opening day. On Saturday, November 14, John Skelton Williams, Comptroller of the Currency, signed the certificates authorizing the twelve Banks to open, as provided for in the Federal Reserve Act.

Secretary McAdoo commented that the opening of the Banks marked a new era in the history of business and finance in this country. Paul M. Warburg, closely identified with the birth of the System and a member of the first Federal Reserve Board, declared that coming generations would commemorate the date as the beginning of financial emancipation. *The Wall Street Journal* said the openings marked a new banking era and commented, "with the opening of the Federal Reserve Banks throughout the country today the consummation of the long standing agitation for currency reform in the United States may be said to have been attained."



WESTERN UNION
TELEGRAM
GEORGE W. E. ATKINS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT
RECEIVED AT 24 WALKER STREET, NEW YORK CITY
DELIVERED FROM 16 DEY ST. N.Y.
4W AEU 115 GOVT SD
WASHINGTON D C NOV 14TH 1914
PIERRE JAY
CHAIRMAN BOARD OF DIRECTORS FEDERAL RESERVE BANK OF NEWYORK
911 NEWYORK NY
THIS IS TO NOTIFY YOU THAT THE CERTIFICATE OR CHARTER AUTHORIZING THE GENERAL RESERVE BANK OF NEWYORK TO COMMENCE BUSINESS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 4 OF THE FEDERAL RESERVE ACT HAS BEEN OFFICIALLY SIGNED AND EXPRESSED TO YOU AS IT IS IMPOSSIBLE TO HAVE THESE CERTIFICATES IN THE POSSESSION OF ALL FEDERAL RESERVE BANKS BY THE MORNING OF NOVEMBER SIXTEENTH THIS TELEGRAM WILL BE YOUR AUTHORITY PENDING THE RECEIPT OF THE CERTIFICATE REFERRED TO FOR THE FEDERAL RESERVE OF NEWYORK TO COMMENCE BUSINESS ON THE MORNING OF NOVEMBER SIXTEENTH NINETEEN FOURTEEN.
JOHN SKELTON WILLIAMS COMPTROLLER OF THE CURRENCY
640PM

Seven officers and eighty-five employees, mostly borrowed from banks and the subtreasury, made up the New York Bank's opening day staff. A permanent staff was organized during the next eight weeks. The main business during the opening day was accepting reserve deposits from Second District member banks. The National City Bank of New York was the first city member to deposit reserves ($21 million including $16 million in gold). By the end of the day, 221 of 480 Second District members had deposited about $100 million in reserves, including $82 million in gold and gold certificates and $11 million in silver and silver certificates.

The Chemical National Bank of New York made the first application for rediscounting for the stated purpose of demonstrating its desire to support and use the facilities of the new reserve banking system. The bills submitted and accepted for rediscount under this application totaled $2,182,500—the largest such operation by the New York Reserve Bank in its first year. At the close of business the first day the Bank had total assets of $105 million, including payments on capital subscriptions received earlier in the month. By 8 p.m. the books had been proved and balanced, and the first daily report and balance sheet were sent to Washington. Chairman Jay and Governor Strong were quoted in the newspapers the next morning as commenting that everything had gone off as smoothly as if the Bank had been open for six months.

Years later, Governor Strong recalled the early days of the Bank in these words: "...we were a lot of 'greenhorns' with no guide or compass, no experience, no cohesion—with everything to learn and, frankly, everything to lose as the result of our inexperience."

Sixty-Two Cedar Street

The first banking office of the Federal Reserve Bank of New York was at 62 Cedar Street. The building was a six-story, white marble structure considered "well appointed" in its day. It was located on the south side of Cedar, between Nassau and William Streets. Across the street was the main office of Mutual Life Insurance Co., which built 62 Cedar for Harvey Fisk and Sons in 1903. The site of the old Fisk building is now part of Chase Manhattan Plaza, only a block from the present home of the New York Reserve Bank at 33 Liberty Street.

The Bank subleased from Fisk the basement and a vault, the ground floor banking rooms, the mezzanine, and a second floor board room. The lease, dated November 6, only 10 days before opening day, called for an initial annual rental of $39,000, with increases to $41,000 for the final year ended May 1, 1918. There was considerable discussion over price, and at one point negotiations were suspended.

These negotiations and other organizational work were carried on from temporary quarters at 27 Pine Street, the first home of the Bank.

Clinton and Russell, New York City architects who designed 62 Cedar, told the Bank before the move that the structure was built "in accordance with the very best modern practices. It is thoroughly substantial and extra strong . . . no expense was spared in the construction of this building, and the workmanship and materials which entered into it were of the very best."

