

Twenty-seventh Annual Report

**Federal Reserve Bank
of New York**

For the Year Ended December 31, 1941



Second Federal Reserve District

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**FEDERAL RESERVE BANK
OF NEW YORK**

March 9, 1942.

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

I am pleased to transmit herewith the twenty-seventh annual report of the Federal Reserve Bank of New York reviewing the year 1941.

ALLAN SPROUL,
President.

Federal Reserve Bank of New York

Twenty-Seventh Annual Report

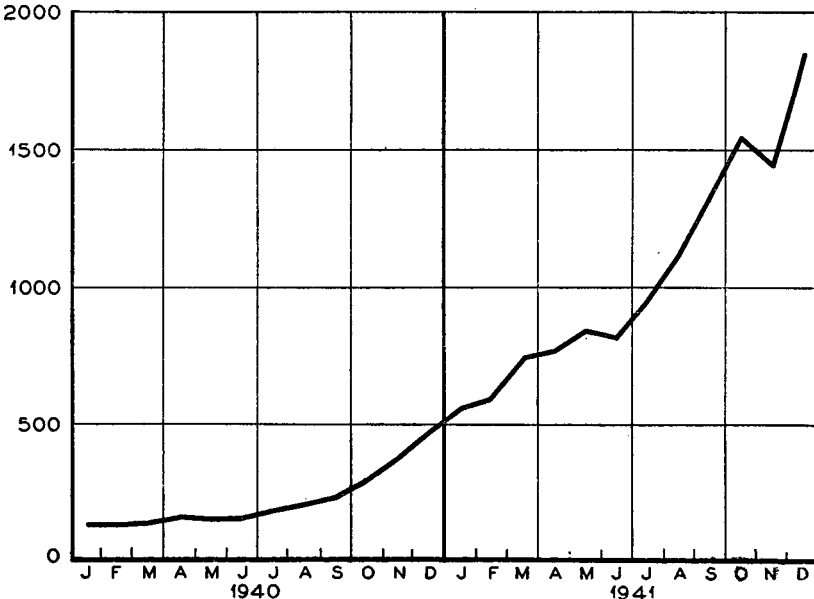
The most important event of 1941 lies mainly beyond the scope of this report. Our entry into the World War last December will have its effects in 1942 and afterwards. Yet it seems best to begin this review with some reference to that momentous event, for it marks the termination of one phase of our experience as well as the beginning of another and establishes the plane of comparison between what has thus far happened and what is yet to come.

Military expenditures in 1941, including the Lend-Lease program, were about \$12,500,000,000 or about one seventh of the National income. But in the fiscal year beginning July 1, 1942, estimated military expenditures, according to the President's budget message to the Congress on January 7, 1942, will be \$53,000,000,000 and total Federal expenditures about \$60,000,000,000. It is hard to grasp figures of this magnitude. These expenditures will result, according to the budget estimates, in a deficit of about \$33,000,000,000 in the fiscal year 1942-43 as compared with \$10,000,000,000 in the calendar year 1941, even if tax revenues, including social security taxes, are raised to \$27,000,000,000 compared with \$9,500,000,000 in the past year.

One effect of our entry into the war has been to terminate the debate about "guns and butter", the debate as to whether the desired military production could be achieved in addition to, or must involve a general and substantial curtailment of, ordinary peacetime production. As matters previously stood it was not easy to resolve this argument. Much depended upon the projected scope of the defense program and upon the speed with which it was to be carried out. Our entry into the war has greatly clarified the problem. We now know beyond question that our military effort will tax our capacity to its utmost and can be accomplished only by drastic curtailment of peacetime production and a lowering of living standards.

In 1941 the main emphasis was still on general expansion, and we departed from "business as usual" only to a limited degree and in special situations. Under the stimulus of the defense expenditures, which rose from about \$600,000,000 in January to three times that amount in December, the National income paid out increased to the

MILLIONS
OF DOLLARS
2000



U. S. Government Expenditures for National Defense Purposes

record-breaking total of \$89,000,000,000, compared with \$76,000,000,000 in 1940, \$71,000,000,000 in 1939, and \$82,000,000,000 in 1929. The expansion was very broad, embracing both durable and nondurable goods, for both military and civilian uses. But as the year went on and the defense program became larger it became increasingly apparent that civilian production and consumption were beginning to compete dangerously with military expenditures. Retail sales in 1941 are estimated at \$53,600,000,000, the increase of 17 per cent over 1940 matching almost precisely the percentage increase in National income payments to individuals. In the first half of the year there was a tremendous wave of durable goods buying by consumers, which was due partly to increased consumer incomes and partly to anticipations of curtailment of output. For the year as a whole sales of durable consumer goods were up 22 per cent over 1940 and nondurable goods 15 per cent.

The rapid expansion of consumer expenditures, together with the prospect of curtailment of the production of a number of kinds of consumers' goods, created, for the first time since the war began in 1939, a definite threat of inflationary developments. The rise of prices apparently accounted for about one third of the expansion of National

income in 1941 and nearly one half of the increase in retail sales. The level of wholesale prices, which after the initial spurt on the outbreak of war had sagged gradually until August, 1940, rose 17 per cent in 1941 and at the end of the year was 25 per cent higher than in August, 1939. This rise was reflected increasingly during the year in the cost of living. After remaining virtually stationary from the beginning of the war through the first quarter of 1941, the cost of living index rose from 101 in March to 110 in November.

Predominant in the advance of wholesale prices was the rise in prices of food and other farm products. These rose 23 per cent and 36 per cent, respectively, in 1941, to levels 35 per cent and 55 per cent above those of August, 1939. The rise in prices of these products constituted the most important cause of increased urban living costs and, in so far as it related to industrial raw materials, contributed to higher costs of producing finished goods. Another important cost and price increasing factor was the advance in wage rates. Average hourly wage earnings in industry increased more than the cost of living. Strikes, many over wage rates, were unusually prevalent. One of our chief inflationary dangers is that of a vicious spiral developing between these two important elements of the price level. A rise in either creates strong pressure for a rise in the other, both exert a powerful influence upon cost of production, including the cost to Government of the war program, and both greatly affect the cost of living of the community in general. Unless means can be found to prevent an indiscriminate rise in industrial wage costs and agricultural prices, as well as in business profits and non-agricultural prices, there is little hope that prices and costs in general can be controlled and inflation prevented.

Our main hope of avoiding inflationary developments which will obstruct the war program and plague us in the postwar period, lies in coordination of all policies which can help to limit costs and close the gap between consumer incomes and the available supplies of consumers' goods. Apart from controls over production, prices, and the distribution of scarce goods, this will require restraint upon the remuneration of groups whose incomes are tending to increase disproportionately, avoidance of credit expansion that would contribute unnecessarily to incomes, and the transfer of much of the community's income from consumption expenditure to the financing of the war. Much more drastic taxation than we have thus far experienced will be required, and the amounts which the Treasury must borrow should be obtained

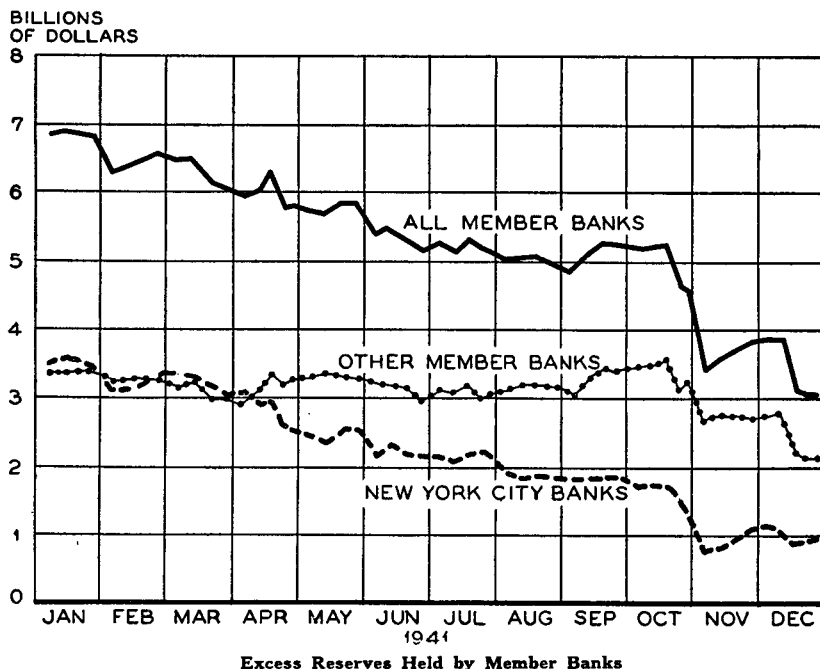
as largely as possible from nonbank sources. At best, however, bank purchases of Treasury securities on a large scale appear to be inevitable during the war period. In view of these considerations the monetary and fiscal developments of the past year are significant.

Monetary and Credit Developments and Policies

Despite a rapid shrinkage during 1941 in the huge volume of excess reserves with which the commercial banking system entered the year, money conditions remained very easy and credit expansion was at a rate that had not been witnessed since the first World War. While a considerable part of the expansion in bank credit was accounted for by bank investments in Government securities, and a smaller part by financing of defense contracts, a further considerable element, apparently, was the financing of inventory expansion and consumer credit, which tended to intensify the demand for goods and thus to accentuate the problem of avoiding inflation. Under these circumstances, a Federal Reserve policy of moderate restraint on credit expansion appeared to be in order and steps were taken, first, to limit extensions of consumer instalment credit, and then to reduce the potential expansion of bank credit generally.

