



**FEDERAL RESERVE BANK  
OF NEW YORK**



**ANNUAL REPORT  
1979**

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**FEDERAL RESERVE BANK OF NEW YORK**

March 19, 1980

To the Member Banks in the  
Second Federal Reserve District

I am pleased to present our  
sixty-fifth Annual Report, reviewing major  
economic and financial developments and  
this Bank's operations in 1979.

A handwritten signature in dark ink, reading "Thomas M. Timlen". The signature is stylized with large, sweeping letters.

THOMAS M. TIMLEN  
First Vice President and  
Chief Administrative Officer

*Federal Reserve Bank  
of New York*

**SIXTY-FIFTH  
ANNUAL REPORT**

*For the Year  
Ended  
December 31, 1979*



*Second Federal Reserve District*



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## **1979—A TURBULENT YEAR AT HOME AND ABROAD**

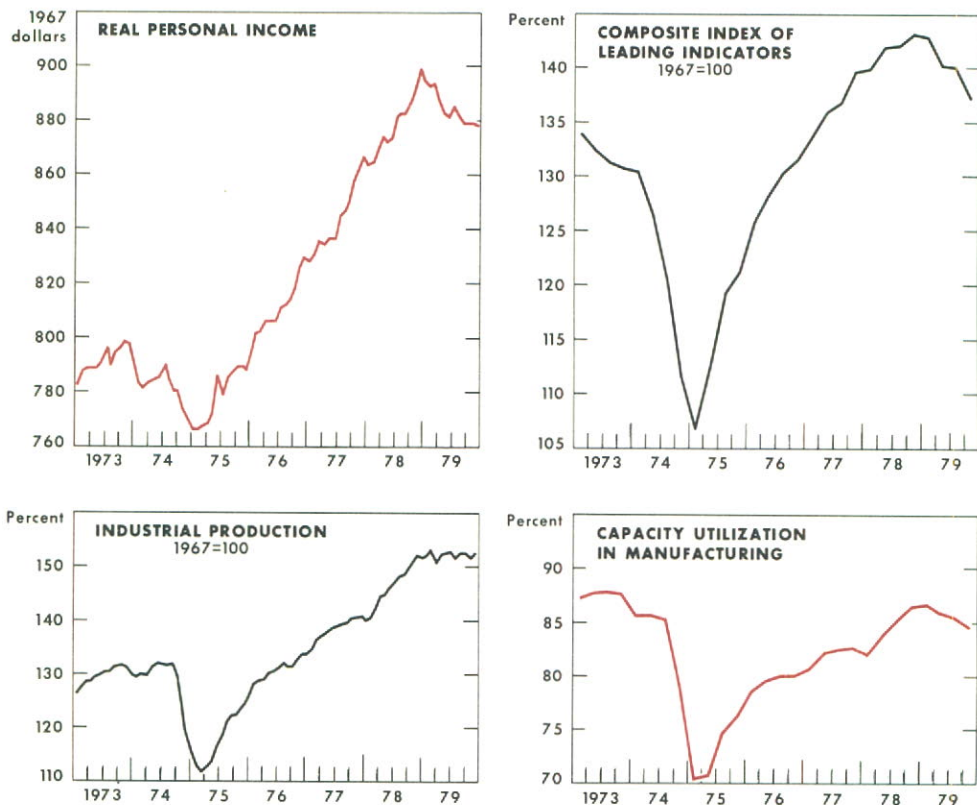
Economic developments during 1979 were a replay of the difficulties that plagued the earlier part of the 1970s, and they painfully underscored the challenges that must still be met in the 1980s. Rampant inflation, periods of excessive monetary and credit expansion, inadequate productivity growth, soaring oil prices, tensions in the foreign exchange markets, and commodity speculation, all came together to confound policymaking last year.

For monetary policy in the United States, the test was especially demanding. Troubled by the reappearance of monetary excesses, the Federal Reserve launched a new approach to monetary control on October 6. The System's operating procedures were substantially modified to achieve greater assurance that the objectives for monetary and credit growth would be met. Beyond the technical changes, these new initiatives were meant to reaffirm the Federal Reserve's commitment to deal forcefully with the overriding concern of inflation, while maintaining the stability of the dollar internationally. Over time, the attainment of greater price stability requires determined efforts to reduce gradually monetary and credit growth. But, in the circumstances facing the Federal Reserve last fall, immediate action was needed to dramatize the dimensions of the inflation problem and to break the growing momentum of inflationary expectations that threatened to undermine the struggle against inflation.

Looking ahead, monetary discipline will be an essential ingredient of a policy to rid the economy of inflation in the 1980s. It will not be the only ingredient, how-

ever. Monetary policy must be coupled with fiscal restraint and an effective energy program. In addition, existing tax laws, government regulations, and institutional rigidities that impose an inflationary burden on the economy need to be identified and removed. Proposals for strengthening incentives to save and invest must be seriously considered. Only by encouraging saving and investment can the nation achieve the improvements in productivity necessary to provide higher incomes and to bring lasting relief from the pressures of inflation.

**Chart 1. DURING 1979, ECONOMIC INDICATORS OFTEN SEEMED TO SIGNAL THAT THE ECONOMY WAS AT A CYCLICAL PEAK.**



All data are seasonally adjusted.

## A New Approach for Monetary Policy

The year 1979 was clouded by economic uncertainty. Business activity moved at an uneven pace, at times showing strength, at other times displaying weakness. Various indicators often seemed to signal the beginning of a recession (Chart 1). But the economy operated at close to capacity for much of the year and real gross national product increased, although at a slower pace than in 1978, as the economy showed signs of running out of momentum. Throughout the year, the unemployment rate remained fairly steady. Job openings expanded at a sufficiently rapid rate to absorb the growth of the labor force and to raise the proportion of the population with jobs to a record high. At the same time, productivity declined and inflation—spurred by rising energy prices—continued at an unacceptably rapid pace. Reflecting the high inflation as well as the political uncertainties in the Middle East, the dollar suffered from bouts of severe weakness in the foreign exchange markets over the summer months, and speculation in the commodities markets became rampant at times.

The rapid inflation, periods of speculative conditions in the foreign exchange and commodities markets, along with excessive growth of the monetary aggregates during the second and third quarters, prompted the Federal Reserve to take a series of major policy actions in early October (Chart 2). In the wake of these policy initiatives, credit conditions tightened as market interest rates rose sharply, exceeding past records by sizable margins. Immediately following these steps, credit demand began to slacken. This reflected weakness in the automotive and housing sectors as well as a more moderate demand for business loans. Growth of the monetary aggregates also slowed. For the year as a whole,  $M_1$  and  $M_3$  growth was kept within the target ranges, while growth of  $M_2$  exceeded its upper bound by a small margin (table). After the overruns of 1977 and 1978, there were indications that the process of improving monetary control had begun.

**ANNUAL GROWTH RATES OF THE MONETARY AGGREGATES**  
**FOURTH QUARTER 1978 TO FOURTH QUARTER 1979 (in percent)**

	$M_1$	$M_2$	$M_3$
Annual growth rate . . . . .	5.5	8.3	8.1
Federal Open Market Committee target range . . .	3 to 6*	5 to 8	6 to 9

\* The target for  $M_1$  originally had been set at  $1\frac{1}{2}$  to  $4\frac{1}{2}$  percent, under the assumption that growth of nationwide automatic transfer services and NOW (negotiable order of withdrawal) accounts in New York State would reduce  $M_1$  growth by 3.0 percentage points. However, by late summer it became evident that the reduction would be only about half that amount, and the annual target was adjusted accordingly.

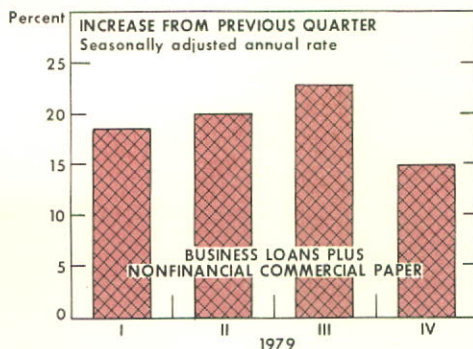
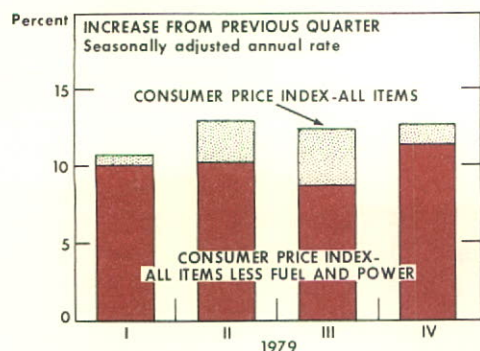
#### **RAPID INFLATION AND STRONG GROWTH OF MONEY AND CREDIT.**

Only limited satisfaction could be taken from the slower growth of the monetary aggregates because inflation accelerated sharply in 1979 from the already very rapid pace in 1978. Throughout 1979, the economy showed signs of capacity pressures. Capacity utilization in manufacturing approached very high levels early in the year, although not so high as in 1973, and a large percentage of companies reported slower deliveries. The employment ratio continued to rise, and the unemployment rate remained close to the lowest level since mid-1974. Under these circumstances, it would not have been surprising to see rapid inflation coupled with only moderate growth of the economy even without the special problems presented by the energy situation. The demand for consumer goods and services continued surprisingly strong. At the same time, capital expansion continued to be hampered by the long-run uncertainties and costs created by high inflation. Inflation tended, not only to limit the growth of productive capacity, but also to discourage the research and development of new technology that could improve labor productivity and thereby reduce price increases.

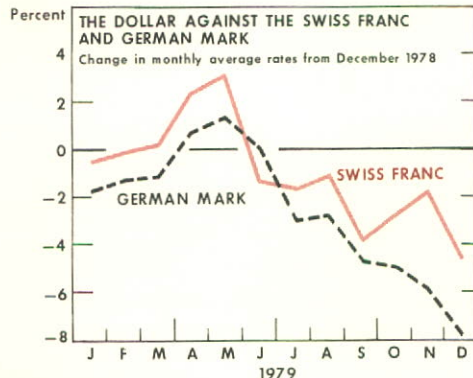
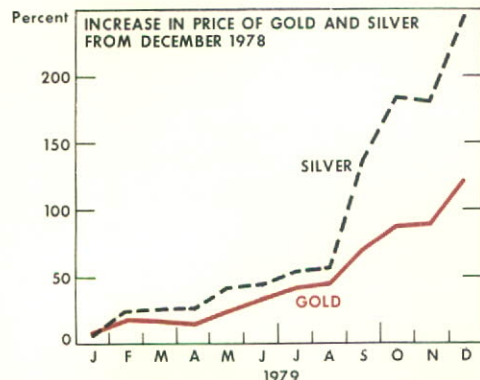
Inflation had been recognized already in 1978 as the prime economic problem, but in 1979 the inflationary spiral began to reach alarming proportions. The consumer price index increased at an annual rate of 12.7 percent from the fourth quarter of 1978 to the fourth quarter of 1979, compared with 9.0 percent in 1978, despite some easing in the rate of increase in food prices. The virulent inflation rate in 1979 even exceeded the rapid pace in 1974. As in 1974, energy prices—with an increase of almost 40 percent for the year—contributed significantly to the run-up in the overall price level for 1979. At the same time, the limited growth of capacity coupled with a large increase in labor use and compensation resulted in a decline in productivity. This decline, in turn, put upward pressure on labor costs and hence on the prices charged by producers. Consumers continued to spend heavily, despite falling real incomes, as fears of further rapid increases in prices eroded the incentives to save and made increased borrowings more attractive. By the fourth quarter of 1979, the personal savings rate fell to 3.4 percent, an extremely low rate by historical standards.

Growth of the monetary aggregates during the second and third quarters signaled that strong inflationary pressures were likely to continue. Strength in the broader monetary aggregates was bolstered by the growth of six-month money market certificates. Banks and thrift institutions relied heavily on this

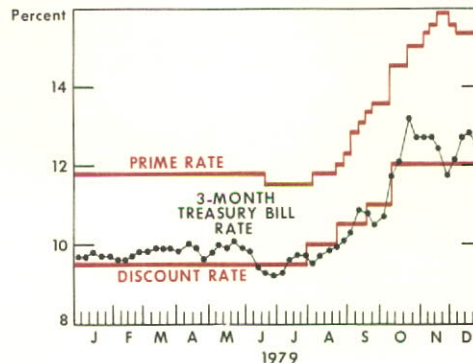
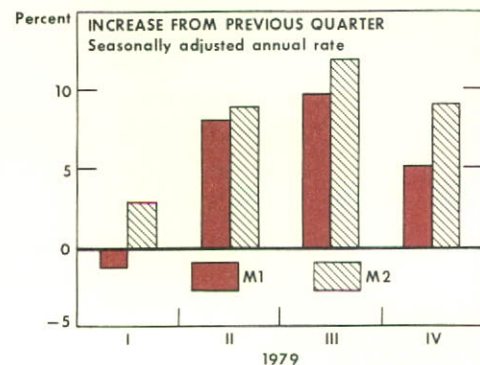
**Chart 2. RAPID INFLATION COMBINED WITH STRONG CREDIT DEMANDS . . .**



... FLARE-UPS IN SPECULATIVE FORCES DURING THE SUMMER MONTHS . . .