"We know of no building in the city of New York that is better constructed than this building," the architects wrote the Bank.

The building had a private elevator connecting the basement, ground floor, mezzanine, and second floor. The elevator was "capable of carrying four people and specie and securities from one floor to another," one description said. But the Bank soon found the elevator inadequate for its needs, and a new one was installed. Veteran employees can still remember the old elevator getting stuck between floors.

Brown Brothers

62 Cedar St. is the second building on the right.

Banking floor

Office area

Board room

During the first year at 62 Cedar, the Bank spent $9,644 for alterations, improvements and changes. On December 16, 1915, a little more than a year after moving in, the Bank signed a lease for larger offices at 15 Nassau Street, which is at the Pine and Nassau corner of the Equitable Building.

In 1918 the Bank acquired the major portion of the site of its present quarters at 33 Liberty Street. The cornerstone was laid May 31, 1922 and the building finished and in full use on October 6, 1924. Some years later, a small parcel of land at the William Street end of the present site was acquired, and an addition to the building was erected. This addition was completed in 1936.

An executive office

Vault

Officers of Bank on Opening Day

Benjamin Strong, Jr., Governor
(formerly President, Bankers Trust Company, New York)

William Woodward, Acting Deputy Governor
(formerly President, Hanover National Bank)

James F. Curtis, Secretary and Counsel

G. E. Gregory, Acting Cashier
(formerly Cashier, National City Bank of New York)

B. W. Jones, Acting Assistant Cashier
(formerly Assistant Secretary, Bankers Trust Company)

R. H. Giles, Acting Assistant Cashier
(formerly Assistant Treasurer, Bankers Trust Company)

S. A. Welldon, Acting Assistant Cashier
(formerly Assistant Cashier, First National Bank of New York)

Early Problems of Check Clearing and Collection

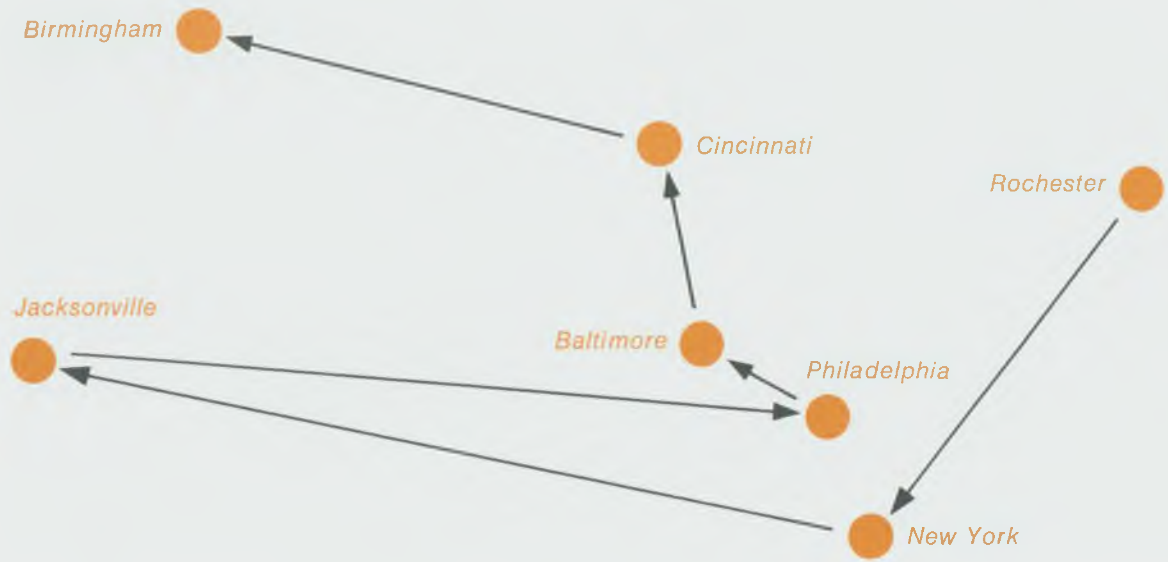
The use of checkbook or deposit money was firmly established in this country by the time the Federal Reserve Banks began operations in 1914. Five years earlier a National Monetary Commission study estimated that 95 per cent of the deposits received by banks was in the form of checks. The system of clearing and collecting checks nevertheless left much to be desired.

In most major cities the banking community had established adequate facilities for clearing and collecting local checks. But problems arose when checks had to move from one city or region to another. Many banks levied exchange charges on these out-of-town checks—"nonpar collection." These charges were defended on the ground that payment of out-of-town checks involved costs, including maintenance of out-of-town balances with other banks and the shipment of currency.