With our entry into the war reconsideration of earlier policies became necessary, but excess reserves of the banks were still abnormally large and short term interest rates relatively low. In fact the entrance of this country into the war had remarkably little effect upon the security markets and money rates, although it did make more immediate the problem of large scale war production and its financing, and also the problem of restraining inflationary tendencies.

The change in the trend of excess reserves during the year bore most heavily on the New York money market. At \$6,900,000,000 on January 15, excess reserves of all member banks were close to the previous peak. From that level there was a shrinkage of nearly \$2,000,000,000 within a period of eight months, and almost all of the shrinkage was at New York City banks. This was due to the combined effects of a heavy outflow of business funds to other parts of the country, net withdrawals of funds from New York through Treasury operations, and a continued upward trend in the volume of currency in circulation. In 1941 these movements were not offset, as in previous years, by a persistent and heavy inflow of foreign gold at New York, although some gold continued to be imported.



The decline in the gold inflow reflected the exhaustion of the major part of the existing British gold stocks, the enactment of Lend-Lease legislation which enabled Great Britain and other countries to obtain supplies from the United States without paying cash "on the barrel-head", and the elimination of France and the Low Countries from the war. For the year as a whole the increase in this country's gold stock was about \$740,000,000, as compared with an increase of approximately \$4,350,000,000 in 1940. (Two thirds of the 1941 increase occurred in the first four months of the year.) Contrariwise, the increase in the volume of currency outstanding was even greater during 1941 than in preceding years, amounting to more than \$2,400,000,000. Another factor in the reduction in excess bank reserves was a further increase in the reserve requirements of banks as a consequence of the continued expansion in the volume of deposits.

Despite the reduction in excess reserves, expansion in the volume of bank credit proceeded at a rapid rate in this District and elsewhere. Commercial and industrial loans of weekly reporting member banks showed the most rapid increase in a number of years, and near the end of 1941 appeared to be at the highest level since the early part of

1931 or the end of 1930. (Precise comparisons are not possible as reports for earlier years were not closely comparable with those collected in recent years.) Among the factors to which the growth in bank loans was attributed were the financing of holders of National defense contracts, requirements for working capital from other industries which are usual in periods of expanding business activity, including borrowing for the purpose of carrying larger inventories, and finally direct or indirect extensions of bank credit for the purpose of extending instalment credit to consumers. Contrary to the usual experience in earlier periods of rapidly expanding business activity, however, there was little change in the volume of bank loans extended for the purpose of financing security speculation and distribution. About one third of the increase in total loans of all weekly reporting member banks, and nearly 40 per cent of the increase in commercial, industrial, and agricultural loans, were reported by New York City banks.

The increase in the loans of the reporting banks for the past year amounted to approximately \$2,000,000,000 or more than 20 per cent. An even larger factor in the expansion of bank credit was a rapid growth in bank investments in Government securities. While steps were taken (discussed in the following section of this report) to raise a larger part of the funds required by the Treasury through taxation and through investment of savings in Government securities, holdings of direct and guaranteed Government obligations by the reporting banks increased by more than \$2,500,000,000 in 1941. This increase reflected in part subscriptions to new issues of Treasury securities, and in part purchases in the market of securities sold by other investors when presumably they were able to obtain new securities which they considered more suitable for their needs. In the first five months of the year the investments of the New York City banks accounted for nearly three fourths of the increase in holdings of Government direct and guaranteed obligations by all reporting banks. During the remainder of the year, however, the position of the New York banks with respect to excess reserves was reflected in a leveling off in their investments, while member banks in other principal cities, where excess reserves were larger, continued to add substantially to their holdings of Government securities.

Altogether, the increase in the total volume of loans and investments of the reporting banks amounted to approximately \$4,600,000,000 during 1941, the most rapid growth of earning assets since the first

World War period. Accompanying this large increase in the volume of bank credit, there was also a very substantial increase in the volume of bank deposits, although in this case the increase was smaller than in loans and investments because of the heavy withdrawals of currency from the banks. Combining the increase in bank deposits with the increase in currency outstanding, the growth in the money supply was also the most rapid since the first World War.

The heavy demand for currency and an increase in member bank reserve requirements (due to the growth in bank deposits as well as to an increase in reserve percentages), caused a substantial shrinkage in member bank excess reserves during the year, especially at New York. The volume of excess reserves remained large nevertheless and credit conditions remained easy. In fact, until August there was a further decline in money rates, both short term and long term. Yields on long term Government and municipal bonds reached new low levels in July, and yields on high grade corporation bonds were not far above the record lows reached in December, 1940. Short term interest rates likewise were, in most cases, at approximately the lowest levels ever recorded. In the latter part of the year, however, there was some rise in short term rates, principally in the Government security market.

MONETARY AND CREDIT POLICIES

In view of these tendencies—rapid expansion of credit and continued decline in money rates—and in view of rapidly rising commodity prices, it appeared in the spring and summer of 1941 that some measure of restraint upon credit expansion would be desirable as one form of attack upon the problem of inflation.

Attention was directed first to restraint upon extensions of instalment credit. The growth in the volume of such credit was tending to accentuate the growth in consumer purchasing power at a time when it was becoming increasingly apparent that consumer demands for some classes of durable goods were conflicting with the National defense program. Production of such goods was rapidly increasing the consumption of raw materials needed for the production of defense materials, the supplies of which were inadequate to cover both defense production and an increasing volume of consumers' goods. The Federal Reserve System was authorized to undertake control of consumer instalment credit by an Executive Order issued by the President of the United States on August 9, under the Trading with the Enemy Act of October

6, 1917, as amended. After extended consideration and hearings at which all interested parties were invited to be represented, the Board of Governors of the Federal Reserve System adopted on August 21, 1941, Regulation "W" to regulate extensions of consumer credit, the regulation to become effective September 1, 1941. The stated purposes of the regulation were as follows:

- (a) To facilitate the transfer of productive resources to defense industries,
- (b) To assist in curbing unwarranted price advances and profiteering which tend to result when the supply of such goods is curtailed without corresponding curtailment of demand,
- (c) To assist in restraining general inflationary tendencies, to support or supplement taxation imposed to restrain such tendencies, and to promote the accumulation of savings available for financing the defense program,
- (d) To aid in creating a backlog of demand for consumers' durable goods, and
- (e) To restrain the development of a consumer debt structure that would repress effective demand for goods and services in the post-defense period.

A supplement to the regulation listed a number of types of consumers' durable goods, to which the regulation initially would apply. In all cases the maximum maturity of instalment payments on such goods was limited to eighteen months, and required down payments in percentages of sales prices were specified, ranging for the various articles from 10 per cent in the case of furniture and pianos, to $33\frac{1}{3}$ per cent in the case of automobiles, motorcycles, aircraft, and power driven boats. In the case of instalment loans made by cash lenders also, the maximum period for the repayment of the loans was fixed at eighteen months.

In most cases the regulation was received by those extending instalment credit in various fields as a sound measure, and an appropriate one under the existing conditions. While the effect of the regulation was obscured in the remaining months of 1941 by curtailment of production of durable consumers' goods and by other factors, such as the levying of substantially higher income taxes, it appeared that the regulation had appreciable effects in preventing further expansion in the volume of instalment credit. It was estimated near the end of the year that repayments of outstanding consumer credit were exceeding extensions of new credit at a rate of something like \$2,000,000,000 a year, whereas in the earlier months of 1941 the expansion of instalment

credit was adding to consumer purchasing power at the rate of about \$1,200,000,000 a year.

In addition to this measure, it was considered desirable to take action to lessen the pressure of the still large volume of idle funds in the banking system, which, both directly, and indirectly (through its effect on interest rates), was tending to promote expansion of bank credit. After extended discussions within the Federal Reserve System and between representatives of the System and the United States Treasury, the Board of Governors announced on September 24 that the percentages which member banks were required to maintain against their deposits would be increased, effective November 1, 1941, to the limits permitted under the Federal Reserve Act, as amended by the Banking Act of 1935. In addition to placing the effective date of the increase more than five weeks ahead, the Board allowed individual banks still more time in which to adjust themselves to the higher reserve requirements by including in its announcement a statement that

“The Board determined that penalties for deficient reserves prior to December 1, 1941 shall be based upon reserve requirements in effect October 31, 1941.”

The following table indicates the increase in percentage reserve requirements that became effective on November 1.

	Percentage required prior to Nov. 1, 1941*	Percentage required on and after Nov. 1, 1941
On net demand deposits:		
Central Reserve City banks	22¾	26
Reserve City banks	17½	20
“Country” banks	12	14
On time deposits:		
All member banks	5	6

*In effect since April 16, 1938.

At the time of this announcement total excess reserves of all member banks were about \$5,200,000,000, and it was estimated that the increase in requirements would result in a decline of approximately \$1,200,000,000 in excess reserves, leaving approximately \$4,000,000,000. For New York City member banks it was estimated that excess reserves would be reduced from about \$1,800,000,000 to approximately \$1,300,000,000.

In view of the fact that this increase in member bank reserve requirements exhausted the existing statutory power of the Board of Governors over reserve requirements, consideration was given to the

question of what further action might be necessary to bring credit expansion under effective restraint, and what further powers the Federal Reserve System would require to enable it to take such action. In this connection the Secretary of the Treasury and the Chairman of the Board of Governors issued the following joint statement.

“The Treasury and the Board of Governors will continue to watch the economic situation and to cooperate with other agencies of the Government in their efforts, through priorities, allocations, price regulation, and otherwise, to fight inflation. Recommendations on the question of what additional powers, if any, over bank reserves the Board should have during the present emergency and what form these powers should take will be made whenever the Treasury and the Board, after further consultation, determine that such action is necessary to help in combating inflationary developments.”