... AND ACCELERATING GROWTH OF THE MONETARY AGGREGATES THROUGH THE THIRD QUARTER LED TO FEDERAL RESERVE POLICY ACTIONS ON OCTOBER 6, 1979, WHICH RAISED INTEREST RATES SHARPLY.



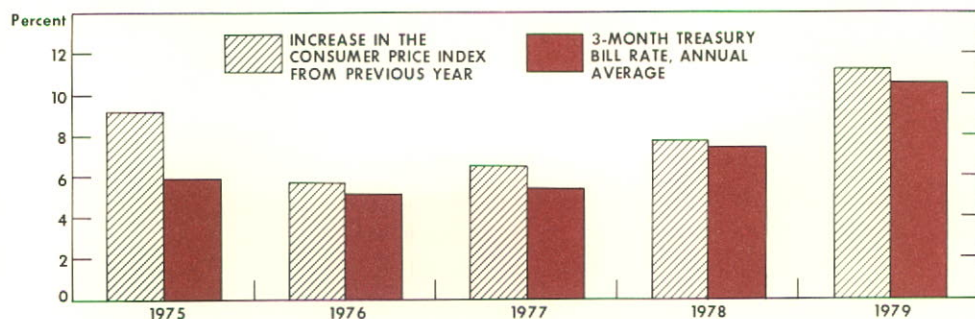
instrument to raise funds. By the end of the third quarter, six-month certificates at banks accounted for about 14 percent of time and savings deposits other than large negotiable certificates of deposit. At thrift institutions the six-month certificates amounted to one dollar out of every five dollars on deposit. Through the third quarter of 1979, these certificates were an important factor sustaining the housing market even as credit conditions progressively tightened.

Businesses' credit demands were also strong, with corporations borrowing heavily from commercial banks and in the commercial paper market. To meet the strong demand for business loans, commercial banks acquired a sizable amount of funds from nondeposit sources, primarily liabilities due to foreign branches. Other types of lending by banks also increased during the first three quarters of 1979 as did banks' investment portfolios. All in all, total bank credit increased at an annual rate of 13.3 percent from the fourth quarter of 1978 to the third quarter of 1979. This exceeded by a large margin the 7.5 to 10.5 percent range for bank credit that was associated with the Federal Reserve's annual targets.

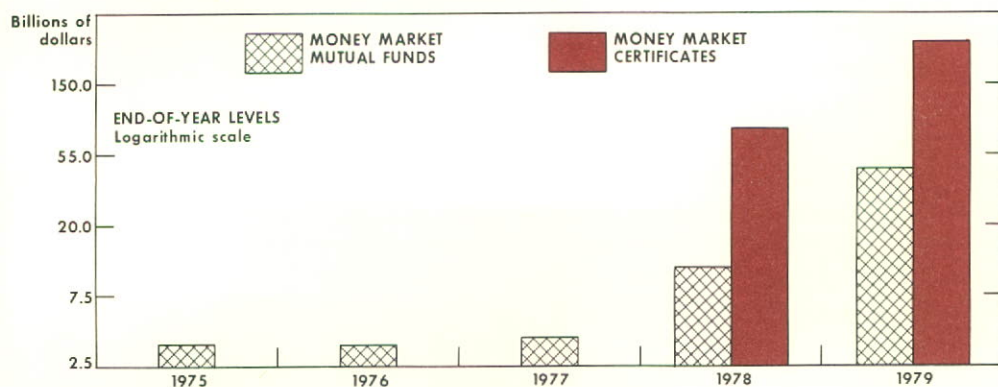
Money-like assets outside the banking system also grew rapidly (Chart 3). Money market mutual fund shares, which serve many of the same functions as demand and savings deposits, increased from \$10.3 billion in December 1978 to \$43.6 billion in December 1979, more than a fourfold increase. This rapid growth made the acceleration in the growth of the measured money stock during the second and third quarters all the more worrisome, and the need for bold anti-inflationary policy measures all the more imperative.

**MONETARY RESTRAINT.** The Federal Reserve on October 6 announced a series of new policy actions to gain better control over the growth of money and credit, to curb speculative forces in the foreign exchange and commodities markets, and thereby serving to dampen inflationary forces. These measures, all approved in unanimous votes, included: (1) a full percentage point increase in the discount rate to a record 12 percent, (2) the introduction of a marginal reserve requirement of 8 percent on certain managed liabilities of member banks, United States agencies and branches of foreign banks, and Edge Act corporations, and (3) a change in the technique used to conduct monetary policy to help achieve the goal of containing the growth of the monetary aggregates over the remainder of 1979 within the ranges previously established by the Federal Reserve. This last step involved placing greater emphasis, in conducting day-to-day

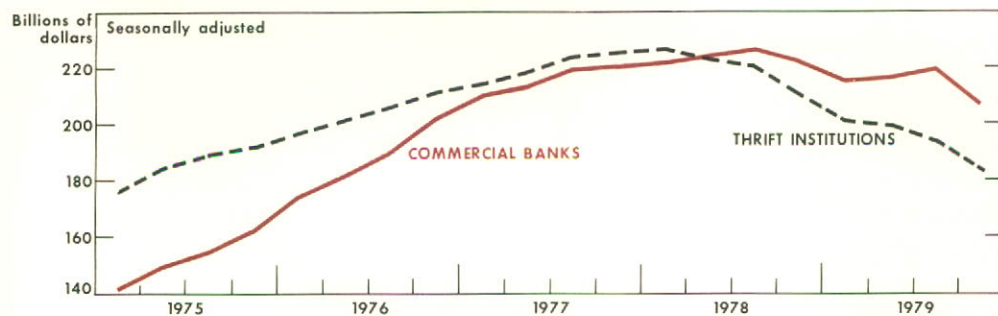
**Chart 3. HIGH SHORT-TERM INTEREST RATES WHICH REFLECTED THE RAPID INFLATION . . .**



**... SPURRED THE PUBLIC TO FIND NEW MEANS TO EARN MARKET RATES OF INTEREST . . .**



**... AND LED TO WITHDRAWALS FROM LOW-YIELD SAVINGS DEPOSITS .**



Money market mutual fund data from Donoghue's *Money Fund Report* (Holliston, Massachusetts).

open market operations, on the supply of bank reserves and less emphasis on keeping short-run movements of the Federal funds rate within a narrow, preset range.

Within six weeks of the October 6 policy actions, the prime rate rose 225 basis points from 13.5 percent to 15.75 percent before declining in December. The decline in the prime rate in the last month of the year reflected considerable moderation in the demand for short-term credit during the fourth quarter as well as some easing of the cost of funds to banks. The demand for short-term business credit, as measured by business loans from banks plus nonfinancial commercial paper, slowed to an annual growth rate of 15 percent in the fourth quarter after expanding at an annual rate of 23 percent in the preceding three-month period.

The monetary aggregates also slowed dramatically in the fourth quarter, although it is difficult to gauge precisely how much of the slowing was due directly to the October 6 policy actions and how much might reflect other factors. Growth of demand deposits, currency, and thrift deposits all moderated significantly in the fourth quarter, while other time and savings deposits at banks—bolstered by strength in large time deposits of \$100,000 or more which like large certificates of deposit are not subject to interest rate ceilings—continued to increase at a rapid pace during the fourth quarter.

The October 6 policy actions were considerably more aggressive than the policies pursued earlier in the year. Following a 1 percentage point increase in the discount rate in November 1978, the Federal Reserve had held a fairly steady policy course through the first half of 1979, largely because economic indicators often gave mixed signals on the prospective course of the economy and because monetary growth slowed in the last quarter of 1978 and the first quarter of 1979. In the third quarter, the Federal Reserve raised the discount rate three times, each time by  $\frac{1}{2}$  percentage point. Each of these increases, in turn, brought the discount rate to a new high. At the same time, the Federal funds rate gradually increased from about 10.4 percent in early July to 12.0 percent in early October.

The policy actions initiated on October 6 were in general favorably received both at home and abroad. Moreover, with the economic indicators still signaling the possibility of a near-term decline in economic activity, these measures underlined the System's resolve to break the speculative fever and to combat accelerating inflation. In the weeks immediately following, the financial markets showed some signs of disarray. Investors were reluctant to act until the outlook

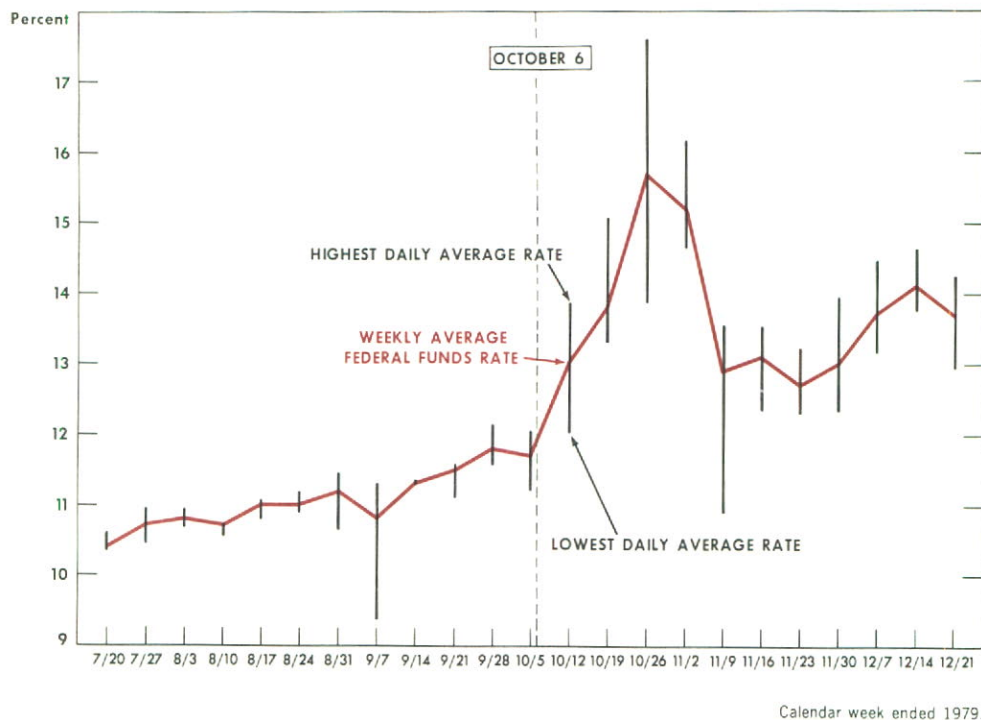
for interest rates became clearer. For many years prior to October 6, the Federal funds rate had served as an indicator of the Federal Reserve's policy intent. After October 6, the financial markets had to find their own levels, rather than use the Federal funds rate as the reference point to establish other market rates of interest. Unsettled conditions in the money markets were also aggravated at the end of October and early November by large revisions to the weekly money stock figures.

During the first seven weeks following the announcement on October 6, the Federal funds rate rose sharply and then retreated part of the way. At the same time, the funds rate exhibited far more day-to-day variability than previously. In the seven-week period prior to the change in open market techniques, the spread within a given week between the days with the highest and lowest average funds rate was 71 basis points, whereas in the seven-week period following the change in procedures this spread increased to 193 basis points (Chart 4). This wide spread began to narrow later in the fourth quarter as the market adapted to the new procedures. Even though the day-to-day variability gradually declined, the Federal funds rate still fluctuated in response to reserve availability under the new operating procedures and shifting market appraisals of the likelihood of a change in short-term interest rates.

More frequent changes in the direction of the Federal funds rate resulted directly from the October 6 shift in the Federal Reserve's operating procedures that placed increased emphasis on controlling the supply of bank reserves. Swings in the Federal funds rate, however, are still limited by the broad ranges set by the Federal Open Market Committee (FOMC). In October, this range for the Federal funds rate was set at  $11\frac{1}{2}$  to  $15\frac{1}{2}$  percent, where it was kept for the remainder of the year. Movements of the Federal funds rate within such wide bounds can no longer be interpreted as signaling a change in the intent of monetary policy. Rather, they reflect the strength in the demand for reserves relative to the Open Market Desk's targets, as well as economic developments that affect the financial markets' expectations for short-term interest rates.