In an effort to avoid such charges, banks would often send checks to banks with which they had par collection agreements (collection at face value), rather than to the banks on which the checks were drawn. In extreme cases, the results were ludicrous. For example, Governor W. P. G. Harding, one of the original members of the Federal Reserve Board, gave the following illustration:

I recall an instance where a national bank in Rochester, New York, sent a check drawn on a bank in North Birmingham, Alabama, to a correspondent bank in New York City, by which it was sent to a bank in Jacksonville, Florida, which sent it for collection to a bank in Philadelphia, which in turn sent it to a bank in Baltimore, which forwarded it to a bank in Cincinnati, which bank sent it to a bank in Birmingham, by which bank final collection was made.[1]

Such circuitous routing was costly for the banking system as a whole, since the intermediate banks were burdened with unnecessary expenses in the handling of checks. Moreover,



some bank customers, confident that checks would wander around for a week or more, drew checks on nonexistent deposits in the expectation of depositing the money before the checks were presented.

After the new Reserve Banks opened for business, the necessity of establishing an efficient national clearing and collection facility was quickly recognized, and par collection became one of the System's major operational goals. To achieve this end, the costs regarded by banks as justification for exchange charges had to be minimized or eliminated. Since each member bank had to maintain a balance (reserve account) with its Reserve Bank, checks could easily be paid by debiting these accounts, thereby reducing the member bank's need for correspondent balances and cutting the related costs. Thus, with the creation of the Federal Reserve System and its centralization of reserve balances, one important reason for exchange charges was eliminated in the case of member banks.

The Federal Reserve Banks, nonetheless, moved only cautiously toward the goal of actually requiring par collection. By June 1915, each Federal Reserve Bank had established a system of par check collection for its members. But participation in these clearing systems was voluntary, and by the end of 1915 only 25 per cent of the member banks had agreed to par collection.

In 1916 the Reserve Banks began to absorb the charges on currency shipments from member banks to cover reserve deficiencies caused by check clearance. This eliminated a second cost justification for exchange charges. Thereupon, and in the same year, the Federal Reserve Board adopted a regulation requiring member banks to pay at par all checks drawn upon themselves and presented by the Reserve Banks.

To broaden the par collection system further, Congress amended the Federal Reserve Act in 1917 to permit a nonmember bank to use the System's collection facilities, provided it maintained a clearing balance at its district Reserve Bank and paid at par checks received from the Reserve Bank.

These early efforts to establish a national par collection system were quite successful. By 1921, all member banks and 91 per cent of some

[1] W. P. G. Harding, *The Formative Period of the Federal Reserve System* (Boston, 1925), p. 51.

20,000 nonmember banks were paying checks at par. Today, in addition to the 6,200 member banks, there are 5,800 nonmember banks clearing at par, 125 of which keep clearing balances at a Reserve Bank. There are still some 1,600 nonmember banks which do not remit at par.

Naming of Reserve Banks as Treasury Depositories and Fiscal Agents

The authors of the Federal Reserve Act were aware that the methods employed in managing the Treasury's finances had serious defects. Many of the Government's fiscal affairs were handled by the Independent Treasury System, which had been established in 1846 to provide places other than private banks for the safekeeping of Government funds. The defects of that system had been described in a study published by the National Monetary Commission.

Most of the Treasury's revenues from customs and taxes were collected in currency and coin, and it was Treasury practice during most of the pre-World War I period to hold this money in the subtreasury offices located around the country until it was needed for disbursements. Hence, when Treasury receipts exceeded disbursements and the surplus was held in the subtreasury vaults, money in circulation declined. Since currency and coin were also an important component of bank reserves, its withdrawal from the banks contracted the reserve base, and there was no central banking mechanism through which this effect could have been offset at times when reserve withdrawals were inappropriate in the light of current economic developments.

Successive Secretaries of the Treasury had attempted on occasion to relieve undesirable contractions of the bank reserve base by transferring funds from the subtreasuries to the national banks, which had been used as depositories since the passage of the National Banking Act. These attempts were only partially successful. The establishment of the Federal Reserve System itself was, of course, a major step in combating this and other inflexibilities in the country's money and banking structure.

An early version of the Federal Reserve bill required that all general funds of the Treasury be deposited in the Federal Reserve Banks within twelve months after passage of the act. This provision was successfully opposed by Secretary of the Treasury McAdoo as being too rigid. Thus, the final version of the bill left the amount and timing of the transfer of funds up to the discretion of the Secretary of the Treasury, thereby permitting him to continue using the subtreasuries and national banks as depositories. This earlier draft of the bill also appointed the Federal Reserve Banks as fiscal agents, whereas the final act authorized the Secretary of the Treasury to require the Banks to act as fiscal agents at his discretion. In actual fact, the Secretary of the Treasury began using the new Reserve Banks as depositories in 1915 and as fiscal agents in January 1916.