During the remainder of the year, however, it became increasingly doubtful whether further action to reduce excess reserves of member banks would be necessary. The actual volume of excess reserves held by member banks on November 1 was substantially less than that indicated at the time of the Board's announcement of the increase in percentage reserve requirements. New York City banks especially sustained a large reduction in excess reserves, and on November 5, the first statement date following the increase in required reserves, held \$775,000,000 of excess reserves as compared with the earlier estimate of \$1,300,000,000, while all member banks held \$3,410,000,000, or \$590,000,000 less than was estimated in September. For the country as a whole the greater than estimated shrinkage in excess reserves was due chiefly to continued large demands for currency and to a temporary increase in Treasury balances in the Reserve Banks which resulted from the sale of a large issue of Treasury bonds on October 20. In addition, the New York City banks were affected also by substantial withdrawals of funds from them by correspondent banks, and by a continued outflow of business funds to other parts of the country.

RESERVE POSITION OF NEW YORK CITY BANKS; FLUIDITY OF FUNDS

The continued rapid shrinkage in excess reserves of New York City banks gave rise to concern over the future reserve position of those banks, and, consequently, over the outlook in the New York money market—a matter of considerable importance with respect to the most effective use of the banking funds of the country and, therefore, to Treasury financing. It appeared that if influences affecting the reserves

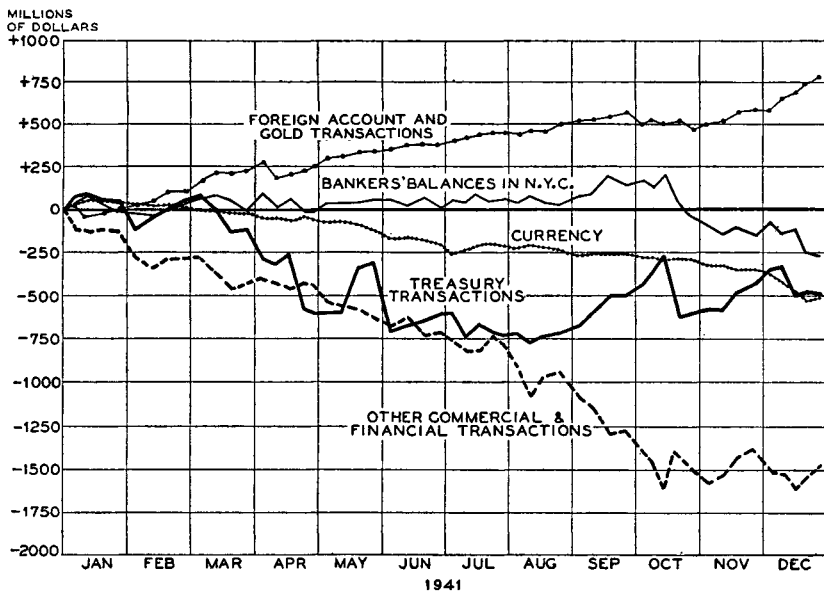
of the New York banks continued to operate as they had during the first ten months of the year, total excess reserves in New York might be reduced to around \$500,000,000 by Christmas, and during the early part of 1942 might disappear entirely. Inasmuch as an important part of the losses of reserves sustained by the New York banks was attributable to an outflow of funds to other parts of the country, however, it appeared that member banks in other parts of the country would continue to hold substantial excess reserves for some time ahead.

In earlier years situations of this kind were readily adjusted by a return flow of funds from other parts of the country to New York. When a tight situation developed in New York, short term open market money rates rose and the higher rates attracted idle money of banks and other potential lenders outside New York. The mechanism by which this equalization of the supply of funds was effected was principally the Stock Exchange call loan market, and, to a lesser extent, the bankers acceptance market. The fact that both of these markets are now largely dormant, however, raised question as to whether the New York money market any longer possessed elements which could insure the former fluidity of funds. The only apparent channel through which such fluidity could be effected was the market for short term Government securities, and it was not considered at all certain to what extent this market could take the place of the call loan and bankers acceptance markets.

Evidence tending to indicate an affirmative answer to this question was not long in appearing. The reduced volume of excess funds in New York, together with larger weekly offerings of Treasury bills, resulted in a rise in yields on such bills from negligible figures to $\frac{1}{4}$ per cent, or slightly higher. It then appeared that there was a very substantial potential market in all parts of the country for Treasury bills when yields rose to, or above that level, and foreign central banks with available deposits in this country also participated in the bidding for the weekly issues. The result was to shift Treasury short term financing away from the New York City banks to a considerable extent and thus to lessen the drain on their reserves.

Partly because of this development in the Treasury bill market the downward trend in the excess reserves of New York City banks, which had persisted from the middle of January to early November, was broken, and the volume of excess reserves in New York, instead

of continuing to decline, actually showed a net gain after November 5 and was close to \$1,000,000,000 at the year end. Another important factor in this gain of funds by the New York market was an increase in the rate of Government expenditures in the New York area. In the last few months of the year it appeared that the rate of Government disbursements in this District, especially payments on defense contracts, was rising rapidly, so that during the weeks between large Treasury bond issues, total Treasury disbursements in New York substantially exceeded current payments from the market to the Treasury and the net disbursement of Treasury funds added to the reserves of the New York banks. A third factor was purchases of Government securities for Federal Reserve account and for Treasury trust accounts in the period of market unsettlement that followed the Japanese attack upon Pearl Harbor. These purchases took place in the interval between the date (December 4), on which two large issues of Government bonds were subscribed and the date (December 15) on which the bonds were to be issued. The primary purpose of these purchases was to ease the effect on the security markets of the entrance of the United States into the war and to aid in the "digestion" of the new issues by the market, but they had the incidental effect of contributing to bank reserves in New York.



Principal Factors Accounting for Movements of Funds Into and Out of Reserve Balances of Member Banks in Second Federal Reserve District (Cumulative since January 1, 1941; (+) = gain to reserve balances, (-) = loss to reserve balances)

Still another factor which contributed to the maintenance of a substantial volume of excess reserves in New York City banks was an increase in the balances maintained by Chicago banks with their New York City correspondents. It was reported that in the closing weeks of the year the Chicago banks increased their deposits with New York City banks by at least \$100,000,000. While the total amount of inter-bank balances in the New York City banks showed some further decline, the transfers of funds to New York by the Chicago banks had the effect of offsetting a considerable amount of withdrawals by other banks. At the year end it was reported that some of the deposits of Chicago banks with New York banks were withdrawn, but other incoming funds served to maintain the excess reserves of New York City banks at that time.

FIRMER TENDENCY IN MONEY RATES

Notwithstanding the relatively comfortable reserve position that was maintained by the New York banks even during the closing months of the year, the shrinkage in the total volume of excess reserves and the prospect of a greatly increased volume of Treasury borrowing produced a somewhat firmer tendency in short term money rates. In addition to the rise in Treasury bill yields previously mentioned, the yields on Treasury notes also rose by about $\frac{1}{4}$ of 1 per cent, and yields on Treasury bonds of short and intermediate maturities rose somewhat.

Long term money rates, however, continued to decline through October, average yields on long term Treasury bonds reaching new low levels in that month. A \$1,500,000,000 issue of $2\frac{1}{2}$ per cent Treasury bonds allotted on October 20, rose promptly to a premium of 3 points or better, despite the fact that the maturity and earliest redemption dates were 14 and 11 years, respectively, beyond those of the last preceding issue on June 2. Following the reduction in excess reserves at the beginning of November, however, the long term security market also showed a somewhat easier tendency and yields increased slightly. This tendency was temporarily accentuated by this country's declaration of war on December 8.

A few days prior to that date the Treasury had announced an offering of approximately \$1,500,000,000 of new securities, including an additional \$1,000,000,000 of the $2\frac{1}{2}$ per cent bonds offered in October and \$500,000,000 of 2 per cent bonds maturing in 10 to 14 years. Immediately after the closing of the subscription books for these issues, a premium

of approximately $1\frac{1}{2}$ points was quoted on both issues, but this premium disappeared rapidly in the days following the Japanese attack on Pearl Harbor.

Early on the morning of Monday, December 8, before the opening of the security markets, two meetings were held at the Federal Reserve Bank of New York in response to calls issued Sunday night after receipt of news of the Japanese attack. One was a meeting of the principal Government bond dealers, and the other was a meeting of the general consultative committee which was organized just prior to the outbreak of war in Europe in 1939. Following the meeting of the general committee, which includes representatives of commercial and savings banks, investment banking firms, and insurance companies, the following statement was issued.

“It was the consensus of the General Committee that the two years since it was established have so conditioned the money and security markets to war developments that no repetition of the difficulties of the earlier period need be expected at this time, and that no serious disturbances in our markets are to be anticipated as a result of the Japanese attack upon the United States.

“The government security market was the subject of special consideration in view of its importance to the national interests and to the credit and banking position. There was general acceptance of the view that responsible factors in the market, as holders of government securities and as subscribers to the new issues now being allotted, would not contribute to any nervous selling which might develop and would, in fact, proceed with their normal investment programs. It was further understood that if any situations of special difficulty should develop, the monetary and credit authorities were able and ready to take care of them, so as to prevent disorderly trading or unwarranted declines in prices.”

On the same day the Board of Governors of the Federal Reserve System issued the following statement.

“The financial and banking mechanism of the country is today in a stronger position to meet any emergency than ever before.

“The existing supply of funds and of bank reserves is fully adequate to meet all present and prospective needs of the Government and of private activity. The Federal Reserve System has powers to add to these resources to whatever extent may be required in the future.

“The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements.