**INFLATIONARY PRESSURES PERSIST.** The move to greater monetary restraint on October 6, dramatic though it was, could not be expected to start slowing the inflationary momentum right away. As it turned out, the forces of economic expansion proved to be surprisingly vigorous. Apart from automobile sales and housing, consumer spending continued strong, as inflationary fears

**Chart 4. FOR THE FIRST FEW WEEKS FOLLOWING THE OCTOBER 6 INITIATIVES, THE FEDERAL FUNDS RATE SHOWED CONSIDERABLE DAY-TO-DAY VOLATILITY.**



remained pervasive and individuals continued to increase borrowings and save less. Housing felt the impact of the new measures quite rapidly. Inflows of funds into thrift institutions, the main source of home mortgages, slowed dramatically as market interest rates rose. Mortgage lending and home-building activity dropped off sharply. In the meanwhile, new car sales slumped further as the public continued to turn away from larger cars.

Toward the end of the year, the increase in international political tensions began to transform the economic outlook. The unexpected strength of business activity in the closing quarter and the possibility of new expansionary forces spreading from a defense buildup reduced the odds of a near-term recession.

At the same time, OPEC countries' oil price increases added to the upward pressures on energy prices.

The surprising robustness of the economy, the dramatic change on the world political scene, and fears of more oil price increases to come all combined to intensify inflationary expectations as the year ended. The marked shift in expectations caused investors to abandon long-term commitments, and bond prices plummeted in the opening weeks of the year. Short-term business credit, however, showed signs of regaining strength. In this environment, the Federal Reserve reaffirmed its determination to restrain inflation by continuing to wind down the growth of money and credit. In February 1980, the System announced new target ranges for calendar year 1980 that point to a substantial slowdown in the growth of the monetary aggregates from the pace of 1979. To demonstrate continued determination to slow inflation, the Federal Reserve increased the discount rate by a full percentage point to a record level of 13 percent on February 15.

**OTHER FEDERAL RESERVE POLICY ISSUES.** While rapid inflation and the October 6 policy initiatives were the center of attention during 1979, other issues of key importance to the Federal Reserve also came to the forefront. In the past several years, the rapidly evolving, ever more sophisticated, financial system in this country reduced the usefulness of the conventional measures of the monetary aggregates. In February 1980, the Federal Reserve Board announced a new set of definitions of the aggregates—a set in many respects different from previous definitions in that many of the recent financial innovations such as money market mutual funds, repurchase agreements, and certain Eurodollar deposits were incorporated in the new definitions, and similar instruments were aggregated across different types of institutions consistently. The new definitions were adopted after more than a year of intensive debate following the original publication of proposed definitional changes in January 1979.

Unlike the changed definitions for the monetary aggregates, several other financial and legal issues of importance to the Federal Reserve System remained largely unresolved. These include Federal Reserve membership legislation; permanent legal status for automatic transfer accounts, credit union share drafts, and certain other payment services; and authorization of nationwide negotiable order of withdrawal (NOW) accounts. In addition, the Congress is considering the possibility of phasing out Regulation Q over some period of time. Since all these issues come under the broad heading of financial reform,

they tend to become intertwined in the legislative process, and this makes it difficult to resolve them individually. As a result, these financial and regulatory questions will continue to be the focus of attention in the 1980s.

Membership legislation in particular raises many complex questions. The Federal Reserve needs a broad reserve base to conduct monetary policy effectively. In recent years, however, a declining percentage of deposits has been held at member banks. This reflects banks leaving the System as well as a somewhat faster growth of deposits at nonmember banks. Banks leave the Federal Reserve System because they view the income foregone by holding noninterest-earning balances at the Federal Reserve as too high a cost, when compared with the benefits of membership. Paying interest on reserves to reconcile this discrepancy would result in a loss of revenue for the Treasury and at the same time raises the question of whether the Federal Reserve should charge member banks for services it currently renders free. Thus, there are many considerations to be balanced if equitable membership legislation is to be developed.

The 1980s pose two sets of difficult challenges for the Federal Reserve. The first and more important is in terms of helping achieve the overall economic objectives of high employment, stable prices, and a strong dollar against the constraints of energy shortages and lagging productivity. The various aspects of financial reform constitute the other challenge for the Federal Reserve in the 1980s. These challenges are related. Without an adequate reserve base and a stable membership, the Federal Reserve might not be able to conduct monetary policy effectively. All in all, the 1980s seem likely to be very trying for monetary policymakers.

## **The Second Oil Shock**

For the second time in a decade, the world economy was shaken during 1979 by the repercussions of extraordinary instability in the oil markets. Normal patterns of oil exports were disrupted in the aftermath of the Iranian revolution. Prices ratcheted higher as countries scrambled to secure supplies, and the subsequent breakdown of internal discipline within the Organization of Petroleum Exporting Countries (OPEC) produced a complicated tiering of prices that gave further impetus to price increases. Although the doubling of prices that eventually resulted was proportionately smaller than for the 1973-74 oil shock, it nevertheless seriously undermined hopes of progress toward international economic stability.

For the industrial countries, the run-up in oil prices took place when inflation was beginning to accelerate nearly everywhere. In both industrial and developing countries, higher oil prices meant a marked deterioration of current account positions. The counterpart was a ballooning of the OPEC surplus—to over \$50 billion last year from less than \$10 billion in 1978.

In several respects, the second oil shock has had more disturbing implications than the first. Most important, it underscores the continuing high degree of dependence of consuming countries on imported oil supplies and the scant progress that had been made during the 1970s in reducing this dependence. In addition, the thorny problem of how the OPEC surplus should be recycled has reemerged. The increased payments deficits for many countries, especially developing nations, have come at a time when there is already concern about debt burdens and about the ability of the international banks to expand their lending. Moreover, the rapid accumulation of dollar holdings by a few oil-producing nations raises questions about whether there could be an acceleration in the process of reserve diversification into other currencies, with potentially disruptive effects on the foreign exchange markets.

Under these circumstances, the need for international cooperation and coordination of policies has taken on renewed urgency. The few collective actions taken on these matters last year were tentative and only began to come to grips with the full dimensions of the global economic challenge. The backlog of unfinished business for the 1980s is correspondingly heavy.

**INFLATION AND OIL.** The relatively favorable price performance of many industrial countries during 1977-78 came to an abrupt end at the beginning of 1979. The turnaround was most striking at the wholesale level. Some countries that had actually experienced price declines in 1978 now faced a sharp escalation of wholesale prices. Although the reversal partly reflected a pickup of local economic activity, much of the inflationary impulse stemmed from higher import costs for key commodities. For many, the problem was compounded by the sharp rebound of the dollar following implementation of new support measures announced by the United States on November 1, 1978. With their currencies no longer rising against the dollar, these countries lost an important buffer to rising world commodities prices.

By contrast, early in 1979 the outlook for energy prices appeared relatively benign. At the December 1978 OPEC meeting, the oil exporters had agreed on a 15 percent price increase to be phased in during 1979 through a sequence of small adjustments. But this picture was radically altered by the revolution in Iran and the accompanying disruption of its petroleum exports. The loss of Iranian supplies severely tightened world oil markets. Even though the shortfall was virtually covered by increased production from other suppliers while oil consumption leveled off, stockpiling demand for oil kept the market taut. This led to producer surcharges that drove prices well above what had been intended at the December 1978 OPEC meeting. The OPEC producers still were unable to agree on a unified pricing structure at their June 1979 meeting. Instead, what resulted was a multitier contract price and, more importantly, freedom for producers to charge what the market would bear.

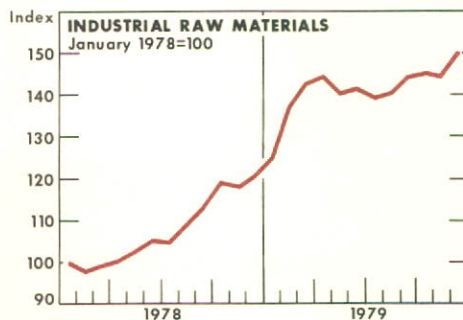
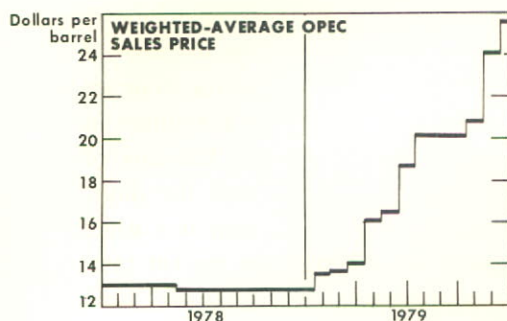
It soon became evident that the market would bear quite a lot. The professed ceiling of \$23.50 per barrel was easily breached, and many producers channeled an increasing share of their sales into the spot market, which had previously handled only a minor fraction of total supplies. Even so, spot market prices were pushed up sharply by insistent bidding for oil and often ranged above \$40 per barrel, dramatizing the imbalance between demand and supply.

Aggravated by these energy shocks, inflation accelerated at worrying rates in the industrial countries over the course of 1979 (Chart 5). Overall, wholesale prices for major industrial countries abroad rose at an average rate of about 14 percent during 1979, much higher than the rate in 1978. Although the impact on consumer prices was more gradual, the shift in inflationary expectations that accompanied this reversal proved a serious problem for policy.

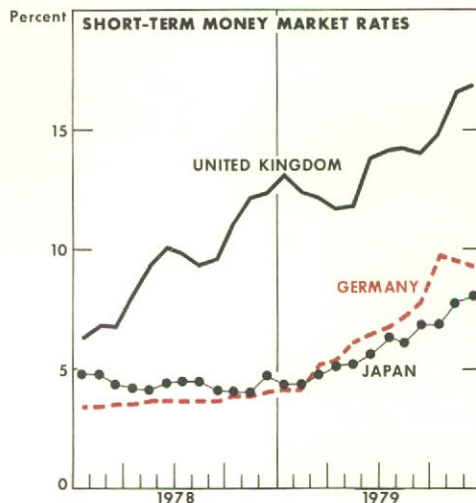
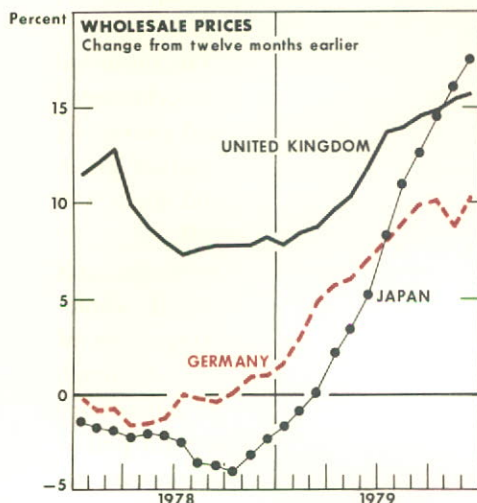
While the inflationary upsurge was universal, the pattern of economic ac-

tivity, though generally healthy, was uneven. In Japan, real gross national product (GNP) maintained the strong expansion of late 1978, at first led by private consumption and investment spending and later on by a rebound of exports. In all, the Japanese economy is estimated to have grown over 6 percent. German growth also accelerated in 1979. Paced by strong expansion in construc-

**Chart 5. PRICE PRESSURES STEMMING FROM THE OIL MARKET AND OTHER COMMODITIES MARKETS . . .**



... AGGRAVATED INFLATION ABROAD, AND INTEREST RATES ROSE AS MONETARY POLICIES TIGHTENED .



tion as well as by brisk machinery and equipment expenditures, German real GNP registered an unexpectedly robust 4½ percent gain for the year.

Elsewhere abroad, growth proceeded at the same or at a somewhat slower pace than in 1978, with the major exception of Italy where the rate of GNP increase is estimated to have doubled last year to 5 percent. But no marked weaknesses indicative of impending recession were evident except in the United Kingdom. Generally, labor market conditions were comfortable. Unemployment rates declined somewhat in Germany, Canada, and even in the United Kingdom, while they were roughly unchanged in Japan and Italy. In Germany, Japan, and Italy, there were measurable increases in industrial capacity utilization; elsewhere growth was not fast enough to result in higher capacity utilization. In general, there was reason to conclude that cost pressures, rather than excess domestic demand, formed the principal source of rising inflation rates.

**MONETARY POLICIES ABROAD.** The monetary authorities of every industrial country were confronted with the question of how to respond to import cost pressures. Full monetary accommodation of the price increases threatened to touch off a ruinous inflationary spiral. But resistance to accommodation risked stunting economic growth prematurely. By the second half of the year, once the full dimensions of the increases in oil and other commodities prices became apparent, a clear choice was made. Monetary authorities moved strongly to more restrictive policies. They were prepared to allow imported cost pressures to affect domestic prices to some extent but were not prepared to ratify "home-made inflation".

Most of the turn toward restraint came later in the year, although interest rates were being pushed upward in a few industrial countries as early as March or April. The Bundesbank in Germany undertook a variety of operations to bring growth of its central bank money aggregate to the lower end of a 6 to 9 percent target range. Open market and foreign exchange swap operations were used to absorb liquidity, rules governing access to the domestic Lombard facility were tightened, and the official interest rates were raised successively. As a result, short-term market interest rates in Germany moved up some 5 percentage points to near 10 percent per annum by November before easing slightly late in the year.