At first, the fiscal services performed by the Reserve Banks were limited to receiving deposits of Government collectors of customs and internal revenue and to paying checks and warrants drawn upon the United States Treasury. However, after the United States entered World War I, Secretary McAdoo turned to the Reserve Banks for other services. In particular, the Banks were authorized to sell, issue, exchange, and convert Liberty bonds, and they became the focal points for local Liberty Loan committees, which made a vital contribution to the financing of the war.

Another useful service performed by the Federal Reserve Banks was the transfer of money around the country by wire and bookkeeping entries. This procedure—made possible through the deposit of gold and gold certificates by each Reserve Bank in the gold settlement fund in Washington—eliminated the necessity for expensive shipments of coin and currency between subtreasuries.

It soon became evident that the Reserve System could perform many of the fiscal agency functions at least as efficiently as subtreasuries, and that having both was an unnecessary expense. In May 1920, therefore, Congress passed a bill directing the discontinuance of the nine subtreasuries on or before July 1, 1921. The Secretary of the Treasury proceeded to carry out this task by transferring many of the remaining fiscal agency functions from the subtreasuries to the Reserve Banks. The last subtreasury, located in Cincinnati, was closed on February 10, 1921.

Early History of Earnings and Expenses

Relying in part on the experience of other central banks, the legislators and banking experts who drafted the Federal Reserve Act expected that the earnings of the new Reserve Banks would tend to average higher than their expenses. The distribution of these earnings was therefore carefully specified in the act.

First there was provision for a 6 per cent cumulative dividend on capital stock purchased by member banks. Earnings in excess of these dividend payments were then to be paid to the United States Treasury (except that one-half of the excess was to be retained until the surplus account equaled 40 per cent of paid-in capital). Until 1933 these payments to the Treasury represented a "franchise tax." In that year the tax was repealed to permit the Federal Reserve Banks to replenish their surplus, which was substantially reduced when an act of Congress required the Banks to subscribe $139 million to the capital of the new Federal Deposit Insurance Corporation. Since 1947, payments to the Treasury have been made as "interest on Federal Reserve notes."

Although the sources of potential Reserve Bank earnings—loans and rediscounts for member banks and interest on securities acquired in open market operations—were well known from the outset, a few member banks were pessimistic about the prospect of receiving the

return specified by the statute. In New York State, the directors of one member bank stated publicly that they were writing down to zero the value of their Reserve Bank stock since they did not foresee any dividend payments.

In late 1914 and through 1915, such pessimism proved temporarily justified as total earnings of the Federal Reserve Banks were in fact small. The Federal Reserve Act had lowered reserve requirements of national banks, and this step, coupled with an inflow of gold, brought about conditions of monetary ease so that there was little need for rediscounting. Through the end of 1915, the twelve Reserve Banks accommodated 2,073 member banks, but these discounts had totaled only $183 million.

With respect to the acquisition of earning assets through open market operations, the New York Federal Reserve Bank noted that suitable investments were in strong demand, causing interest rates to decline. In its first *Annual Report*, the Bank stated:

Realizing the influence which the reserve bank might have upon these rates if it pressed its funds upon the market, it has been the policy of the bank to follow rather than lead the market in its decline. In these circumstances, no thought could be given to earning dividends.

Thus, from the beginning, the System felt that central bank decisions should not be influenced by considerations of earnings.

In the aggregate, current expenses of all the Reserve Banks exceeded earnings by $141,000 between the beginning of operations in November 1914 and the end of 1915. Reflecting regional conditions, results varied among the Banks and two Banks actually posted sufficient earnings after expenses to initiate dividend payments. However, it was estimated that additional net earnings of approximately $3.4 million would have been needed to meet dividend requirements of all twelve Banks.

In 1916, earnings of the Banks rose while expenses, no longer affected by organizational outlays, remained steady. The twelve Banks were therefore able to declare partial dividends of $1.7 million on member bank stock. In 1917 war financing swelled earnings, and at the year end the Reserve Banks made their first transfers to surplus and payments to the Treasury. By June 1918 all the Reserve Banks had brought dividend payments up to date.