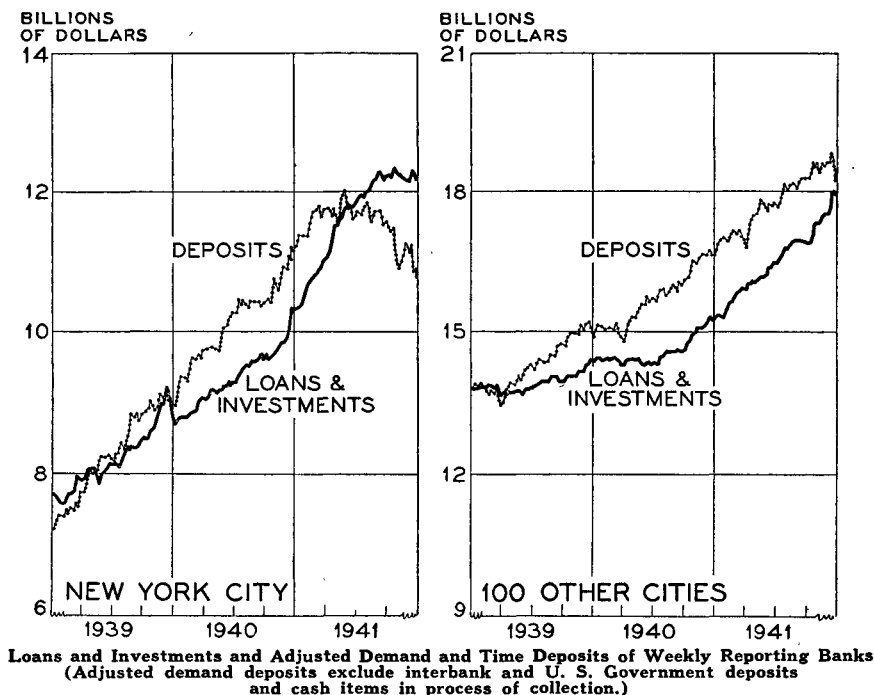
“Continuing the policy which was announced following the outbreak of war in Europe, Federal Reserve Banks stand ready to advance funds on United States Government securities at par to all banks.”

The large New York City banks and insurance companies not only did not contribute to selling of Government securities on that day, but absorbed a substantial amount of sales by other investors in all parts of the country. Selling, especially of the new securities to be issued on December 15 (they were sold on a “when issued” basis), became somewhat more widespread on the two or three following days, and the Federal Reserve System and the Treasury jointly intervened through purchases executed by the Federal Reserve Bank of New York. These purchases facilitated the “digestion” of the new issues, and the market soon steadied. Smaller buying for Federal Reserve and Treasury trust accounts again was necessary on a few days later in the month, when unfavorable war news coincided with year-end “tax-selling” but, on the whole, the performance of the market for Government and other high grade securities was most reassuring in the face of war developments. Selling pressure in the market and “official” support were far less than at the time of the outbreak of the war in Europe in September, 1939. The net increase in the Federal Open Market Account in the four weeks ended December 31 was only \$70,000,000, as compared with an increase of \$400,000,000 in the three weeks ended September 20, 1939.

YEAR-END TENDENCIES IN BANK CREDIT

The somewhat firmer money conditions which prevailed during the latter part of the year, were not the only signs of a change in the credit situation. The substantial decline in the volume of excess reserves of New York City banks affected their attitude toward a further expansion of bank credit, and emphasized the need for a change in the abnormal psychology which had developed during the preceding decade of excessive excess reserves, a decade in which the ordinary means of money market adjustment (call loans, bankers acceptances, etc.) had almost disappeared. Notwithstanding assurances that the Federal Reserve System would use its powers to maintain an ample supply of funds at all times for financing the war effort, there was an apparent reluctance to expand credit without a large cushion of excess reserves. Total loans and investments of the weekly reporting New York City banks tended to become stabilized. Commercial and industrial loans continued to rise fairly rapidly until the middle of October, but showed

only a small net increase thereafter. Total investments of these banks reached their maximum at the end of August. Their holdings of Treasury bonds showed a further rise of approximately \$260,000,000 in the last four months of the year, the principal increases occurring at the time of the large Treasury bond issues on October 20 and December 15, but the aggregate amount of their investments in other Government direct and guaranteed obligations declined about \$400,000,000 in the same period. Holdings of Government guaranteed securities were reduced about \$230,000,000, partly as a result of the conversion of such securities into Treasury notes through a refunding operation near the end of October and partly as a result of the retirement on November 1 of \$100,000,000 of United States Housing Authority notes, most of which were held by the New York banks. Treasury note holdings increased by approximately \$110,000,000, or less than the amount received in exchange for Government guaranteed securities. One of the most significant and encouraging changes in the investments of New York City banks, however, was a reduction in Treasury bill holdings which, after reaching a maximum of \$630,000,000 on July 16, declined to \$309,000,000 at the end of the year. This reduction reflected a desirable change in the



direction of much wider participation in Treasury bill financing by banks in other parts of the country, and by foreign central banks, when rates rose to remunerative levels. At the high point for the year, Treasury bill holdings of New York City banks accounted for nearly 40 per cent of the total volume outstanding, but by the end of the year their holdings had declined to about 16 per cent of the total then outstanding.

As a result of the outflow of funds to other parts of the country during the first ten months of the year, the persistent, heavy demand for currency, and the cessation of expansion in total loans and investments during the year's later months, demand deposits of the New York City banks (adjusted to exclude interbank deposits, Government deposits, and certain other items) after reaching their peak at the end of May, showed a net decline of more than \$1,250,000,000 during the remainder of the year.

In contrast to these tendencies in New York City banks, the total loans and investments of all other weekly reporting member banks in 100 other principal cities throughout the country showed a continued rise during the latter part of the year at approximately the same rate as in the earlier months. Commercial and industrial loan volumes continued to expand, and there were fairly substantial increases in holdings of Treasury bills as well as Treasury bonds. For these banks the peak in "adjusted" demand deposits was reached on December 10, just before the December 15 income tax and Treasury financing date.

At the end of 1941, the outlook for further expansion of bank credit appeared to depend chiefly on the volume of Treasury financing to be done in the months ahead, and the extent to which that financing could be done outside the banking system, although some further increase in bank loans seemed not unlikely. The acceleration of production of military and naval equipment and supplies which followed the entry of this country into the war was certain to require a very much larger volume of Treasury financing than in 1941, and it did not seem likely that even very large increases in the amount of funds derived from taxation and savings could avert the necessity of calling upon the banks to purchase further substantial amounts of Government securities. The outlook for further expansion of bank loans was less clear. On the one hand, it appeared unlikely, because of the restrictions on the availability of raw materials for nondefense industries and on the availability of some types of goods for the retail trade, that there could be as much

demand for the financing of inventory expansion as in 1941, and the volume of consumer credit outstanding appeared to be diminishing. On the other hand, defense industries were still expanding their operations, so that it appeared quite possible that their needs for working capital would increase further, and there was also an expectation that some defense industries, whose current funds had been largely absorbed by increased working capital requirements, might find it necessary to borrow from the banks to obtain funds with which to pay their taxes.

Fiscal Policy

In its efforts to restrain bank credit expansion, and thus to limit the potentially inflationary influence of a rapidly growing volume of bank deposits and currency, Federal Reserve System policy during the past year has supplemented Treasury fiscal policies. The Treasury has consistently advocated financing the greatly increased Government expenditures of the defense program in ways that would limit the volume of Government securities to be absorbed by the commercial banks, and would also tend to reduce the gap between consumer incomes and available supplies of consumers' goods.

The principal step taken by the Treasury toward this end was the issuance of three new series of Defense Savings bonds (as well as Defense Savings stamps), which were designed to meet the requirements of all types of savers, and also to fill, in part, the investment needs of savings institutions and trust funds. Between May 1, when these securities first went on sale, and the end of December, a total of more than \$2,500,000,000 of these securities (cost price) was issued, thus reducing substantially the amount of open market financing to be done by the Treasury. Following the Japanese attack on Pearl Harbor on December 7, there was a sudden spurt in public subscriptions to these securities, especially the "Series E" bonds which are designed particularly for those with relatively small amounts of funds to invest, that is, for the great majority of people. During the remainder of December, the daily rate of sales of these bonds was several times the previous average rate of sales. Total sales of all series of Savings bonds for the month amounted to about \$530,000,000, an annual rate of more than \$6,000,000,000. (This figure was doubled in January, 1942.) Sales of Postal Savings stamps also increased to several times the previous rate, totaling more than \$25,000,000 in December.

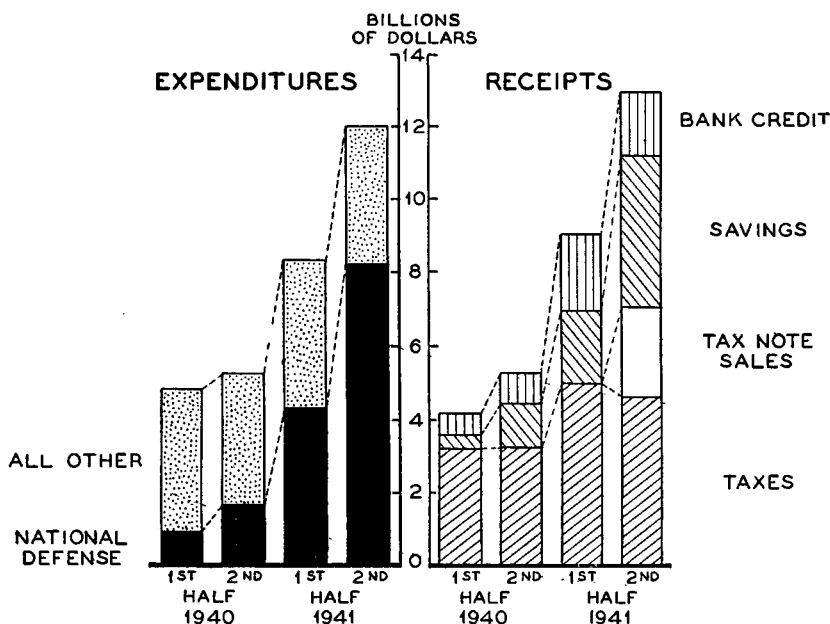
Salary deduction plans under which individual employees instruct their employers to deduct specific amounts from their pay, each pay-day, to accumulate funds for the purchase of Defense Savings bonds, were adopted by a growing number of industrial, commercial, and financial concerns and their employees as the year progressed. The further development of salary deduction plans promises to contribute increasingly to the amount of funds obtained regularly by the Treasury from individual savings. Such salary deductions also have the advantage of absorbing, at the source, some part of current wage and salary incomes which otherwise might be spent and which, in the absence of sufficient production of consumers' goods to meet all demands, would tend to exert an inflationary influence upon prices of consumers' goods.