Foreign exchange considerations, as well as domestic inflation concerns, were important factors behind monetary tightening by other European countries.

The European Monetary System (EMS), an arrangement linking the currencies of eight countries, was formally established in March 1979. At the time, it remained an issue to what degree member countries would be willing to coordinate monetary policies to maintain the prescribed exchange rate relationships so as to avoid frequent and extensive market intervention or realignments of exchange rates. In fact, the other countries in the EMS tended to follow closely the interest rate increases in Germany and, although there were occasional periods of pressure, the EMS got through 1979 with only two modest rate realignments in September and November.

Even in Canada and in the United Kingdom, two countries relatively isolated from the full brunt of the oil shock because of abundant domestic petroleum supplies, monetary policies were tightened considerably. Canada, motivated by concern over domestic monetary expansion and exchange market conditions, moved up interest rates by and large in step with the United States. In the United Kingdom, although the domestic economy was relatively sluggish, the money supply was growing faster than intended. Consequently, even in the face of the persistent strength of sterling, the authorities moved aggressively toward monetary restraint, first in June and again in November when the Bank of England raised its minimum lending rate to a record 17 percent.

Japan stood out to some extent. Although monetary policy did become more restrictive, the Japanese authorities relied chiefly on "window guidance"—limiting the amount of credit extended to the private sector by the banking system—rather than on interest rate increases. Interest rates did rise in Japan, but less than in other countries, despite the pronounced weakness of the yen.

Coming into 1980, monetary policy in most countries has remained geared toward restraint. Germany and Canada both lowered their monetary aggregate target ranges by 1 percentage point. France and the United Kingdom kept their target ranges unchanged after overshooting those ranges in 1979; meeting the targets, therefore, would imply a more restrictive policy stance in 1980. And Japan has indicated that a restrictive policy continues to be called for.

**ENERGY POLICIES.** The thrust of monetary policies in the industrial countries last year was to contain the inflationary push of higher energy costs imposed by OPEC. The success of this policy, which demands perseverance over an extended period, depends crucially on avoiding further severe shocks from the oil market. This prospect, in turn, depends on the oil-consuming nations undertaking

adequate energy policies that promise to reduce substantially their oil dependence. The industrial countries moved in this direction in 1979 but at a slow pace.

Following up on decisions at the June Tokyo summit, the members of the International Energy Agency (IEA) agreed in December on oil import volume limits for 1980. These were roughly equivalent to total IEA imports in 1979. The IEA also agreed to set up a procedure to monitor member country performance each quarter and to adjust targets in case of any supply disruptions.

However, the IEA failed to agree on a system of sanctions to be used against countries that overstep their quotas. Like the Tokyo summit, the IEA meeting left unanswered the question of what specific policies would be put in place to guarantee meeting the import commitments. Moreover, it took no actions that might reduce the destabilizing effects of the spot market. For instance, no co-ordinated approach was devised to limit frenetic inventory stockpiling, a process that helped sustain large premiums in spot prices over OPEC contract prices.

Beyond the immediate problem of inventory accumulation, the fundamental challenge is to restrain final demand for oil in order to reduce upward pressure on oil prices. That depends on inducing consumers to conserve. Governments in the consuming nations can take some encouragement from the response to higher consumer energy prices that developed in 1979. Oil use slowed in the second half of the year, particularly in the United States, despite continued economic growth.

The scope for passing on oil price increases to the consumer was large in 1979. Adjusted for inflation, consumer energy prices in the major economies showed a jump in 1974 after the first extraordinary OPEC price action but little rise between 1974 and 1978. Real consumer energy prices actually declined over that period in a number of countries. Government policies during that time sought to shield the consumer through price controls or reductions of taxes that offset the increased cost of crude oil. Only in the past year have retail prices for consumer products such as gasoline and heating oil risen significantly faster than the overall rate of inflation.

Energy policies designed to produce significant conservation in the short run are a necessary complement to anti-inflationary monetary policies. Whether this conservation is effected through market responses to higher prices or through quantitative controls—and cases can be made for either approach—is a matter of secondary importance. Of principal importance is taking concerted steps to restore stability to the oil markets. A repetition of the 1974-78 approach of shielding the consumer only prepares the way for greater future shocks.

**WORLD PAYMENTS IMBALANCES.** Last year's repeated oil price increases created a large and still-growing payments imbalance between OPEC and the rest of the world. The weighted-average OPEC contract price at the end of 1979 was nearly \$26.50 per barrel, more than 100 percent above a year ago. With price increases spread out irregularly over the year, the average price level for 1979 turned out to be about 45 percent higher than in 1978. In all, OPEC oil revenues went up about \$60 billion to nearly \$200 billion in 1979. OPEC imports of goods, though, remained largely unchanged on balance. A severe contraction of Iranian trade was the chief explanation, but, in addition, import volumes of other oil producers grew slowly. As a result, OPEC as a whole recorded a current account surplus of over \$50 billion.

The counterpart of the widening OPEC surplus is reflected mainly in a sharp increase in oil bills for industrial countries. Oil imports by the fourteen major industrial countries went up by more than \$45 billion last year. Oil imports of other developed countries rose about \$7 billion, and those of developing countries that do not produce oil by \$8 billion.

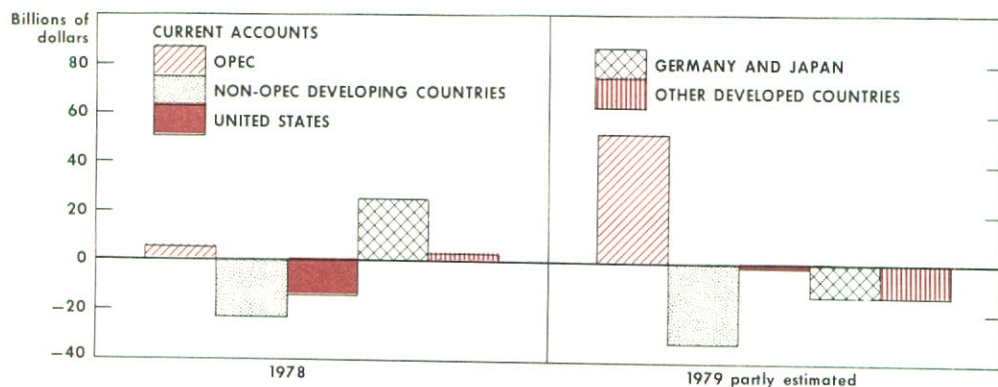
The swelling of the OPEC surplus in 1979 disrupted world payments at a time when significant progress was being made toward rectifying the major imbalances among industrial countries that had prevailed in previous years (Chart 6). The correction in the United States external accounts was particularly striking. After deficits of \$14 billion in both 1977 and 1978, the current account was in virtual balance in 1979. The turnaround reflected both a reduction of the trade deficit, despite a large increase in the oil import bill, and a strong expansion in the surplus on so-called invisibles because of a surge in earnings on our direct investments abroad.

The rapid expansion of exports that began in 1978 continued last year. Foreign sales of agricultural products remained buoyant, but nonagricultural exports also registered substantial percentage gains, increasing by nearly 30 percent. Stimulating export growth were the continuing lagged effects of the improved competitive position that stemmed from the dollar's depreciation in 1977-78 and healthy growth of export markets.

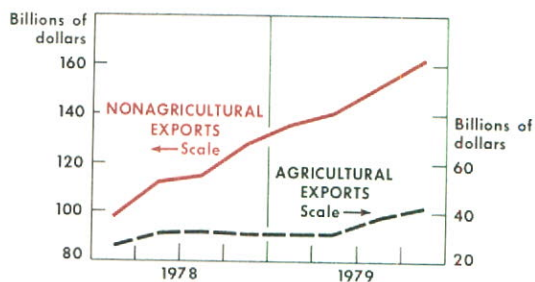
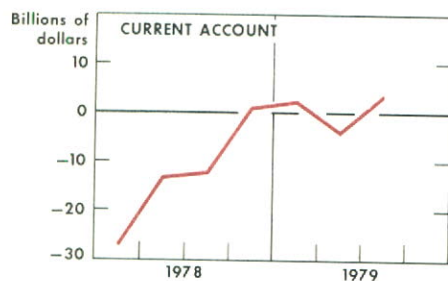
On the import side, the bill for purchases of foreign oil rose to \$60 billion for the year from \$42 billion in 1978. This increase was chiefly the result of higher prices, since the volume of petroleum imports changed very little. Growth of the value of nonpetroleum imports slowed in 1979, as the domestic economy expanded less rapidly.

The big plus for the current account balance, however, came from the

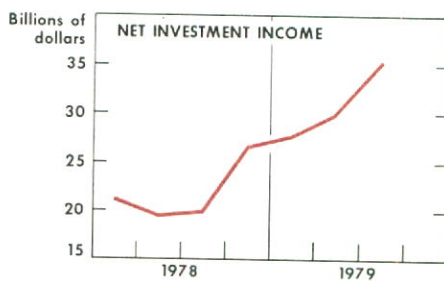
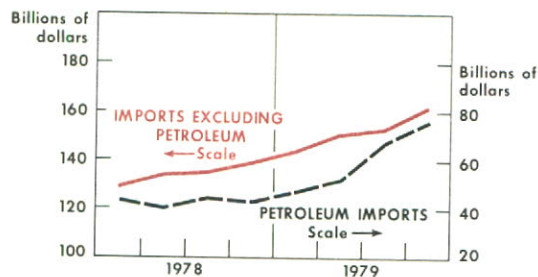
**Chart 6. THE RISE IN OPEC OIL PRICES SHIFTED THE PATTERN OF WORLD PAYMENTS IN 1979 ...**



... BUT THE UNITED STATES ACCOUNTS IMPROVED BECAUSE OF CONTINUED STRONG EXPORT GROWTH ...



... THAT OFFSET A HIGHER IMPORT BILL FOR OIL AND OTHER GOODS AND BECAUSE OF A SURGE IN EARNINGS ON UNITED STATES INVESTMENT OVERSEAS.



All United States data are at seasonally adjusted annual rates.

strong increase in net investment income. This sharp upturn began in the final quarter of 1978 and only partly reflected higher profits of United States-based petroleum companies. Earnings of the overseas affiliates of United States manufacturing firms were also strong.

At the same time that the United States was moving toward payments balance the two major surplus countries in the industrial world in 1978, Japan and Germany, recorded unprecedentedly large swings into current account deficit. From a record \$16.5 billion surplus in 1978, the Japanese current account shifted to a record deficit of nearly \$9 billion in 1979. The German accounts swung from a 1978 surplus of nearly \$9 billion to a record deficit of \$5 billion for 1979—the first current account deficit since 1965.

The size of the Japanese surplus had been a source of concern to both the international community and the Japanese authorities. Although various direct measures were introduced to reduce it, other factors contributed to generating a sharp swing in Japanese trade. The most obvious was the \$12 billion rise in the oil bill. Also important was the large divergence in the growth of export and import volume. Export volume declined on average, reflecting a continuing response to the yen's appreciation in 1977-78 and Japan's voluntary restraints on exports of certain products. Only in the second half of last year did export volume begin to expand once more, in response to the sharp depreciation of the yen during 1979. Import volume, however, increased over 10 percent as Japanese domestic demand expanded. In addition, the yen's decline aggravated the deterioration in Japan's terms of trade that stemmed from higher oil and commodities prices.

The turnaround in the German current account was attributable to special factors. The increase in the oil bill alone was nearly \$12 billion. The remainder of the adverse swing was more than accounted for by a large rise in the invisibles deficit; increased tourist expenditures explain much of that deterioration.

The payments positions of other industrial countries also worsened in 1979, but Italy still managed to achieve a large surplus on the basis of strong tourist revenues, reduced official transfers, and increased exports of manufactured goods. The Canadian deficit, already large in 1978, grew further to over \$5 billion, reflecting somewhat faster economic growth in Canada than in the United States, the major export market. The \$2 billion surplus recorded by the United Kingdom in 1978 quickly vanished last year, despite a reduction of oil imports due to increased North Sea oil production. Instead, the British current account showed a deficit slightly over \$5 billion. The overriding factor

was the marked loss in the competitive position of British manufacturing industry because of the sustained strength of sterling at a time of relatively high inflation in the United Kingdom. As a result, British export volume stagnated.

The current account adjustments that occurred last year, particularly for the United States and Japan, could be viewed as steps toward an improved structure of industrial country payments, although it is difficult to judge how much of the improvement is sustainable. One firm conclusion does stand out, however. The major changes in exchange rates and overall price competitiveness of recent years continued to have powerful effects on trade patterns.