Since that time, there have been four years in which Reserve Bank earnings have not covered expenses and dividends. Over the past fifty years as a whole, however, the System has paid into the Treasury more than $9.3 billion—an amount that far exceeds the $590 million in dividends paid to member banks on capital stock during the same period. In 1964 the Reserve Banks' current earnings were $1.34 billion, their current expenses $197 million, dividends $31 million, and payments to the Treasury $1.58 billion.

Statement of Condition of the Federal Reserve Bank of New York
(In millions of dollars)

ASSETS	November 16, 1914	November 16, 1964
Gold certificate account	55	3,366
Redemption fund for F. R. notes	–	345
Total gold certificate reserves	55	3,711
F. R. notes of other Banks	–	165
Other cash	6	39
Discounts and advances	2	185
Acceptances:		
Bought outright	–	40
Held under repurchase agreement	–	32
U. S. Government securities:		
Bought outright–		
Bills	–	1,263
Certificates	–	–
Notes	–	5,897
Bonds	–	1,225
Total bought outright	–	8,385
Held under repurchase agreement	–	210
Total U.S. Government securities	–	8,595
Total loans and securities	2	8,852
Cash items in process of collection	42[a]	1,805
Bank premises	–	8
Other assets	–	61
Total Assets	105	14,641

LIABILITIES	November 16, 1914	November 16, 1964
Federal Reserve notes	–	8,057
Deposits:		
Member bank reserves	102	4,650
U. S. Treasurer—general account	–	83
Foreign	–	32
Other	–	132
Total deposits	102	4,897
Deferred availability cash items	–	1,236
Other liabilities and accrued dividends	–	28
Total Liabilities	102	14,218
CAPITAL ACCOUNTS		
Capital paid in	3	137
Surplus	–	264
Other capital accounts	–	22
Total Liabilities and Capital Accounts	105	14,641
Ratio of gold certificate reserves to deposit and F.R. note liabilities combined	54.2%[b]	28.6%

[a] Represents total of "Clearing House Certificates."
[b] If calculated as done currently (this figure was not computed at the time).

Chairmen of the Federal Reserve Bank of New York

Besides Pierre Jay, only two others served as full-time chairmen of this Bank: Gates W. McGarrah, whose tenure ran from 1927 to 1930; and J. Herbert Case, who served from 1931 through part of 1936.

When signed into law in 1913 the Federal Reserve Act required the "chairman of the Board of Directors of the Federal Reserve Bank and 'Federal Reserve Agent' " to maintain a local office, make regular reports to the Federal Reserve Board, act as its official representative, and carry out other official duties. His chief statutory jobs related to the custody and issuance of Federal Reserve Notes, and holding collateral behind them. At the direction of the Federal Reserve Board, the Chairman and Federal Reserve Agent assumed responsibility for the bank supervision and the research (then called statistics) functions, as well as for making reports under several Board regulations.

When the chief executive officer of each Reserve Bank was given the title of President under the Banking Act of 1935, the Chairman and Federal Reserve Agent ceased to be a full-time officer. Today, the Chairman in his other capacity as Federal Reserve Agent is responsible chiefly for representing the Board of Governors in the custody and issuance of Federal Reserve Notes, and holding collateral.

Chairmen of this Bank since the office ceased to be a full-time position were:

Owen D. Young, (1938-1940), Honorary Chairman of the Board, General Electric Company.

Beardsley Ruml, (1941-1946), Chairman, R. H. Macy & Co., Inc.

Robert T. Stevens, (1948-1953), Director, J. P. Stevens & Co., Inc.

Jay E. Crane, (1954-1956), Vice President, Standard Oil Company (New Jersey).

John E. Bierwirth, (1957-1959), Chairman, National Distillers and Chemical Corporation.

Philip D. Reed, (1960-   ), Former Chairman of the Board, General Electric Company.

Gates W. McGarrah was named to succeed Chairman Jay in 1927, when Mr. Jay accepted appointment to the Reparation Commission's Transfer Committee. The new chairman, then 64, resigned as chairman of the executive committee of the Chase National Bank to accept the appointment. The next year, upon the death of Governor Strong, he was appointed Acting Governor. He remained chairman until 1930, when he became American Director of the Bank for International Settlements.

Upon his departure, fellow Reserve Bank directors lauded Mr. McGarrah for "rare judgment and an unselfish loyalty to the public good; sound and unswerving in principle, yet very cooperative in attitude." Before serving with the Federal Reserve, Mr. McGarrah had been president of the New York Clearing House Association in 1917-19 and American member of the Reichsbank's General Council in Berlin. He was a class A director of this Bank from 1923 through 1925.

Mr. McGarrah started in banking as a clerk at the Goshen National Bank, was president of the Leather Manufacturers National Bank of New York and then chairman of the Mechanics and Metals National Bank until it was merged with Chase. He died in 1940.