Shortly after the announcement of the savings bond program, the Treasury recommended to Congress an increase in Federal taxes sufficient to bring tax revenues up to an amount equal to two thirds of the then estimated volume of Government expenditures during the fiscal year 1941-42. After extended consideration in Congress, the Revenue Act of 1941 was drafted and approved on September 20, 1941. This Revenue Act, which included substantial increases in taxes on individual and corporate incomes, new or higher excise taxes on a considerable list of commodities and services, and higher estate and gift taxes, was estimated to produce an increase in Government revenues of at least \$3,500,000,000 in the first full year of its application.

Under this Act personal exemptions were lowered and income tax rates were raised to such an extent that the taxes payable on 1941 income by many individuals in the middle income groups would be three or more times the taxes paid in 1941 on 1940 income. Thus this measure also will have the effect of reducing materially the spending power of a considerable number of individuals. However, it will not affect the much larger number of wage earners and salaried employees whose incomes are not in excess of personal exemptions, credits for dependents, and the earned income credit, even though the income of many such individuals may be much larger than in preceding years, and their spending power increased accordingly. For such individuals (unless their status is changed by tax legislation during 1942), contributions to the financing of the National defense program must take the form, largely, of voluntary participation in the Defense Savings bond program and such abstention from increased spending as this entails.

A third measure, which was adopted by the Treasury and announced in July, was the offering of two series of tax anticipation notes—one designed primarily for the smaller taxpayers, the other for corporation and other large taxpayers. These securities which will yield an income only if presented in payment of income taxes, provided taxpayers with a facility and an incentive for the accumulation of funds for the payment of their taxes, in advance of the dates on which the payments are due. Sales of these tax notes from August 1 to December 31 totaled nearly \$2,500,000,000, and thus provided the Treasury with a substantial amount of funds well in advance of the dates on which the taxes on 1941 income would normally be collected.

Altogether these three measures—the sale of Defense Savings bonds, the increase in Federal taxes, and the sale of tax anticipation notes—provided the Treasury with more than \$5,000,000,000 of funds between May 1 and December 31, 1941, although only a small part of the taxes levied under the Revenue Act of 1941 was payable during the calendar year 1941. The amounts to be raised by the Treasury through the sale of securities in the open market were thus reduced by a corresponding amount, and, to the extent that a larger volume of open market borrowing would otherwise have been necessary, the expansion of bank credit and



U. S. Government Expenditures and Sources of the Financing of Such Expenditures

bank deposits was restricted.

The first part of the accompanying chart indicates the growth of expenditures for National defense during 1940 and 1941, and the second part of the chart shows the approximate amounts of Government expenditures financed through taxes, through savings, and through extensions of commercial bank credit. The figures for savings include not only the amounts received by the Treasury from the sale of United States Savings bonds, but also receipts from the sale of other Government obligations to insurance companies, savings banks, trust funds, and individuals, including social security and other trust funds administered by the Treasury. Differences between aggregate expenditures and aggregate receipts, indicated in the chart, reflect changes in the working balance of the Treasury, which was reduced in the first half of 1940, but was increased considerably during 1941.

Coordination of Credit Policy with Fiscal Policy and Other Government Policies

Ordinarily in a period of rapidly expanding business, especially when there are accompanying indications of a tendency toward a rise in prices, it would be considered appropriate to adopt a strong policy of restraint on expansion of bank credit. Under war conditions, however, those who are responsible for credit policy are faced with a dilemma. Strong action to check credit expansion, by absorbing all surplus bank funds and forcing the banks to borrow from the Reserve Banks to meet further demands on them for credit or currency, would almost inevitably interfere with the war financing which must be done by the Treasury. There is little prospect that the Treasury can avoid reliance upon the commercial banks to provide substantial amounts of the funds required to finance the war effort, and hence that credit expansion can be avoided entirely. Furthermore, a substantial volume of bank loans may be required to finance war contracts. Consequently, the sort of credit policy that would normally be appropriate at a time when inflation is threatened, can hardly be adopted in a war economy.

A possible alternative to quantitative measures of control (measures designed to absorb bank reserves and thus to curtail the lending power of the banks), is the use of qualitative or selective controls over credit. The control of consumer instalment credit previously commented upon is an illustration of this type of credit control. The qualitative or selective type of control does not restrict severely the over-all lending power of the banks, and therefore does not create money market conditions which inter-

fere with necessary financing. It does carry with it, however, other difficulties and dangers which must make its extension a matter of careful study.

In any case, under present circumstances, sole reliance on either quantitative or qualitative credit controls for restraint of inflationary tendencies is not feasible. The total volume of bank deposits and currency in the United States is now so large that, even if it were not added to by further extensions of credit, inflationary developments in prices might be promoted by more active use of the existing money supply. So long as there is a material disparity between consumer income and the available supplies of consumers' goods, there is likely to be inflationary pressure upon prices.

The gap between consumer income and supplies of consumers' goods is beyond the reach of credit policy, but is particularly within the range of fiscal policy. That is to say, the gap may be narrowed by taxation or by the stimulation of savings and their diversion to Government financing. However, fiscal policy also has its limitations. A drastic and indiscriminate increase in taxes, for example, may so reduce the income of groups whose incomes are relatively fixed as to exert a deflationary influence upon industries and services that do not compete with the war effort, while at the same time the net income of other groups, even after provision for taxes, may continue to rise and may continue to exert an inflationary influence on prices of consumers' goods the supplies of which must be limited during the war period. Furthermore, tax policies and efforts to finance war expenditures as largely as possible out of savings, must be considered together, as they will necessarily overlap and conflict to the extent that they draw upon the same sources of funds.

Similarly, it does not seem feasible in this country to place sole reliance for restraint on inflationary tendencies upon price control. Price controls applied to limited groups of prices may retard, but can hardly stop, the rise in prices generally in a war period. On the other hand, an attempt to apply price ceilings to all types of goods and services would involve a tremendous problem of enforcement, especially if the gap between consumer purchasing power and supplies of consumers' goods continues to widen. Price controls may be supplemented by priorities, allocations, or rationing of the available supplies of goods, but even under such circumstances there is great danger of the development of "black markets", which apparently have not been entirely eradicated.

in Europe even where the most drastic efforts to police the distribution of goods have been made.

Furthermore, a policy of relying upon the imposition of arbitrary price ceilings to prevent inflation also involves the difficulty of requiring special action to meet the problem of the high cost producer. It is clearly desirable as one part of an anti-inflationary program, to obtain maximum production, yet the fixing of price ceilings at levels which do not permit operations by high cost producers tends to accentuate the problem, to some extent, by keeping production below the maximum, unless special measures for compensating high cost producers can be devised and made effective.

Thus it appears that there is great need for coordination of all types of possible action that may be effective in restraining inflationary tendencies without interfering with the war effort or with the development of maximum production. Credit policies cannot be adopted without reference to fiscal policies. Fiscal policies cannot be satisfactorily executed without reference to credit policies. And price control and rationing policies must depend heavily upon both credit and fiscal policies. There is need, therefore, in the consideration of any particular line of policy, for adequate consideration of the interrelationships and ramifications of all other types of policy actions.

New Security Issues

Despite the rapid expansion of business activity during 1941, the market for new security issues continued to be only moderately active. A probable explanation lies in the fact that much of the financing of the construction of new plants for production of war materials was done by the Government. Another possible factor may have been the early development of indications that, despite the high level of consumer incomes and consumer spending, especially on durable goods, a number of consumers' goods industries would be forced to curtail, rather than expand, their operations as the defense program progressed. Furthermore, State and municipal governments made less use of the capital market during the latter part of the year than in other recent years.

In the case of corporation security financing, there was evidence of a downward trend in the volume of refunding operations despite strength in the high grade bond market during most of the year. On the other hand, the trend of borrowing to raise new money was upward until December, when there was a sharp falling off in such issues, accompanying the unsettlement of the security markets that resulted from the Japanese attack on Pearl Harbor, and the entrance of this country into the war. For the year as a whole, the volume of "new capital" corporation issues was the largest since 1937, but still was quite moderate compared with some earlier years.

As the following table indicates, the two largest groups of borrowers in the corporate security market during the past year were public utilities and railroads, which together accounted for 63 per cent of the total volume of new capital issues. These two industries also showed the largest increase in borrowing compared with 1940, undoubtedly reflecting the heavy demands for power and transportation growing out of the development of the National defense program. Railroad borrowing consisted largely of equipment trust issues to finance purchases of new rolling stock needed to handle the rapidly growing volume of freight and passenger traffic. Prominent among the remaining borrowers of new capital during 1941 were other industries that also were subject to greatly increased demands for their products, largely as a result of the defense program. These included especially the electrical equipment, oil, and chemical industries, but also the paper, machinery, iron, steel, coal, and copper, aircraft, and rubber industries. Together, such industries accounted for about 22 per cent of the total volume of new capital raised through security flotations during the year. All other industries,

including most of those engaged primarily in producing or distributing consumers' goods, accounted for only 15 per cent of the new business capital raised through security flotations during the year. A summary of new capital issues during 1941 follows.