**THE FOREIGN EXCHANGE MARKETS AND OIL.** On November 1, 1978, the United States authorities had announced a comprehensive package of monetary and financial measures to restore stability to the foreign exchange markets. They had judged that the depreciation of the dollar against most other major currencies in 1977-78 had gone far beyond what could be justified on the basis of economic prospects and threatened to add serious upward pressure on domestic prices. The initial market response to the package was broadly positive, but coming into 1979 there was renewed questioning about how strong and how determined the new United States commitment would be.

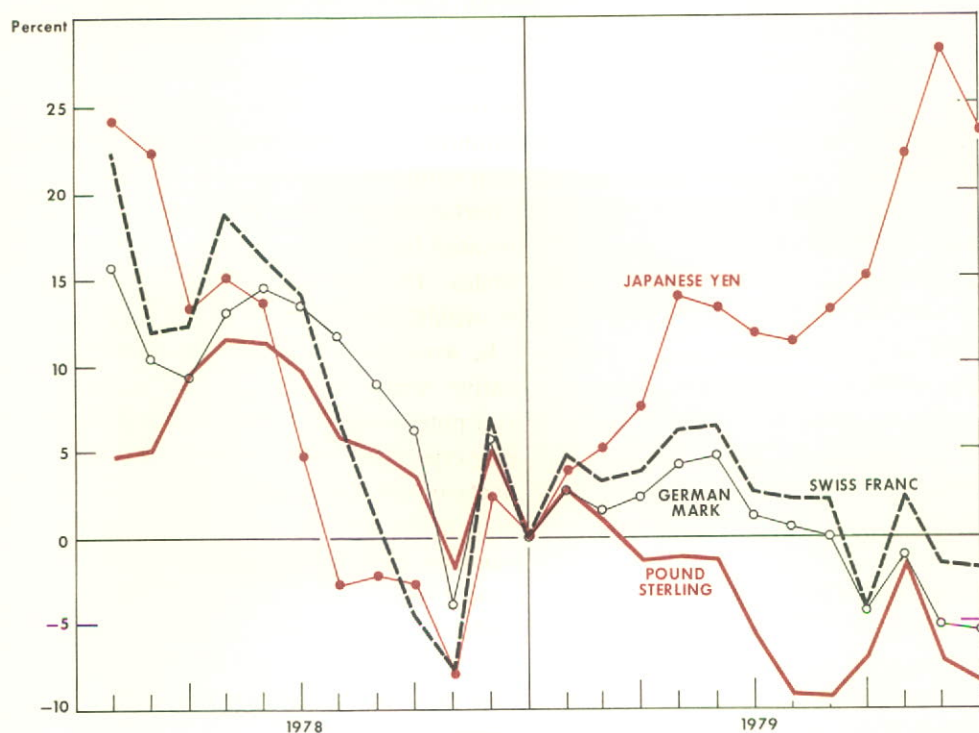
During the early months of 1979, that market skepticism faded. The turnaround in sentiment was not primarily motivated by any sudden improvement in economic performance by the United States. The trade position was seen to be getting better, but higher oil prices would retard that progress. The United States inflation problem appeared to be worsening. However, the United States outlook was less pessimistic in relative terms. Other countries were experiencing rapid increases in inflation and a potentially sharp erosion in payments positions. Industrial countries abroad, especially Japan, seemed to be even more vulnerable to the immediate effects of oil supply disruptions than the United States. At the same time, operations in the foreign exchange markets by the United States and other major countries and successive new issues of "Carter bonds" (foreign currency-denominated securities sold by the Treasury to private residents in Germany and Switzerland) were viewed as reaffirming the thrust of the November 1 policy.

The dollar gradually gathered strength up through late spring (Chart 7). By June 1, 1979, the dollar was over 20 percent higher against the yen and about 10 percent higher against the German mark, compared with the record

lows of October 31, 1978. Demand for dollars was reflected in heavy capital inflows to the United States, in part because of a large-scale covering of positions short of dollars and long of foreign currencies. Treating unrecorded transactions as capital items, net private capital inflows exceeded \$25 billion in the first half of 1979, more than reversing net outflows over the previous five quarters.

During last summer, however, as the focus of market concern shifted from oil supply availability to oil prices, the dollar came under renewed downward pressure against several European currencies. The higher oil prices were seen

**Chart 7. AFTER A GENERAL RECOVERY THROUGH THE SPRING, THE DOLLAR AGAIN CAME UNDER PRESSURE, FALLING AGAINST MOST MAJOR FOREIGN CURRENCIES EXCEPT THE JAPANESE YEN.**



End-of-month rates, computed as percentage deviation from end-1978 rates.

as adding heavily to the United States trade deficit and eliminating any hope of immediate reduction of the inflation rate. Following the Tokyo summit meeting, the market questioned the consistency of Administration energy proposals with other economic objectives. Moreover, monetary policies abroad were tightening. By contrast, the market became increasingly concerned about reports of excessive growth of the monetary aggregates and about the Federal Reserve's commitment to anti-inflation monetary policies.

By late September, a speculative atmosphere had emerged in the foreign exchange market, reinforced and aggravated by a bout of heavy speculation in the gold and other commodities markets. This exchange market instability, along with a clear danger of further deterioration in international commodities markets, was a major consideration in the Federal Reserve's decision to take new actions to bring domestic monetary expansion under control. The October 6 measures were favorably received by the foreign exchange markets, and the dollar firmed initially as United States interest rates moved sharply higher.

Late in the year, however, new uncertainties gripped the markets in the wake of political disturbances in the Middle East. The freeze of Iranian official assets in the United States and in accounts at overseas branches of American banks, undertaken by the Administration to ensure the integrity of United States claims on Iran following threats of withdrawals of funds from United States banks, was a focus of concern. Some market participants worried that the action would trigger large portfolio shifts out of dollar holdings. Anticipatory selling of dollars resulted, but a widespread increase in the pace of diversification did not materialize and, in fact, fairly sizable commercial demands for dollars appeared. Eventually, the extreme nervousness tended to dissipate, but the markets remained extraordinarily sensitive to political developments that could threaten to disrupt international trade and payments. And, while the focus gradually shifted away from the dollar, this sensitivity was dramatically underscored by the spectacular rise in the gold price early in 1980.

**THE FINANCIAL BURDEN OF THE OIL SHOCK.** One particularly unwelcome effect of the oil price escalation was to enlarge the payments deficits of less developed countries (LDCs) outside OPEC. For 1979 this group's combined current account deficit, inclusive of official transfers, rose by an estimated \$10 billion, to more than \$30 billion, on a par with the record level of 1975. Yet even these numbers substantially understate the magnitude of

the problem, because the most extreme increases in oil prices occurred in the latter part of the year. When these increases have worked through, another \$20 billion or so deterioration is likely. Achieving orderly financing of deficits of that magnitude is a major policy objective.

The LDC deficits were financed principally through the international banking system in 1979. New Eurocurrency credits extended to non-OPEC developing countries exceeded \$30 billion and accounted for over 40 percent of total new Eurocredits. Part of these credits simply rolled over maturing loans. Another part was anticipatory, and the proceeds were added to official reserves. But the remainder were offsets to current deficits.

By and large, these credits were handled smoothly. But, as the magnitude of the impending financing problem has become evident, questions have been raised as to what extent commercial banks should continue to play the predominant role in the recycling process. From one perspective the risks involved are not exceptional. Although the projected deficits in developing countries are large in nominal terms, it is argued that when inflation is taken into account they pose no substantially greater real burden on borrowers than the deficits generated from the earlier oil shock. In addition, many developing countries have more adequate reserves than in 1974. And several have already taken steps to adjust to the oil price rise—for example, by establishing a more realistic value for their exchange rates.

Against these positive factors, however, stand a number of concerns. First is that international banks now have extensive exposures to major developing countries relative to their capital base. Six years ago, such exposures for many banks were minor. Furthermore, present terms on international lending are doing little to provide the earnings needed to strengthen banks' capital positions. Although there was some sporadic evidence of a shortening of loan maturities late in the year, spreads on loans showed no clear upturn. They remain at levels near the historic lows of 1974.

There was some resistance to these developments on the part of lenders. United States banks acknowledged a reluctance to extend credit at the prevailing low lending margins. However, for much of the year, foreign lending by banks in Japan and Europe was vigorous, and aggressive competition was undoubtedly a factor maintaining low spreads. Eventually, the Japanese authorities took steps to limit Eurocurrency lending by Japanese banks. And late in the year, in view of the deteriorating political situation in the Middle East, a number of banks were reassessing the political risks inherent in foreign lending.

Because of the relatively easy access to private credits, countries did not seek the assistance of the International Monetary Fund (IMF) to any substantial extent in 1979. Last year, member country purchases of foreign currencies from the Fund fell below \$2.5 billion equivalent, far less than half of the average level of the preceding four years. After repayments on earlier borrowings are taken into account, net use of Fund credit actually declined by \$3 billion equivalent.

Now that many countries face enlarged payments deficits, the immediate problem for the Fund is not any constraint on lending stemming from insufficient loanable resources, although any sustained expansion of IMF financing would have to be accompanied by enlargement of member quotas. More to the point is the problem of getting countries to come to the Fund at an early stage, rather than only after severe economic problems have made it difficult to secure private credits. One suggestion has been for the Fund to continue to introduce flexibility in the conditionality requirements that accompany the use of IMF credit. There may be some merit in this, but implementation must be carefully considered. From the perspective of international adjustment, the clearest benefit of IMF lending, compared with Eurocurrency credits, is that it typically involves a comprehensively designed program to restore a sustainable payments position for the borrowing country. Little would be gained by promoting greater use of Fund credit at the expense of adjustment. From a practical standpoint, the Fund does not itself have enough resources to finance payments deficits in full. What IMF programs can do is strengthen confidence in private markets so that commercial bank lending continues to be made available. Programs that do not provide that reassurance would be of dubious value.

The IMF may also play a larger role in helping frame a reasonable solution to another problem associated with the shift of wealth to OPEC—that of reserve currency diversification. The process of diversifying official reserves into other currencies to reduce somewhat the fraction of dollar assets has been going on for several years. A few countries have taken an active approach, but most countries, including the major OPEC members, have been fairly cautious about doing anything in the exchange markets that could adversely affect the value of their remaining dollar holdings. Yet there still is a presumption that many countries would prefer a more diversified foreign assets portfolio if that could be accomplished without destabilizing the currency markets.

One proposal for reducing the scope for uncontrolled shifts from one reserve currency to another and for promoting the long-term role of the SDR

(special drawing right) has been to establish a Substitution Account administered by the IMF. The account would provide an opportunity for countries to achieve a shift in the composition of their official portfolios by substituting dollars for SDR-denominated claims. Discussions of various options for establishing such an account were conducted throughout 1979 and have reached an advanced stage. However, a number of technical questions need to be resolved and implementation of a specific plan would take time. Meanwhile, the issue of reserve diversification is likely to remain an insistent one, for the markets, for countries whose currencies are held in reserves, and for countries experiencing sizable increases in currency holdings.

From a broader perspective, the questions of recycling, reserve diversification, and foreign exchange market stability are inevitably intertwined, even though at first glance they may appear to be distinct issues. Recognition that the world's financial problems are connected has naturally led to a yearning for a bold new scheme to deal with them in one stroke. The appeal is understandable. Relying on an evolutionary process to produce improvements in the international monetary system can cause frustration. Progress may appear halting, and there may be no clear vision of the shape of the monetary arrangements that may eventually emerge. But the practical obstacles to formulating and implementing a comprehensive plan are formidable. The clear advantage of an evolutionary approach is that concrete steps must be taken along the way to remedy specific problems. While necessarily partial in their impact, those concrete actions can build a foundation and a constituency for subsequent initiatives. Moreover, the international consultation and cooperation inherent in the process can be useful in itself. Consequently, although it would be shortsighted to ignore the common threads linking the various problems that need to be resolved, it would be dangerous to delay action now in the hopes of fashioning a complete reform of the international monetary system in a single agreement.

## THE BANK IN 1979

### Bank Supervision

**THE BANKING ENVIRONMENT.** Member banks and bank holding companies throughout the Second District generally experienced further improvement in their operating results in 1979. Loan losses declined and bankers were able to reduce their provision for future loan losses in light of the more favorable current experience. They also made further progress toward resolution of outstanding problem loans. For many of the District's larger banks, strengthened internal management systems contributed significantly to a stronger capability for monitoring and controlling loan and investment risk and to more cost-effective operations. Those changes reinforced the favorable effect on current earnings from a general improvement in the quality of bank assets along with further overall growth.

The earning power of the District's banking organizations demonstrated resilience in the face of continuing heavy competitive pressures in all major financial markets. In this District, the thrift industry continued to dominate the market for consumer time and savings deposits, but depository institutions in general bore the strain of heavy outflows of deposits as open market rates far exceeded interest ceilings on most types of deposit accounts. Authorization by the Federal bank regulators of a new six-month money market certificate in mid-1978 helped ease somewhat the market's pull on thrift deposits. Funds held in money market certificates at commercial banks and thrift institutions in the District rose rapidly throughout the year and added materially to the cost of funds. At the same time, the funds placed in money market mutual funds—entities which are not subject to Federal deposit and interest rate regulations—also rose dramatically.