J. Herbert Case, who is now 92 and living in Plainfield, N. J., served the Bank almost 20 years. He was named Deputy Governor in 1917 and in 1930 became a class C director, Chairman and Federal Reserve Agent.

Mr. Case spent his entire business life in banking. A native of Elizabeth, N. J., his first job was as a clerk with the City National Bank of Plainfield, N. J., in 1887. Fifteen years later he helped organize the Plainfield Trust Co. which he served as secretary and executive vice president for 15 years. In 1906, he was instrumental in organizing the Peoples Bank and Trust Co. of Westfield, N. J. He later became vice president of the Franklin Trust Co. of New York and the Farmers Loan and Trust Co. of New York.

During his years as Deputy Governor of this Bank, Mr. Case served many times as Acting Governor during the absence of Governor Strong. As Chairman, he had an important role in World War I and post-war financing operations of the Treasury. When he left the Bank, Mr. Case joined the investment banking firm of R. W. Pressprich & Co. His son Everett N. was named Deputy Chairman of the Bank's Board of Directors effective January 1, 1965.

Bank Supervision

The fundamental objective of bank supervision is to foster and maintain a sound banking system. One of the basic purposes of the Federal Reserve System, as stated in the preamble of the Federal Reserve Act, was "to establish a more effective supervision of banking" in the United States. "More effective" were the key words, because banking had long been under the supervision of state and Federal governments when the Federal Reserve Act was passed in 1913.

Some banks had been operating under varying degrees of state supervision since the early and mid-1800's, when a number of states passed laws relating to bank chartering and operations. Indeed, the unique nature of banking tended to stimulate governmental supervision although many states were slow to react.

The National Bank Act was a major step toward improved supervision. Nevertheless, national bank examination methods had left something to be desired. In pre-Federal Reserve days, national bank examiners worked under a system of fixed fees for each examination, a faulty system in the opinion of John Skelton Williams who, as Comptroller of the Currency, was responsible for the administration of the National Bank Act.

In the Comptroller's annual report for 1915, it was stated that, under this arrangement, "the examiner necessarily made either a very superficial and hasty examination of the bank or remained for closer consideration, at his own expense, to perform a gratuitous service for the Government."

The Federal Reserve Act authorized the Board of Governors of the Federal Reserve System, upon recommendation of the Comptroller of the Currency, to fix salaries for national bank examiners. Later the act was amended to direct the Comptroller to set these salaries. The act also gave the new Reserve Board the power to "examine at its discretion the accounts, books, and affairs of . . . each member bank and to require such statements and reports as it may deem necessary."

The process of bank examination is primarily concerned with an evaluation of assets, procedures, policies, and the effectiveness of management. Examinations also provide the bank supervisory authorities with the basic information necessary to perform other functions such as issuance, interpretation, and enforcement of regulations; merger and branching decisions; and decisions concerning capital and corporate structure requirements.

The intimate information on bank operations derived from bank examinations also is useful in the formulation of monetary policy.

Actually the System was slow to move into the field of supervision. Regular examinations of nationally chartered member banks were being made by national bank examiners. In 1917 the Federal Reserve Banks were specifically authorized to accept examinations by state authorities of state member banks in place of examinations made by Board-appointed examiners. The same year, the directors of the Federal Reserve Bank of New York authorized the acceptance of examinations and reports made by state authorities in the Second Reserve District.

For the next decade and a half, the Reserve Banks confined themselves largely to special credit investigations of member banks, generally undertaken in cooperation with state authorities but sometimes independently. These credit checks consisted mainly of a review of the quality of member bank loan portfolios. In addition to serving as a method of supervision, they provided the Reserve Banks with supplemental information that could be used when the member banks applied for discounts or advances.

In 1933, when it became apparent that a strengthening in supervision was necessary—especially with respect to trust operations—the Board asked the Reserve Banks to expand their examining facilities.

The following year, the Federal Reserve Board directed that at least one regular examination of each state member be made yearly by Federal Reserve examiners, independently or in conjunction with state authorities. Joint state-Federal Reserve examination of state member banks continues today, while national bank members are still examined by the Comptroller's national examiners.

The System's supervisory responsibilities as delineated by the Federal Reserve Act in 1913 have been expanded by various acts of Congress. The additional supervisory functions, to name a few, include the processing of merger applications of state member banks, the chartering and supervision of companies organized by banks to do a foreign banking and financing business, the registration of bank holding companies, and regulation of bank loans for purchasing or carrying listed securities.