(In millions of dollars)

Public utilities	397.0
Railroads	252.1
Electrical equipment	59.3
Oil	56.3
Chemicals and drugs	48.0
Paper and pulp	16.6
Machinery	16.0
Iron, steel, coal, and copper	14.9
Rubber	10.4
Aircraft	9.4
Total	880.0
Trade, finance, and miscellaneous industries	157.3
Total new corporate financing	1,037.3

Source: Commercial and Financial Chronicle.

Thus it would appear that most of the new capital obtained through security issues during the past year has been for the purpose of expanding plants and other essential facilities in response to the greater demands arising out of the National defense program, or for working capital required by essential industries to handle their greater volume of business. In some instances, the proceeds of new security issues were used to retire bank loans which had been used temporarily to finance capital expenditures.

State and municipal financing in the security markets continued in about the same volume during the first half of 1941 as in the corresponding period of 1940, but fell off considerably in the latter half of the year. The reduction was especially pronounced in the case of security issues to raise new money, which are reported to have been the smallest, in proportion to the total volume of State and municipal financing in any year for which records are available (since 1919). A Department of Commerce report indicated that the aggregate amount of State and local government indebtedness was reduced in the year ended June 30, 1941, reversing the trend of previous years. Presumably this reduction was accomplished by retirements of outstanding debt in excess of new borrowings. In view of the

shrinkage in flotations of "new money" security issues in the latter part of the year, it seems likely that the net reduction in State and local debt was accelerated. The decline in the total debt of State and local governments was attributed to heavier tax collections, accompanying the rise in the National income, and to reduced expenditures on relief, and may also be attributable in some part to a tendency toward greater economy in local governmental affairs, in view of the great expansion in Federal expenditures and taxation.

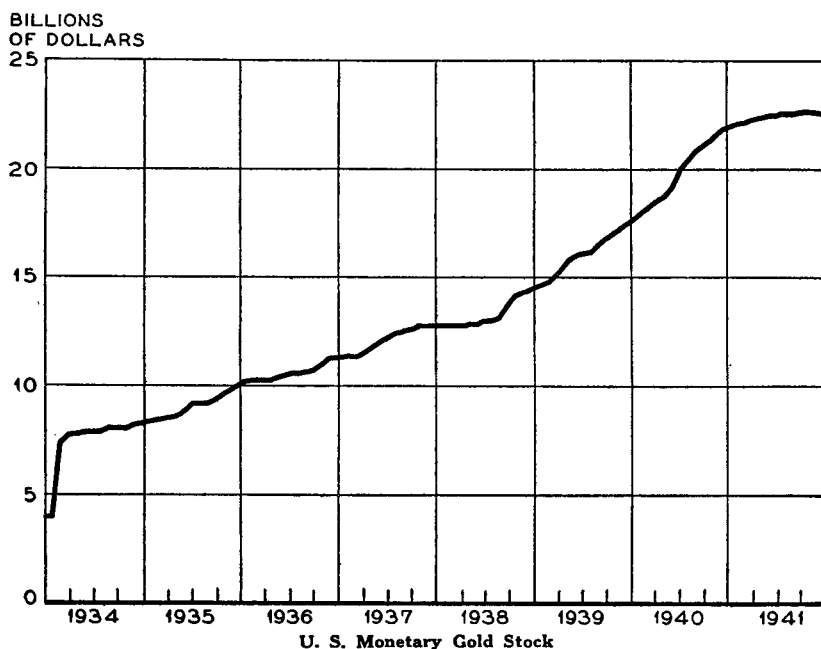
On the whole, it does not seem that the amount of borrowing through the security markets for purposes that may be regarded as nonessential in a war period has been large enough to interfere with the marketing of Government securities, or to divert important amounts of funds from more essential uses. In fact corporation financing, where it is for essential expenditures on plant and equipment, may in many cases be regarded as an alternative to Government financing. It would appear, therefore, that there is not the same need, at this time, for control over new capital issues such as there was during the first World War.

More important than the financial aspects of corporation borrowing is the question of whether the expenditures contemplated when new securities are floated are such as to involve a diversion of scarce materials from more important uses. This aspect of the problem—that of scrutinizing the purposes of new security issues and determining whether or not capital investments in plants and equipment should be made—is closely related to questions of supplies and priorities which are involved in the whole war effort.

Capital and Gold Movements and the Foreign Exchanges

Developments arising largely from the war resulted in profound changes in the balance of international payments of the United States during 1941. With international capital and gold movements, and also foreign trade, now under Government control in most parts of the world, the interplay of factors arising from private enterprise has been replaced by the requirements of National policy as the motivating force in international financial and commercial intercourse. This change, together with certain other war developments, had its manifestation in an abrupt reversal of the inflow of capital from abroad, which had been in evidence for the past seven years—particularly since the Munich crisis in September, 1938. It will be recalled that at that time the tension in Europe gave rise to a general exodus of funds from those European money centers which had been havens for refugee capital.

The reversal of the movement of foreign capital was followed, first by a rapid diminution in, and finally by a moderate reversal of, the accumulation of gold in the United States. In the thirteen months leading up to the outbreak of war, the net gain of gold from abroad amounted to about \$3,500,000,000, and the recorded inflow of capital aggregated nearly \$2,000,000,000. Even after the start of hostilities this movement



continued, not only as a result of the flight of private capital from what were then neutral European countries, but also as a result of the desire of the Allies to accumulate dollar reserves for the purchase of war materiel in this country. However, as one after another of the neutral countries was overrun by the Germans, their gold and other means of foreign payment became immobilized. Furthermore, the American "freezing" of certain foreign funds already in this country discouraged further transfers from abroad. As a result, the movement of gold and capital from those countries, from which the bulk of the previous inflow had come, was brought to a halt.

Meanwhile, however, the British Empire was obliged to undertake a large scale liquidation of its gold reserves in order to finance the heavy buying program abroad, which was inaugurated after the fall of France. Therefore, despite the suspension of the gold shipments from the erstwhile neutrals, the gold movement to this country continued, even surpassing the previous rate. Since the proceeds of these gold sales were largely used for the purchase of war materials, however, there was no corresponding accumulation of foreign capital here. Between the end of May, 1940 and the end of January, 1941, the net gain of gold from abroad was at a monthly rate of \$350,000,000, as compared with \$275,000,000 a month during the relatively inactive phase of the war, when the smaller European countries were liquidating their gold reserves. By January, 1941, however, the British gold holdings, which had amounted to about \$2,000,000,000 at the outbreak of the war in 1939, had been reduced to less than \$300,000,000. Consequently, with the remaining European gold reserves immobilized and the British holdings seriously depleted, the movement of gold to this country after January became limited largely to the new production of the British Empire and Latin America. The only principal exception to this was the series of gold shipments from Russia, which began following the German attack on Russia in June. These shipments, however, were relatively small, receipts in this country up to the end of November amounting to about \$20,000,000.

Concurrent with the curtailment of imports of gold from abroad during 1941, there was some accumulation of dollar balances to the credit of certain foreign countries and a growing tendency on the part of some of these countries, as well as of countries which already had dollar balances here, to convert these idle dollars into gold. As a result, during the last two months of 1941, our monetary gold stock was actually

reduced slightly for the first time since January, 1938.

The reversal in the international movement of capital during the year, represented largely a direct conversion of dollar balances into goods and gold, and not a conversion of such balances into foreign currencies which would accompany an actual transfer of funds abroad. The suspension of the gold and capital inflow from the continental European countries in 1940 resulted only in a slowing down of the accumulation of foreign holdings of dollar assets. It was not until around the end of 1940 when the British gold reserves were becoming depleted and the British authorities began to rely more heavily on a liquidation of their holdings of American investments to cover their huge dollar requirements, that the actual reversal in the capital flow and an actual reduction in the aggregate amount of foreign capital in this country began. During the first ten months of 1941, reported net sales of British-owned American securities amounted to \$223,700,000. This selling, which raised to \$373,000,000 the liquidation since February, 1940, when the first bloc of private British holdings of American securities was requisitioned by the British Government, was, of course, heaviest prior to the time Lend-Lease shipments began. The peak was reached in March, when \$68,900,000 of American securities were sold by the British. As a result of the liquidation, British holdings of marketable American securities, which had an estimated value of \$950,000,000 at the outbreak of the war, amounted to only an estimated \$372,000,000 on September 1, 1941, according to data released in the hearings on the second appropriation bill under the Lend-Lease Act. Of this amount only about \$75,000,000 was considered available for liquidation. The need for dollar exchange also resulted in the sale during 1941 of British interests in the American Viscose Corporation and of a substantial part of their interest in the Brown and Williamson Tobacco Company, which together provided about \$80,000,000. By the end of last August the gold and dollar resources of the United Kingdom, excluding securities which had been lodged up to that time against an advance by the Reconstruction Finance Corporation, amounted to \$1,527,000,000 as compared with a total of \$4,483,000,000 at the start of the war. Furthermore, only \$372,000,000 of the amount still held at the end of last August was considered as "available." The remainder consisted of privately held dollar balances believed to be at a minimum necessary for the conduct of business, reserves of British insurance companies against their liability to American policy holders, and securities and direct investments still

to be pledged, either as to principal or income, against further advances by the Reconstruction Finance Corporation.