The year's good gains in earnings were not accompanied, however, by an across-the-board strengthening of the financial positions of the District's banking organizations. While regional and local banks were able to keep their capital ratios at reasonably high levels, their balance sheets showed an increasing tendency to rely on interest-sensitive sources of funds. This practice can make an institution vulnerable to unforeseen increases in operating expenses, with resultant adverse effects on earnings.

The District's nine money center institutions—the largest in the District—

reported earnings of close to \$1¼ billion in 1979, a growth of more than 20 percent for the year. However, the growth of retained earnings and externally generated capital funds at individual banks did not keep pace with the growth of assets swelled by the effects of inflation. As a result, these large bank holding companies experienced a further slippage of capital in relation to assets.

**SUPERVISORY RESPONSIBILITIES.** The International Banking Act of 1978 (IBA) was designed, among other things, to provide for the first time a Federal presence in the regulation and supervision of the United States agencies and branches of foreign banks. The IBA held major significance for the Federal Reserve Bank of New York, in view of the large and growing role of New York City as an international financial center. Foreign banking organizations in the Second District have more than doubled in number and have grown sixfold in aggregate assets since the early 1970s. By the end of 1979, 142 foreign banking organizations from thirty-two countries and Puerto Rico were operating one or more branches, agencies, or subsidiary banks in the District. In the aggregate, these foreign organizations held assets of approximately \$125 billion and accounted for more than two thirds of the total assets of all United States branches, agencies, and subsidiaries owned by foreign banks.

Some 135 foreign banking organizations came under the supervisory jurisdiction of the Federal Reserve Bank of New York as a result of the IBA, which gave the Federal Reserve supervisory oversight of foreign organizations covered by the act. Early in the year, senior officials of this Bank held a series of discussions with officials of the New York State Banking Department and officials of foreign banks regarding the manner of implementation of reserve requirements, provision of Reserve Bank services, examination procedures, and financial reporting directives of the IBA. Then, in the latter part of the year, this Bank's examiners began to accompany examiners of the New York State Banking Department in their conduct of on-site examinations of United States branches and agencies of foreign banks.

The IBA directed the Federal Reserve to liberalize its policies and regulations governing Edge Act corporations—special banking corporations chartered by the Federal Reserve to aid in the financing of international trade and commerce. This Bank contributed substantially to revised Federal Reserve regulations which permit for the first time foreign ownership of Edge Act corporations and branching anywhere in the United States by all Edge Act corporations. At the

end of 1979, forty Edge Act corporations were in operation in the Second District, of which more than half were owned by out-of-district banking organizations. In 1979, this Bank processed four applications to charter foreign-owned Edge Act corporations and one application by a domestic organization to operate branches of its banking Edge Act corporation in ten cities across the United States.

During the year, this Bank also undertook initiatives to implement directives of the Financial Institutions Regulatory and Interest Rate Control Act (FIRA), enacted in late 1978, and the Community Reinvestment Act (CRA), enacted in late 1977. FIRA, among other provisions, placed new controls over insider loans and established new consumer protection covering electronic funds transfers. The CRA requires Federal bank supervisors to assess the record of supervised institutions in meeting the needs of their entire communities, including low and moderate income areas. In early 1979, the Bank launched an expanded program of on-site examinations of state-chartered member banks as part of a Systemwide effort to ensure compliance with the new law. The compliance program at this Bank absorbed a substantial commitment of resources in view of the widely varying size and diversity of operations of the banking organizations headquartered in this District.

## Managerial and Operational Highlights

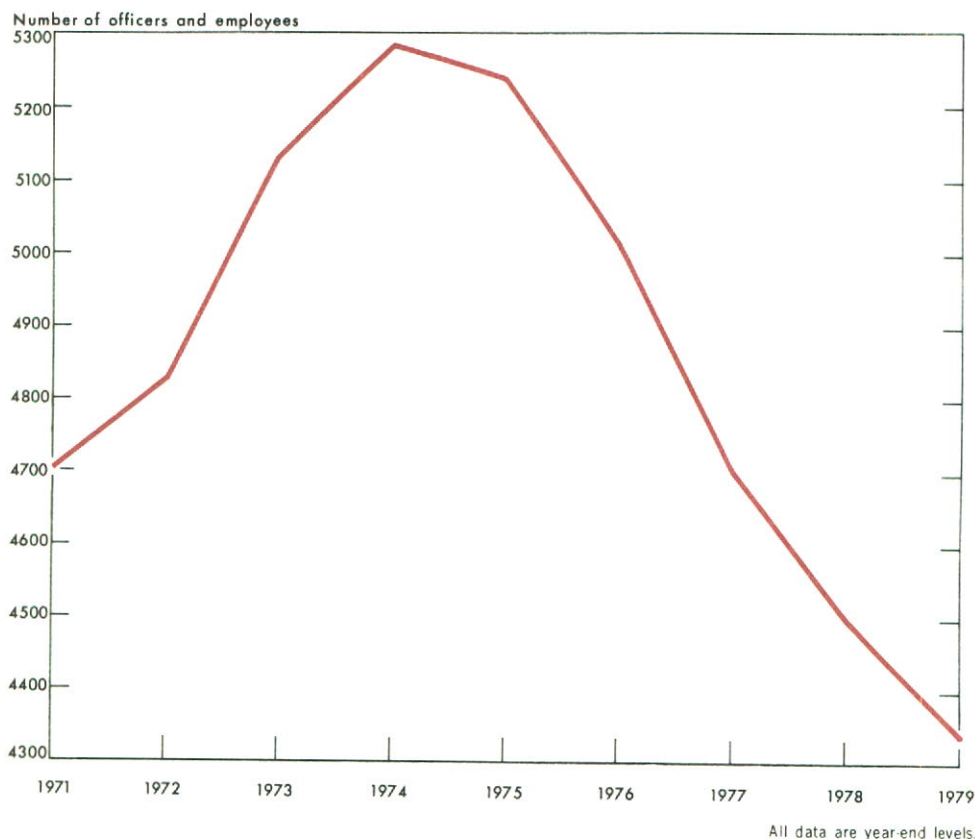
During 1979, the Bank continued to improve its operational efficiency and laid the groundwork for operations in the 1980s. For the year, productivity increased further, unit costs again declined, and the growth of expenses was substantially below the rate of inflation. The Bank also expanded its efforts to assure that cost effectiveness does not lead to deterioration in quality of services. Further additions of capital equipment and changes in the Bank's planning and budget processes, organizational structure, and physical plant aided in these achievements.

**EXPENSES AND OPERATIONS.** Expenses in 1979 were kept to a level only 6.4 percent over those of 1978, despite inflation and significant volume growth in all areas. Meanwhile staffing declined 3.4 percent from 1978 levels. In 1979, year-end employment levels fell for the fifth consecutive year (Chart 8). Since the peak reached in mid-1974, staff has decreased by more than 1,000 people, an average annual rate of nearly 4 percent.

Among the higher volumes of operations handled by the Bank in 1979, currency activity increased by over 16 percent, commercial checks by over 5 percent, Treasury securities transactions by 10 percent, and foreign transactions by nearly 10 percent. Unit costs of operations for measured activities (accounting for about two thirds of the Bank's expenses) declined by 4.3 percent, compared with 1978. Gains in productivity were achieved in virtually all operating areas of the Bank, with some in excess of 15 percent.

**CAPITAL PROJECTS.** The major capital investments which have been made in many areas of the Bank over the last five years have contributed to the improvements in productivity and the reduction of unit costs. Installation of new check processing equipment and introduction of new staffing concepts at the Regional Check Processing Centers in Cranford, New Jersey, and Jericho, New York, led to substantially better productivity and quality. Similarly, the increased use of high-speed currency equipment has permitted greater efficiency as well as improved quality of currency. The new equipment is better able to sort fit from unfit notes, and thus recirculation of unfit notes and premature destruction of fit notes is reduced.

**Chart 8. TOTAL EMPLOYMENT AT THE FEDERAL RESERVE BANK OF NEW YORK DECLINED FOR THE FIFTH CONSECUTIVE YEAR IN 1979.**



In 1979, the Bank also undertook to plan for a new generation of computer hardware to meet its processing and analytical requirements over the next several years. As part of this effort, the Bank and the System adopted transition plans for a major upgrading of their telecommunications system to assure that the Federal Reserve has the necessary capability to meet anticipated volumes of securities and funds transfers during the 1980s. In this connection, the Bank is developing a new on-line terminal network to improve direct telecommunications with Second District financial institutions.

**POLICY AND MANAGERIAL DEVELOPMENTS.** In 1979, legislative and regulatory changes again had an effect on many of the Bank's operations. For example, implementation of the International Banking Act of 1978 began to affect areas such as Accounting, Bank Supervision, and Research and Statistics. An extensive educational program to acquaint foreign bank branches and agencies with Federal Reserve regulations and services was also started.

The Bank's role in the development and implementation of monetary policy made increasingly heavy demands on the Bank's resources. Demand by the public for Government securities also ballooned, with the volume of new Treasury issues growing by over 60 percent in 1979.

The program to strengthen controls over internal planning and budgeting continued, with improvements to the budgeting process as well as to the planning, review, and control over capital acquisitions and projects. The Bank also continued to refine its organizational structure with the addition of the new Administrative Services Group, consisting of the Accounting, Building Services, and Service Functions.

During the year, a formal program to monitor the quality of the Bank's operations was extended to virtually all areas of the Bank. Evidence to date suggests that the quality of Bank operations has been maintained or improved over the past few years despite reductions of both staff and unit costs.

Among the quality measures are the level of float and the quality of currency. Transportation difficulties, among other reasons, contributed to high levels of float in 1979, and several initiatives have been undertaken by the System as well as the Bank to reduce float to a more acceptable level. An important measure of the Bank's commitment to improve the quality of currency in the Second District is the number of new notes issued, which in 1979 totaled nearly 670 million, a 17 percent increase over 1978 levels.

Finally, the consolidation of Bank operations into two locations, the Main Building at 33 Liberty Street and the leased space at 59 Maiden Lane, remained on schedule. By the year-end, 70 percent of planned space in the Maiden Lane building was occupied. To assure the ongoing usefulness of the Main Building, the first of three stages of a major project to modernize the Bank's electrical and air conditioning systems was completed.

## Financial Statements

### STATEMENT OF CONDITION

In dollars

Assets	DEC. 31, 1979	DEC. 31, 1978
Gold certificate account .....	2,841,319,270	3,205,935,246
Special Drawings Rights certificate account .....	459,000,000	330,000,000
Coin .....	21,001,713	20,732,835
Total	3,321,320,983	3,556,668,081
Advances .....	510,710,000	310,780,000
Acceptances held under repurchase agreements .....	703,548,343	587,128,600
United States Government securities:		
Bought outright* .....	28,663,956,833	26,632,041,344
Held under repurchase agreements .....	1,167,670,000	1,083,900,000
Federal agency obligations:		
Bought outright .....	2,025,020,242	1,920,695,909
Held under repurchase agreements .....	493,905,000	133,000,000
Total loans and securities	33,564,810,418	30,667,545,853
Other assets:		
Cash items in process of collection .....	2,089,516,473	1,359,756,205
Bank premises .....	14,180,116	9,965,152
All other† .....	1,219,953,542	1,039,906,461
Total other assets	3,323,650,131	2,409,627,818
Interdistrict settlement account .....	1,266,062,898	854,493,329
Total Assets	41,475,844,430	37,488,335,081

\* Includes securities loaned—fully secured ..... 363,690,000 257,930,000

† Includes assets denominated in foreign currencies revalued monthly at market rates.

# STATEMENT OF CONDITION

In dollars

Liabilities	DEC. 31, 1979	DEC. 31, 1978
Federal Reserve notes (net) .....	29,934,647,497	26,335,259,348
Deposits:		
Reserve accounts* .....	7,320,492,985	7,155,683,959
United States Treasury—general account .....	1,252,497,929	1,032,980,458
Foreign—official accounts .....	207,256,087	217,335,351
Other* .....	719,065,164	543,462,138
Total deposits	9,499,312,165	8,949,461,906
Other liabilities:		
Deferred availability cash items .....	711,320,060	919,995,734
All other† .....	750,795,208	723,933,593
Total other liabilities	1,462,115,268	1,643,929,327
Total Liabilities	40,896,074,930	36,928,650,581
Capital Accounts		
Capital paid in .....	289,884,750	279,842,250
Surplus .....	289,884,750	279,842,250
Total Capital Accounts	579,769,500	559,684,500
Total Liabilities and Capital Accounts	41,475,844,430	37,488,335,081

\* The amount shown for December 31, 1978 has been restated to reflect the balances maintained by Edge Act Corporations, which prior to October 25, 1979 were included in "Other" under "Deposits". In addition, the amount shown for "Reserve accounts" for December 31, 1979 includes the balances maintained by the United States branches and agencies of foreign banks in connection with the Marginal Reserve Requirement Program announced on October 6, 1979.