The absence of restrictive definitions of the supervisory duties and responsibilities of the Federal Reserve System and the gradual broadening of the Congressional mandate have been helpful in permitting the System to adapt its supervisory functions to the far-reaching changes in banking that have taken place since the passage of the Federal Reserve Act.

Presidents of the Federal Reserve Bank of New York

George L. Harrison became chief executive officer of the Bank upon the death of Governor Strong in 1928. For 13 years, first as Governor, and then as President when the title was changed, he guided the Bank through the troubled times of the stock market collapse in 1929, the Banking Holiday of 1933, the major revisions in organization and operations in 1935, and into the start of World War II. Mr. Harrison left the Bank in 1940 to become president of the New York Life Insurance Company.

After graduating from Yale, and the Harvard Law School, Mr. Harrison for a year was legal secretary to Justice Oliver Wendell Holmes of the United States Supreme Court. He joined the Federal Reserve System in Washington in the fall of 1914, two weeks before the opening of the 12 Reserve Banks, and was general counsel of the Federal Reserve Board before coming to this Bank as Deputy Governor in 1920. Mr. Harrison was instrumental in solving many problems concerning foreign relationships of the Federal Reserve. He died in 1958.

Allan Sproul has been called one of our outstanding central bankers. He spent almost 36 years in the Federal Reserve System, all but 10 at this Bank.

Mr. Sproul was President of the Bank for 15 years, from January 1, 1941 to June 30, 1956, a period covering World War II and the Korean conflict. He has been credited with making major contributions to our knowledge of monetary problems and policies.

Mr. Sproul joined the Federal Reserve System in 1920 as head of the Division of Analysis and Research of the Federal Reserve Bank of San Francisco. He came to this Bank in 1930 as Assistant Deputy Governor and Secretary. Six years later he was named Deputy Governor, and in 1936 when official titles were changed, he was appointed First Vice President. He was named Vice Chairman of the Federal Open Market Committee in 1941.

In 1956, Mr. Sproul resigned to return to his native California, where he is serving as director of a bank and an industrial corporation.

Alfred Hayes became President of the Bank on August 1, 1956. He came from the New York Trust Company—now the Chemical Bank New York Trust Company—where he had been vice president in charge of the Foreign Division for seven years.

He is a native of Ithaca, New York, and the son of a professor who taught constitutional law at Cornell. Mr. Hayes graduated from Yale. After a year at the Harvard Business School he received a Rhodes Scholarship and spent two years at New College, Oxford, studying economics.

He began his banking career in 1933 as an analyst in the Investment Department of the City Bank Farmers Trust Company. Seven years later he transferred to the Bond Department of the National City Bank, and in 1942 he joined the New York Trust Company as Assistant Secretary in the Investment Department.

Mr. Hayes has been Vice Chairman of the Federal Open Market Committee since becoming President of the Bank.

The Federal Reserve Today

Today's Federal Reserve System includes the Board of Governors, the Federal Open Market Committee, and the twelve Federal Reserve Banks. Also included is the Federal Advisory Council. Membership in the System totals about 6,200 commercial banks, which account for about 85 per cent of the nation's commercial bank assets.

The Board of Governors has seven members who are appointed for 14-year terms by the President of the United States, with the advice and consent of the Senate. The Board is an agency of the Federal Government, reporting directly to the Congress. Besides filling a major role in formulating monetary and credit policy, the Board has certain supervisory responsibilities over the Federal Reserve Banks and the commercial banks that are members of the System.

The Board has a role in the administration of all the monetary instruments of the Federal Reserve. The seven Governors are members of the Federal Open Market Committee which is responsible for the formulation of policy directives governing Federal Reserve buying and selling operations in the Government securities market, and since 1962, in the foreign exchange market as well. The Board has always had the responsibility of reviewing and determining discount rates established by the directors of the Reserve Banks. Since 1933, the Board has been responsible for establishing, within the limits authorized by Congress, the amounts that member banks are required to maintain as reserves in relation to their deposits. Prior to the Banking Act of 1933, a change in reserve requirements needed Congressional action. Since the mid-1930's, the Board has been responsible for establishing stock market margin requirements.

The Federal Open Market Committee as we know it today dates essentially from 1935. It has become the primary policymaking body of the System. It comprises the seven members of the Board of Governors, the President of the New York Bank, and four of the other Bank Presidents, who serve on a rotational basis. The other Presidents regularly attend all meetings, however, which in recent years have been held at intervals of approximately three weeks.