Although the shrinkage in the amount of foreign capital in this country resulting from the liquidation of British dollar assets dwindled to small proportions just after Lend-Lease operations got under way, the movement continued and actually increased during the remainder of the year as a result of the previously mentioned conversion of dollar holdings of other countries into gold. It should be noted, however, that in this case also the resulting reduction in foreign dollar funds represented an "outflow" of funds only in the sense that foreigners held fewer dollars as a result of these conversions.

The past year also witnessed many shifts in the ownership of foreign capital in this country, primarily because the gradual extension of the American "freezing" regulations led to fears of their further extension. This was exemplified in the repatriation of private Swiss capital, which began after the fall of France and continued during the first half of 1941, or prior to the Executive Order of June 14, 1941, blocking all continental European accounts. For the period from January 1 to October 29, 1941, the last date for which published data are available, the reported "outflow" of all types of Swiss-owned or Swiss-held capital, including the net liquidation of \$17,100,000 of Swiss-held American securities, amounted to \$95,400,000. In this connection, however, it should be noted that, in order to stabilize the Swiss franc vis-a-vis the dollar, the Swiss National Bank absorbed a considerable part of the dollars offered by private Swiss holders anxious to bring home their funds. Since this led merely to a shift of dollars from private Swiss to official Swiss accounts, the reported movement of all Swiss funds understates the actual amount of dollars which left private Swiss hands.

In addition to the repatriation of private foreign funds, there were also transfers of foreign capital to the ownership of third countries or their nationals during the early months of 1941, in anticipation of the "freezing" in this country of additional foreign property. However, to the extent that these dollar assets were taken up by other foreigners, whose accounts were considered less likely to be blocked, there was no net movement of capital between the United States and abroad. Latin America was probably the chief recipient of the dollars offered by those seeking to avoid a blocking of their accounts.

The reported figures on the movement of capital between the United States and all foreign countries during the first ten months of 1941 indicated a net "outflow" of \$224,400,000, the components of which are summarized in the accompanying table below. Since this movement continued during the remainder of the year, the reported "outflow" for 1941 as a whole was considerably larger. Furthermore, there were other factors—not entirely reflected in reported data—which contributed toward an outward movement of capital comparable only with the huge lending operations of the Government during the last war. Chief among these factors has been the operation of our Lend-Lease program which has resulted in a special type of capital export. Obligations assumed under this program largely have taken the place of previous, heavy gold imports as an offset to our merchandise export surplus in the balance of payments. In addition, the extensive financial assistance given foreign countries by the American Stabilization Fund, the Reconstruction Finance Corporation, and the Export-Import Bank, has given rise to a large actual or potential export of capital. In 1941, the Export-Import Bank made \$183,000,000 of new commitments, mainly to Latin America.

**Movement of Capital between the United States and
Certain Foreign Countries or Areas**

January 2 to October 29, 1941 (a)

(In millions of dollars; capital inflow + or outflow —)

	Banking funds	Security transactions (b)	Total
United Kingdom	+85.8	—225.0	—139.2
France	—26.7	+ 8.3	— 18.4
Germany	+ 3.9	— 1.2	+ 2.7
Italy	— 2.1	— 3.0	— 5.1
Netherlands	— 9.9	+ 5.7	— 4.2
Switzerland	—74.3	—21.1	— 95.4
Other Europe	— 1.6	+ 5.9	+ 4.3
Total Europe	—24.9	—230.4	—255.3
Canada	— 7.1	— 14.4	— 21.5
Latin America	—14.9	+ 8.7	— 6.2
Asia	+15.6	+ 9.1	+ 24.7
All other	+33.2	+ 0.7	+ 33.9
Grand total	+ 1.9	—226.3	—224.4

(a) Source: United States Treasury Department; published figures available through October 29.

(b) Including changes in foreigners' brokerage balances.

The principal recipients of this financial aid were Mexico (which was granted \$30,000,000 in connection with the far-reaching American-Mexican economic and financial agreements reached last November), Cuba, and Colombia.

The Reconstruction Finance Corporation also made a number of sizable loans and advances to anti-Axis nations, including a \$425,000,000 credit extended in July, 1941 to the British Government, secured by British holdings of American securities and direct investments in this country. Operations of our Stabilization Fund included the signing of an agreement with China, announced on April 25, providing for the purchase by the Stabilization Fund of Chinese yuan against dollars to the amount of \$50,000,000. These funds, together with a \$20,000,000 contribution from the Chinese Government banks and £5,000,000 advanced by the British authorities, will be used to stabilize the yuan vis-a-vis both the dollar and the pound sterling. Under the November agreements \$40,000,000 was also made available by the Stabilization Fund to Mexico for the stabilization of the Mexican peso.

By the end of the year, only a part of the credits extended had been drawn upon. Even in cases where the funds had been actually advanced, they had not been fully utilized. When these funds are spent, a capital "outflow" will result. It should be emphasized, however, that, like the conversion of dollars mentioned above, this will largely represent an "outflow" only in the sense that the funds will leave foreign hands. Since the funds which are being made available will be

Reported Movement of Capital between the United States and Foreign Countries (a)
(In millions of dollars; capital inflow + or outflow —)

	Total capital movement	Banking funds			Security transactions			
		Total	Central bank funds in N.Y. (b)	Other	Total	Domes- tic securities	Foreign securities	Broker- age bal- ances
1935.....	+ 1,413	+ 965	+ 10	+ 955	+ 448	+ 317	+ 125	+ 6
1936.....	+ 1,196	+ 397	+ 71	+ 326	+ 799	+ 601	+ 191	+ 7
1937.....	+ 802	+ 256	+ 163	+ 93	+ 546	+ 245	+ 267	+ 34
1938.....	+ 434	+ 318	— 5	+ 323	+ 116	+ 58	+ 58	—
1939.....	+ 1,177	+ 1,146	+ 304	+ 842	+ 31	— 86	+ 84	+ 33
1940.....	+ 706	+ 853	+ 658	+ 195	— 147	— 245	+ 78	+ 20
1941 through Oct. 29....	— 224	+ 2	+ 133	— 131	— 226	— 267	+ 41	—

(a) Source: United States Treasury Department; published figures available through October 29.

(b) Including funds in accounts transferred from central bank to government names.

used largely for purchases in this country, the "outflow" will, in effect, be primarily in the form of exports of goods rather than the exchange of dollars into foreign currencies. As a result there is not likely to be any pressure on the external value of the dollar or any deflationary effect on our domestic economy, such as a large repatriation of foreign capital and a large outflow of gold might have.

FOREIGN EXCHANGES

Wartime economic and financial restrictions had further paralyzing effects on the foreign exchange market during 1941. The principal factor in this development, at least as far as the New York market was concerned, was the gradual extension of "freezing" regulations issued by the United States Treasury, which eliminated one currency after another from the list of actively traded foreign exchanges until, by June 14, even trading in the currencies of the neutral European countries—Switzerland, Sweden, Portugal, and Spain—became subject to license. Thereafter, such unrestricted trading as still existed in this market was confined largely to a few leading Latin American currencies. Even in the case of these, foreign exchange controls in most of Latin America canalized a large part of the transactions through the official markets.

The disappearance from the New York market of active dealings in other foreign currencies naturally resulted in added interest here in Latin American exchanges, but this was by no means the only factor in this development. Perhaps of more importance was the strengthening of ties between the Latin American currencies and the dollar, resulting from the lending operations of American Government agencies and from the shift in Latin American trade from continental Europe to the United States. Shipping difficulties and the blockades had effectively cut off these countries from important European markets, which before the war had absorbed a large part of their exports. By the end of 1941, however, American buying of strategic raw materials from Latin America, together with our lending operations, had gone far to compensate for the loss of the European markets. The exchange position of certain Latin American countries was also strengthened to some extent during the past year by an inflow of foreign funds, withdrawn from the United States in anticipation of extensions of "freezing" regulations here to the funds of additional countries. All of these factors combined to bring about a recovery in the Latin American exchanges from the initial disruptions caused by the outbreak of war in Europe.

The Cuban peso—one of the few Latin American currencies not subject to rigid foreign exchange control at home and therefore usually more sensitive to changing conditions—showed a substantial appreciation vis-a-vis the United States dollar during 1941. This improvement started early in the year, and by the latter part of March the discount on the Cuban exchange, which amounted to 8½ per cent on January 2, had narrowed to 3½ per cent, accompanying expectations of an Export-Import Bank credit and an improving trade position, due largely to the wartime demand for sugar. In late December the peso actually went to a slight premium in terms of the dollar for the first time in a number of years.

Argentina's exchange position also appears to have been materially strengthened during the year. Evidence of this improvement was found in steps which were taken in the latter part of the year by the Argentine authorities to liberalize the granting of exchange for imports. In the free market, the dollar rate for the Argentine peso was firm during most of the year. The Chilean peso and the Brazilian milreis also held steady to firm in terms of the dollar during the year. The most pronounced appreciation in Latin American currencies during the year occurred in the free rate for the Venezuelan bolivar and the noncontrolled rate for the Uruguayan peso. The former showed a net gain of 15 per cent for the year as a whole, and the latter rose 34 per cent during the year.

The position of the Mexican peso was further fortified substantially by the November American-Mexican accords, including the above mentioned stabilization agreement. Following this agreement it was reportedly announced by the Mexican Finance Minister that Mexican exchange would be stabilized at 4.85 pesos to the dollar, or equivalent to \$0.2062, virtually the same as the level which had been maintained throughout the year.