† Includes exchange translation account balances reflecting the monthly revaluation of outstanding foreign exchange commitments.

**STATEMENT OF EARNINGS AND EXPENSES FOR  
THE CALENDAR YEARS 1979 AND 1978** (In dollars)

	1979	1978
Total current earnings .....	2,592,891,866	2,108,679,754
Net expenses .....	144,046,463	135,546,130
Current net earnings	2,448,845,403	1,973,133,624
Additions to current net earnings .....	1,474,474	361,442
Deductions from current net earnings:		
Loss on foreign exchange (net) .....	2,934,428	130,971,648
Loss on sales of United States Government securities and Federal agency obligations (net) .....	37,616,259	31,579,498
All other .....	257,491	582,453
Total deductions	40,808,178	163,133,599
Net deductions .....	39,333,704	162,772,157
Assessment for the Board of Governors .....	13,075,100	13,851,000
<b>Net earnings available for distribution</b>	<b>2,396,436,599</b>	<b>1,796,510,467</b>
Distribution of net earnings:		
Dividends paid .....	17,101,407	16,518,453
Transferred to surplus .....	10,042,500	13,133,300
Payments to United States Treasury (interest on Federal Reserve notes) .....	2,369,292,692	1,766,858,714
<b>Net earnings distributed</b>	<b>2,396,436,599</b>	<b>1,796,510,467</b>
 <b>SURPLUS ACCOUNT</b>		
Surplus—beginning of year .....	279,842,250	266,708,950
Transferred from net earnings .....	10,042,500	13,133,300
<b>Surplus—end of year</b>	<b>289,884,750</b>	<b>279,842,250</b>

## Changes in Directors and Senior Officers

**CHANGES IN DIRECTORS.** John R. Mulhearn, a Class B director serving a three-year term scheduled to end December 31, 1981, died on September 7, 1979. Mr. Mulhearn, who was President of the New York Telephone Company, was first elected to the board in April 1977.

In December 1979, the Board of Governors of the Federal Reserve System redesignated Robert H. Knight as *Chairman* of the board of directors and *Federal Reserve Agent* for the year 1980. Mr. Knight, a partner in the New York law firm of Shearman & Sterling, has been serving as a Class C director since February 1976 and as *Chairman* and *Federal Reserve Agent* since January 1978; he also served as *Deputy Chairman* in 1976 and 1977. At the same time, the Board of Governors reappointed Boris Yavitz a Class C director of this Bank for the three-year term ending December 31, 1982 and *Deputy Chairman* for the year 1980. Dr. Yavitz, Dean of the Graduate School of Business at Columbia University, has been serving as a Class C director since June 1977 and as *Deputy Chairman* since January 1978.

On December 31, 1979, Maurice F. Granville's term as a Class B director expired, resulting in a temporary vacancy on the board. Mr. Granville, Chairman of the Board of Texaco Inc., New York, had served as a Class B director since March 1972.

In January 1980, member banks in Group 1 elected Gordon T. Wallis a Class A director for the three-year term ending December 31, 1982. Mr. Wallis, Chairman of the Board of Irving Trust Company, New York, succeeded Ellmore C. Patterson, former Chairman of the Board of Morgan Guaranty Trust Company of New York, who had served as a Class A director from January 1, 1977 through December 31, 1979.

In March 1980, member banks in Group 3 elected Edward L. Hennessy, Jr., a Class B director for the unexpired portion of Mr. Mulhearn's term. Mr. Hennessy is Chairman of the Board and President of Allied Chemical Corporation, Morristown, N. J.

*Buffalo Branch.* In December 1979, the Board of Governors reappointed Frederick D. Berkeley a director of the Buffalo Branch for a three-year term ending December 31, 1982; in addition, the board of directors of this Bank redesignated him *Chairman* of the Branch board for the year 1980. Mr. Berkeley, who is Chairman of the Board and President of Graham Manufactur-

ing Co., Inc., Batavia, N.Y., has been a director of the Branch since February 1977 and served as *Chairman* of the Branch board in 1979. Also in December, the Bank's board appointed Arthur M. Richardson a director of the Buffalo Branch for a three-year term ending December 31, 1982. Mr. Richardson, President of Security Trust Company, Rochester, N.Y., succeeded William B. Webber, Vice Chairman of the Board of Lincoln First Bank, N.A., Rochester, N.Y., who had been a director of the Branch since January 1977. At the same time, this Bank's directors reappointed M. Jane Dickman a Branch director for a three-year term ending December 31, 1982. Miss Dickman, a partner in the accounting firm of Touche Ross & Co., Buffalo, N.Y., has been a director of the Branch since January 1977.

**CHANGES IN SENIOR OFFICERS.** The following changes in official staff at the level of Vice President and above have occurred since January 1979:

Paul A. Volcker, formerly President of this Bank, was appointed Chairman of the Board of Governors of the Federal Reserve System effective August 6, 1979. Mr. Volcker had joined the Bank as its fifth chief executive officer on August 1, 1975.

Anthony M. Solomon was named to succeed Mr. Volcker as President, effective April 1, 1980. Mr. Solomon had been serving as Under Secretary of the Treasury for Monetary Affairs since 1977. His varied career in business and finance has included both public and private service in the United States and overseas.

Karl L. Ege, Vice President and Operations Adviser, retired effective February 1, 1979. Mr. Ege joined the Bank's staff in 1930 and became an officer in 1960.

Frederick L. Smedley, Vice President, retired effective March 1, 1979. Mr. Smedley joined the Bank's staff in 1941 and became an officer in 1953.

Edward G. Guy, Senior Vice President and Counsel to the President, and formerly Senior Vice President and General Counsel, retired effective April 1, 1979. Mr. Guy joined the Bank's staff in 1940 and became an officer in 1950.

Effective September 1, 1979:

Alan R. Holmes, formerly Executive Vice President, was designated Senior Policy Adviser.

Fred W. Piderit, Jr., Senior Vice President, was designated Senior Vice

President and Senior Regulatory Adviser. Mr. Piderit, who joined the Bank's staff in 1941 and became an officer in 1955, died on November 27, 1979.

Ronald B. Gray, formerly Vice President, was appointed Senior Vice President and designated the officer in charge of the Bank Supervision Function.

Thomas C. Sloane, Senior Vice President and Senior Adviser, was assigned responsibility for the Management Planning Group. His responsibilities for the Administrative Services Group and the Bank Relations Office were continued.

Suzanne Cutler, formerly Assistant Vice President, was appointed Vice President and assigned to the Planning and Control Function.

Frederick C. Schadrack, Vice President, returned to the Bank on September 4, 1979, following a leave of absence during which he served as Deputy Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System. Mr. Schadrack was assigned to the Bank Supervision Function, with supervisory responsibility for the Bank Analysis and Bank Examinations Departments.

Irwin D. Sandberg, formerly Assistant Vice President, was appointed Vice President effective October 1, 1979, and assigned to the Open Market Operations and Treasury Issues Function.

E. Gerald Corrigan, formerly Vice President, was appointed Senior Vice President effective January 1, 1980. At the time of his appointment, Mr. Corrigan was on a leave of absence, serving as Special Assistant to the Chairman of the Board of Governors.

Rudolf Thunberg, Vice President and Assistant Director of Research, resigned from the Bank effective January 9, 1980. Mr. Thunberg joined the Bank's staff in 1961 and became an officer in 1970.

**MEMBER OF FEDERAL ADVISORY COUNCIL-1980.** The board of directors of this Bank selected Donald C. Platten, Chairman of the Board of Chemical Bank, N.Y., to serve during 1980 as the member of the Federal Advisory Council representing the Second Federal Reserve District. On the Council, Mr. Platten succeeded Walter B. Wriston, Chairman of the Board of Citibank, N.A., New York, N.Y., who was this District's member from 1977 through 1979.

## Directors of the Federal Reserve Bank of New York

### DIRECTORS

*Term expires Dec. 31 Class Group*

GORDON T. WALLIS ..... Chairman of the Board, Irving Trust Company, New York, N.Y.	1982	A	1
RAYMOND W. BAUER ..... Chairman and President, United Counties Trust Company, Elizabeth, N.J.	1980	A	2
JAMES WHELDEN ..... President, Ballston Spa National Bank, Ballston Spa, N.Y.	1981	A	3
VACANCY .....	1982	B	1
WILLIAM S. SNEATH ..... Chairman of the Board, Union Carbide Corporation, New York, N.Y.	1980	B	2
EDWARD L. HENNESSY, JR. .... Chairman of the Board and President, Allied Chemical Corporation, Morristown, N.J.	1981	B	3
ROBERT H. KNIGHT, <i>Chairman, and Federal Reserve Agent</i> ..... Partner, Shearman & Sterling, Attorneys, New York, N.Y.	1980	C	
BORIS YAVITZ, <i>Deputy Chairman</i> ..... Dean, Graduate School of Business, Columbia University, New York, N.Y.	1982	C	
GERTRUDE G. MICHELSON ..... Senior Vice President, Macy's New York, New York, N.Y.	1981	C	

### DIRECTORS—BUFFALO BRANCH

FREDERICK D. BERKELEY, <i>Chairman</i> ..... Chairman of the Board and President, Graham Manufacturing Co., Inc., Batavia, N.Y.	1982	
JOHN ROLLINS BURWELL ..... President, Rollins Container Corp., Rochester, N.Y.	1980	
WILLIAM S. GAVITT ..... President, The Lyons National Bank, Lyons, N.Y.	1980	
ROBERT J. DONOUGH ..... President, Liberty National Bank and Trust Company, Buffalo, N.Y.	1981	
GEORGE L. WESSEL ..... President, Buffalo AFL-CIO Council, Buffalo, N.Y.	1981	
M. JANE DICKMAN ..... Partner, Touche Ross & Co., Buffalo, N.Y.	1982	
ARTHUR M. RICHARDSON ..... President, Security Trust Company, Rochester, N.Y.	1982	

### MEMBER OF FEDERAL ADVISORY COUNCIL—1980

DONALD C. PLATTEN ..... Chairman of the Board, Chemical Bank, New York, N.Y.	1980	
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## Officers of the Federal Reserve Bank of New York

ANTHONY M. SOLOMON, *President-designate*

THOMAS M. TIMLEN, *First Vice President*

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\*E. GERALD CORRIGAN, *Senior Vice President*

PETER FOUSEK, *Senior Vice President  
and Director of Research  
Research and Statistics*

RONALD B. GRAY, *Senior Vice President  
Bank Supervision*

PAUL B. HENDERSON, JR., *Senior Vice President  
Operations Group*

ALAN R. HOLMES, *Senior Policy Adviser*

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JAMES H. OLTMAN, *General Counsel*

SCOTT E. PARDEE, *Senior Vice President  
Foreign*

THOMAS C. SLOANE, *Senior Vice President  
and Senior Adviser  
Administrative Services Group; Bank Relations;  
Management Planning Group*

PETER D. STERNLIGHT, *Senior Vice President  
Open Market Operations and Treasury Issues*

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### AUDIT

JOHN E. FLANAGAN, *General Auditor*

FRANK C. EISEMAN, *Assistant General Auditor*

WILLIAM M. SCHULTZ, *Assistant General Auditor*

ROBERT J. AMBROSE, *Manager,  
Audit Analysis Department*

DONALD R. ANDERSON, *Manager,  
Auditing Department*

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### ADMINISTRATIVE SERVICES GROUP

THOMAS C. SLOANE, *Senior Vice President  
and Senior Adviser*

### ACCOUNTING

HENRY S. FUJASKI, *Vice President*

THOMAS J. CAMPBELL, *Accounting Officer*

JOHN J. STRICK, *Manager,  
Accounting Department*

### BUILDING SERVICES

RALPH A. CANN III, *Assistant Vice President*

MATTHEW C. DREXLER, *Manager,  
Building Operating Department*

### SERVICE

RICHARD VOLLKOMMER, *Vice President*

LOUIS J. BRENDEN, *Assistant Vice President*

RONALD E. LONG, *Manager,  
Service Department*

FRANK W. LUNDBLAD, JR., *Manager,  
Protection Department*

ANTHONY N. SAGLIANO, *Manager,  
Records Management and  
Postal Services Department*

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### BANK RELATIONS

THOMAS C. SLOANE, *Senior Vice President  
and Senior Adviser*

JANE L. DETRA, *Bank Relations Officer*

### BANK SUPERVISION

RONALD B. GRAY, *Senior Vice President*

A. MARSHALL PUCKETT, *Vice President*

FREDERICK C. SCHADRACK, *Vice President*

EDWARD F. KIPFSTUHL, *Chief Examiner*

LEON KOROBOW, *Assistant Vice President*

BENEDICT RAFANELLO, *Assistant Vice President*

JOHN M. CASAZZA,  
*Assistant Chief Examiner*

GEORGE R. JUNCKER, *Manager,  
Consumer Affairs and  
Bank Regulations Department*

A. JOHN MAHER,  
*Assistant Chief Examiner*

THOMAS P. MCQUEENEY,  
*Assistant Chief Examiner*

RICHARD W. NELSON, *Manager,  
Banking Studies Department*

\*WILLIAM L. RUTLEDGE, *Manager,  
Domestic Banking Applications Department*

DONALD E. SCHMID, *Manager,  
Bank Analysis Department*

BARBARA L. WALTER, *Manager,  
Foreign Banking Applications Department*

### ECONOMIC ADVISER

RICHARD G. DAVIS, *Senior Economic Adviser*

### EQUAL OPPORTUNITY

FRANKLIN T. LOVE, *Equal Opportunity Officer*

\*On leave of absence.