Today's FOMC is a descendant of a Committee of Governors of four, and later five, of the Reserve Banks appointed by the Governors of the twelve Banks in 1922. The task of the Committee was to coordinate purchases and sales of Government securities at the request of various Reserve Banks. The Committee was established in 1922 after what was called an almost accidental discovery that Reserve Bank purchases of Government securities, which were being made at the time partly to improve earnings, could be used, because of their effect on the level of commercial bank reserves, as an instrument of monetary policy.

After about a year of operation, the Committee of Governors became the Open Market Investment Committee, consisting of five Reserve Bank Governors appointed by the Federal Reserve Board. This Committee, unlike the first, was under the general supervision of the Board and was directed by the Board to conduct its purchases of securities "with primary regard to the accommodation of commerce and business, and to the effect ... on the general credit situation."

Later, the Committee was enlarged to include the Governors of the twelve Banks and was renamed the Open Market Policy Conference. At this time, it was still possible for individual Reserve Banks to withdraw from participation in any operation recommended by the Committee. The Banking Act of 1933 narrowed the possibility somewhat, but the Banking Act of 1935 removed the possibility completely.

The Federal Reserve Banks issue Federal Reserve notes and introduce other currency and coin into circulation. The twelve Banks and their 24 Branches operate a nationwide check collection system and a system for other transfers of money and securities. They are bankers for the Government and for banks. They are the System's direct links with the 6,200 member commercial banks in the Federal Reserve's supervision of banks.

The Boards of Directors of the Banks have responsibility, as noted, for establishing discount rates, subject to the review and determination of the Board of Governors. Since the passage of the Banking Act of 1935, the directors of each Reserve Bank are required to establish a discount rate for the district at least once every 14 days.

The directors of each Bank appoint a representative to the Federal Advisory Council, the twelve members of which meet in Washington at least four times a year and advise the Board of Governors on matters affecting the affairs of the System.

The Federal Reserve today embodies many changes that have occurred during the last half century. Perhaps the most significant of these is described by W. Randolph Burgess, a former Vice President of this Bank and Manager of the System Open Market Account, who wrote in this Bank's *Monthly Review* for November 1964:

Over the fifty years of its life, the Federal Reserve System has gradually been forged into one of the most important instruments for making money serve the economic goals of democracy. Nowhere is this process better depicted than in open market operations. For in them are interwoven two great endeavors.

One of these has been the effort to manage money in the public interest rather than treat it as a semiautomatic and somewhat occult mechanism.

The second struggle has been to subject money management to an effective unified control, while preserving the local and practical participation which is inherent in our concept of democracy. This is, in effect, the story of how the twelve Federal Reserve Banks, conceived in the democratic tradition as regional in spirit, learned to act in coordination with a Government Board, as one unit, inspired wholly by public motives.

Buffalo Branch

In 1919, four and a half years after the Bank opened, a Branch was established at Buffalo "to make the facilities of the Federal Reserve Bank more readily available to banks in the western part of New York State."

The *Annual Report* of this Bank for 1919 stated that "the Branch was placed in Buffalo a city of more than 500,000 people whose industries are unusually diversified because of its commercial and banking importance."

For many years the territory of the Branch covered the 10 westernmost counties of the State; in 1954 it was expanded to include 4 more. There were 75 member banks in the territory when the Branch opened.

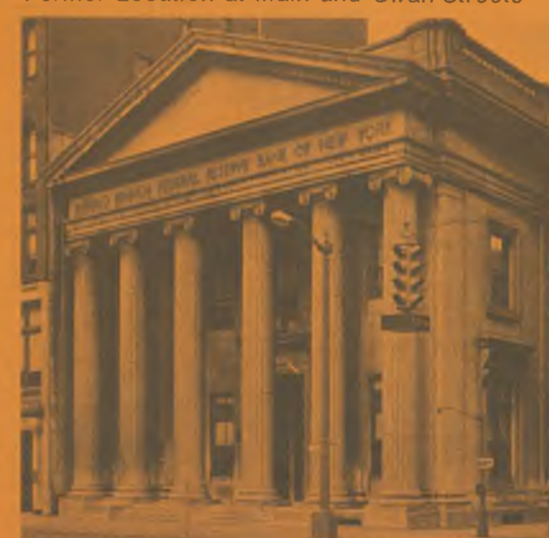
The Branch was first located in the Buffalo Chamber of Commerce Building at 240 Main Street. Nine years later it moved to a building on the same block at the Swan Street corner. The present building was completed in 1958.

The Branch opened with a staff of 40. At the end of the first year, it totaled 113. Today, it numbers 236.

There were 53 member banks in the Branch territory at the end of 1964.

Buffalo Branch, 160 Delaware Avenue

Former Location at Main and Swan Streets



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