## Officers (Continued)

### FOREIGN

SCOTT E. PARDEE, *Senior Vice President*  
MARGARET L. GREENE, *Vice President*  
H. DAVID WILLEY, *Vice President*  
JOHN HOPKINS HEIRES, *Adviser*  
CHARLES M. LUCAS, *Assistant Vice President*  
GEORGE W. RYAN, *Assistant Vice President*  
HOWARD L. ALEXANDER, *Foreign Exchange Officer*  
JEROME BERGMAN, *Manager, Foreign Department*  
GEORGE H. BOSSY, *Manager, Foreign Department*  
FRANCIS J. REISCHACH, *Manager, Foreign Department*  
ROBERT D. SLEEPER, *Manager, Foreign Department*

### LEGAL

JAMES H. OLTMAN, *General Counsel*  
ERNEST T. PATRIKIS, *Deputy General Counsel*  
DON N. RINGSMUTH, *Assistant General Counsel*  
DONALD L. BITTKER, *Assistant Counsel*  
ROBERT N. DAVENPORT, JR., *Assistant Counsel*  
LAWRENCE D. FRUCHTMAN, *Assistant Counsel*  
BRADLEY K. SABEL, *Assistant Counsel and Assistant Secretary*  
WALKER F. TODD, *Assistant Counsel*

### LOANS AND CREDITS

CHESTER B. FELDBERG, *Vice President*  
EUGENE P. EMOND, *Manager, Credit and Discount Department*  
GARY HABERMAN, *Manager, Credit and Discount Department*

### MANAGEMENT PLANNING GROUP

THOMAS C. SLOANE, *Senior Vice President and Senior Adviser*

### PERSONNEL

ROBERTA J. GREEN, *Assistant Vice President*  
JOHN A. KLUEPFEL, *Manager, Personnel Department*  
MICHAEL J. LANGTON, *Manager, Personnel Department*  
CLIFFORD N. LIPSCOMB, *Manager, Personnel Department*

### PLANNING AND CONTROL

SUZANNE CUTLER, *Vice President*  
JOHN F. SOBALA, *Assistant Vice President*  
ROBERT M. ABPLANALP, *Manager, Management Information Department*

### SYSTEMS DEVELOPMENT

GERI M. RIEGGER, *Vice President*  
DENIS L. CONWAY, *Assistant Vice President*  
ISRAEL SENDROVIC, *Assistant Vice President*

CAROL R. AGINS, *Manager, Common Systems Department*  
JACK M. SCHWARTZ, *Manager*  
SUSAN C. YOUNG, *Manager, Research and Statistical Systems Department*

### OPEN MARKET OPERATIONS AND TREASURY ISSUES

PETER D. STERNLIGHT, *Senior Vice President*  
PAUL MEEK, *Monetary Adviser*  
IRWIN D. SANDBERG, *Vice President*  
MARY R. CLARKIN, *Senior Trading Officer*  
FRED J. LEVIN, *Manager, Securities Department*  
JOAN E. LOVETT, *Securities Trading Officer*  
EDWARD J. OZOG, *Manager, Securities Department*

### OPERATIONS GROUP

PAUL B. HENDERSON, JR., *Senior Vice President*  
JOHN C. HOUEHOLIS, *Operations Analysis Officer*

### CASH PROCESSING

WHITNEY R. IRWIN, *Vice President*  
JOHN CHOWANSKY, *Assistant Vice President*  
JOSEPH F. DONNELLY, *Manager, Cash Services Department*  
THOMAS E. NEVIUS, *Operations Analysis Officer*  
DAVID S. SLACKMAN, *Manager, Currency Processing Department*  
HENRY F. WIENER, *Manager, Funds Transfer Department*

### CHECK PROCESSING

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ROBERT C. THOMAS, *Vice President (Utica Office)*  
JOSEPH M. O'CONNELL, *Assistant Vice President*  
LEONARD I. BENNETTS, *Manager, Jericho Office*  
JOSEPH P. BOTTA, *Operations Analysis Officer*  
FRED A. DENESEVICH, *Manager, Cranford Office*  
EDWARD H. DENHOFF, *Operations Officer, Utica Office*  
JOHN M. EIGHMY, *Manager, Check Adjustment and Return Items Department*  
DONALD R. MOORE, *Manager, Check Processing Department*  
CARL W. TURNIPSEED, *Electronic Payments Officer*  
RUTH ANN TYLER, *Manager, Check Processing Department*

## Officers (Continued)

### DATA PROCESSING

HERBERT W. WHITEMAN, JR., *Vice President*  
HOWARD F. CRUMB, *Adviser*  
PETER J. FULLEN, *Assistant Vice President*  
\*CATHY E. MINEHAN, *Assistant Vice President*  
OLEG HOFFMAN, *Manager,*  
*Computer Operations Department*  
EVERETT H. JOHNSON, *Manager,*  
*Telecommunications Department*  
GEORGE LUKOWICZ, *Operations Analysis Officer*  
RICHARD P. PASSADIN, *Manager,*  
*User Operations Department*  
JEROME P. PERLONGO, *Data Processing Officer*

### GOVERNMENT BOND AND SAFEKEEPING

EDWIN R. POWERS, *Vice President*  
JORGE A. BRATHWAITE, *Assistant Vice President*  
STEPHEN G. THIEKE, *Assistant Vice President*  
CAROL W. BARRETT, *Manager,*  
*Savings Bond Department*  
H. JOHN COSTALOS, *Operations Analysis Officer*  
LEON R. HOLMES, *Manager,*  
*Government Bond Department*  
ANGUS J. KENNEDY, *Manager,*  
*Safekeeping Department*  
FRANCIS H. ROHRBACH, *Manager,*  
*Savings Bond Department*

### PUBLIC INFORMATION

PETER BAKSTANSKY, *Vice President*  
RICHARD H. HOENIG, *Assistant Vice President*

### RESEARCH AND STATISTICS

PETER FOUSEK, *Senior Vice President*  
*and Director of Research*  
\*MICHAEL J. HAMBURGER, *Adviser*  
ROGER M. KUBARYCH, *Assistant Vice President*  
MARCELLE V. ARAK,  
*Research Officer and Senior Economist*  
STEPHEN V. O. CLARKE,  
*Research Officer and Senior Economist*  
EDNA E. EHRLICH, *International Adviser*  
ROBERT T. FALCONER, *Manager,*  
*Domestic Research Department*  
STUART M. FEDER, *Manager,*  
*Research Support Department*  
RICHARD J. GELSON, *Manager,*  
*Statistics Department*  
PATRICIA H. KUWAYAMA,  
*Research Officer and Senior Economist*  
JOHN WENNINGER,  
*Research Officer and Senior Economist*

### SECRETARY'S OFFICE

TERRENCE J. CHECKI, *Secretary*  
THEODORE N. OPPENHEIMER, *Assistant Secretary*  
BRADLEY K. SABEL, *Assistant Counsel*  
*and Assistant Secretary*

### SECURITY AND CONTROL

WILLIAM H. BRAUN, JR., *Vice President*  
GERALD HAYDEN, *Manager,*  
*Security and Control Staff*

## OFFICERS—BUFFALO BRANCH

JOHN T. KEANE, *Vice President and Branch Manager*  
PETER D. LUCE, *Assistant Vice President and Cashier*

### ACCOUNTING; BANK RELATIONS AND PUBLIC INFORMATION; CHECK

ROBERT J. McDONNELL, *Operations Officer*

### BUILDING OPERATING; CASH; PROTECTION

HARRY A. CURTH, JR., *Operations Officer*

### COLLECTION, LOANS, AND FISCAL AGENCY; PERSONNEL; SERVICE

GARY S. WEINTRAUB, *Operations Officer*

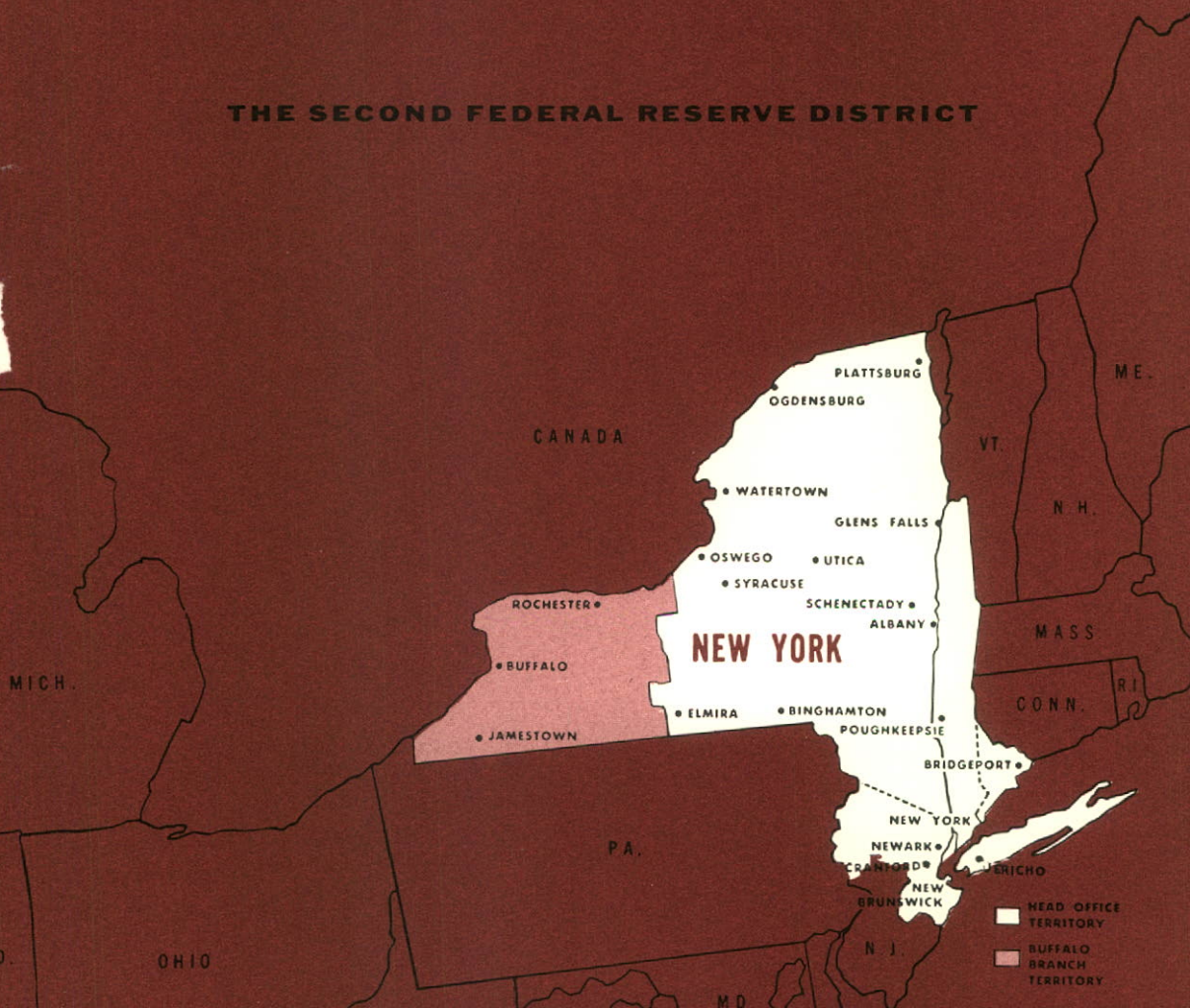
### MANAGEMENT INFORMATION

PETER D. LUCE, *Assistant Vice President*  
*and Cashier*

\*On leave of absence.



## THE SECOND FEDERAL RESERVE DISTRICT



**FEDERAL RESERVE BANK OF NEW YORK**  
**33 Liberty Street**  
**New York, N. Y. 10045**

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