The unofficial rate for the Canadian dollar fluctuated within a rather wide range in 1941. The low for the year was reached in January, when the rate declined, in a thin market, from \$0.8600 to \$0.8275. The winter tourist demand, however, soon brought about some improvement, which was greatly accelerated in April by market rumors—subsequently denied—that the Canadian dollar would be brought to par with the United States dollar. By mid-April the unofficial rate for the Canadian dollar had risen to \$0.8888. First, the economic agreement between the United States and Canada, announced on April 20, and

then the development of the summer tourist demand, helped to hold the unofficial quotation fairly close to the official rate until the latter part of 1941. In December the unseasonal slack in the tourist trade due to the entrance of the United States into the war, together with year-end liquidation of American-held Canadian investments and balances, appears to have been largely responsible for some depreciation which brought the unofficial rate back to \$0.8600 at the end of December, the same rate at which this exchange closed 1940.

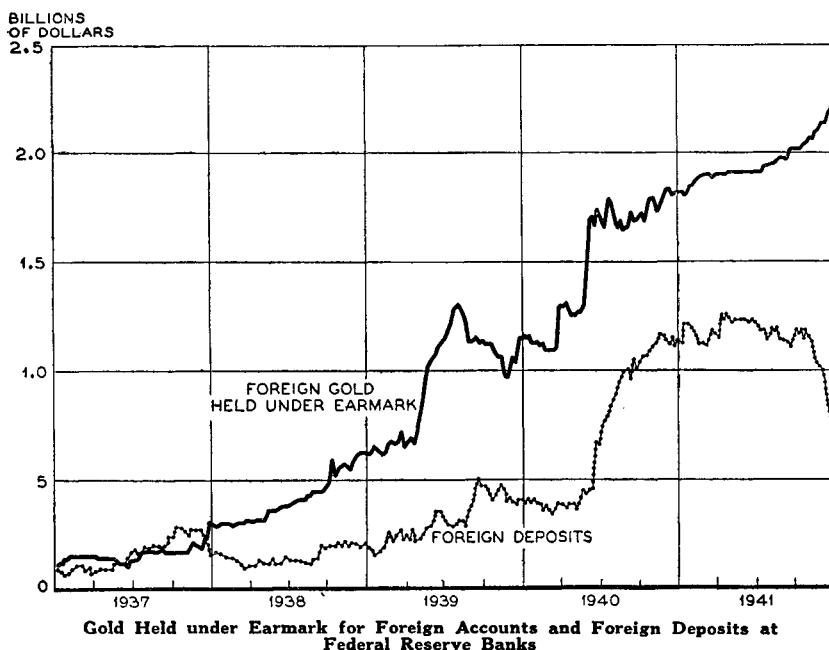
Probably the most significant foreign exchange development in the Far East was the series of steps taken to stabilize the currency of the Chinese National Government at Chungking. This began with the conclusion in April, 1941 of the agreement among the American, British, and Chinese Governments, under which, as mentioned above, the American Stabilization Fund undertook to make \$50,000,000 available for the stabilization of the yuan; the four Chinese Government banks, \$20,000,000; and the British Treasury, £5,000,000. The Stabilization Board, set up to manage the new fund, on August 18 fixed a rate of 5 11/32 cents and 3 3/16 pence for exchange cover for legitimate imports from the United States and from the sterling area, but a "black market" developed in Shanghai and the Chinese yuan continued to depreciate in that market, reportedly declining to below 3 cents. However, as a result of the cooperation of American and other anti-Axis banks in China and of a tightening of the control over Chinese accounts in this country, which was designed to supplement and strengthen Chungking's control over the yuan, Shanghai "black market" dealings in the yuan had been greatly reduced by the time of the entrance of the United States into the war.

Foreign Relations

After reaching a new high level of \$1,280,737,000 on April 22, 1941, the total of foreign deposits with this bank fell to \$771,625,000 at the end of the year, compared with \$1,130,945,000 at the close of 1940 and \$397,380,000 at the close of 1939. Gold held under earmark for foreign accounts rose fairly steadily and attained a new high record at the end of the year, amounting to \$2,215,351,000 on December 31, 1941, compared with \$1,807,673,000 a year previous and \$1,163,004,000 at the close of 1939.

There was no change during 1941 in the balances which this bank holds abroad for its own and other Federal Reserve Banks' accounts; the total of such balances remained at approximately \$46,700. No commercial bills denominated in foreign currencies have been held abroad since October, 1939.

The short term loans, secured by gold earmarked at this bank, which had been made to a Latin American central bank in 1940 and which were outstanding at the end of that year in an amount of \$947,000, were fully repaid early in 1941. Only one small loan—of \$200,000 to the same central bank—was made in 1941, and this loan was repaid before the close of the year.



Operations of the Bank During 1941

GROWTH OF FISCAL AGENCY OPERATIONS

The war situation and the development of the National defense program caused a great expansion in the work performed by this bank as fiscal agent of the United States during the past year. The personnel of the Government Bond Department was expanded between three and four times during the year, in order to handle the great increase in the volume of Treasury financing and the introduction of new types of Government securities. In the case of the Foreign Property Control Department (the organization of which was reported in the Annual Report of this bank for 1940) the number of employees increased at the end of 1941 to nearly three times the number at the end of 1940. In addition there has been a great expansion in the work of the Reconstruction Finance Corporation Division and a considerable growth in the volume of work in other departments, which was related in part to the extended activities of the departments just mentioned.

As the table on page 43 shows, the total number of United States Government securities issued, redeemed, and exchanged at this bank was more than three times as great in 1941 as in 1940. The major part, but not all, of the increase was accounted for by issues of Defense Savings bonds. Nearly 1,686,000 of Series E Savings Bonds were issued through commercial and savings banks, savings and loan associations, and other organizations that qualified as issuing agents. In addition 660,000 of Series E, F, and G Defense Savings Bonds, and Series D Savings Bonds (which they supplanted) were issued directly by the Government Bond Department of this bank during the year, making a total of 2,346,000 bonds. The total purchase price of these bonds was approximately \$832,000,000, as compared with \$73,500,000 of savings bonds issued by this bank in 1940.

In order to keep abreast of the demand for Defense Savings bonds after the sudden spurt in sales that followed the Japanese attack on Pearl Harbor and the entrance of the United States into the war, it became necessary to add a partial night shift to handle the work of the Government Bond Department at the end of the year. This spurt in the demand for Savings bonds was of such magnitude as to exhaust in rapid succession the supply of bonds in the hands of issuing agents, the Federal Reserve Banks, and finally the Treasury itself. In order to overtake the demand, the Government Printing Office increased its

operations in the printing of new bonds to a three-shift basis, and in this bank the staff of the Government Bond Department was considerably enlarged to enable it to distribute bonds to issuing agents as fast as they were received from the Treasury. Despite these efforts, there were temporary shortages in the supply of Defense Savings bonds of the smaller denominations, and it became necessary for issuing agents to ask subscribers to wait a few days for delivery of their bonds. Shortly after the close of the year, however, the shortage of bonds was eliminated, despite a continued increase in the demand.

The work of the Government Bond Department was still increasing at the end of the year, primarily because of a rapid increase in the number of financial and business concerns that had arranged to make regular deductions from the salaries and wages of their employees who wished to accumulate funds for the purchase of Defense Savings bonds.

The successive extension of the "freezing" regulations to additional countries and their nationals was responsible for the great enlargement in the work of the Foreign Property Control Department in 1941. The number of applications for licenses to permit transactions involving blocked accounts reached a maximum of about 2,000 a day in 1941, as compared with a maximum of about 800 a day in 1940. The total number of applications handled by the department during the past year was close to 250,000. In addition, the department received and forwarded to the Treasury, and filed copies of, approximately 360,000 reports (on Form TFR-300) from banks, business organizations, and individuals, listing the property of foreigners in this country.

Expansion in the work of the Reconstruction Finance Corporation Division during the past year was accounted for largely by work performed for subsidiaries of that Corporation, such as the Metals Reserve Corporation, the Rubber Reserve Corporation, the Defense Supplies Corporation, the Defense Plant Corporation, the Defense Homes Corporation, and the Surplus Commodities Corporation. The work consisted of making and receiving payments for these corporations, checking documents, and maintaining records of transactions. In addition, the division made payments and received collateral in connection with the Reconstruction Finance Corporation loan to Great Britain against the security of British investments in the United States. Most of these activities were new in 1941, and were in addition to work previously performed in connection with the lending operations of the Corporation.

OTHER OPERATIONS

There was also a moderate increase in the volume of transactions in other departments of the bank, the work of which can be measured readily by recording the number and amount of transactions. The speeding up of industry because of the demands of the defense program had a decided effect upon the number and dollar amount of checks, currency, and coin handled, and of wire transfers of funds. Lending operations of the bank in 1941 for the first time in several years showed an increase over the previous year, although the volume of loans was still comparatively small. A new activity was the work

	1941	1940
Number of Pieces Handled†		
Bills discounted:		
Applications	613	506
Notes discounted	767	569
Industrial advances:		
Notes discounted	2	4
Commitments to make industrial advances	4	1
Currency received and counted	707,022,000	674,867,000
Coin received and counted	1,165,826,000	952,255,000
Checks handled	229,994,000	215,326,000
Collection items handled:		
United States Government coupons paid*	4,733,000	4,709,000
All other	1,950,000	1,909,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations	3,746,000	1,144,000
All other	247,000	236,000
Wire transfers of funds	182,000	180,000
Amounts Handled		
Bills discounted	\$82,249,000	\$35,431,000
Industrial advances:		
Notes discounted	25,000	35,000
Commitments to make industrial advances	1,205,000	10,000
Currency received and counted	3,444,867,000	3,114,447,000
Coin received and counted	124,163,000	100,830,000
Checks handled	97,404,120,000	79,649,341,000
Collection items handled:		
United States Government coupons paid*	601,755,000	571,898,000
All other	1,760,296,000	1,595,295,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations	19,567,068,000	12,324,357,000
All other	2,442,628,000	1,457,309,000
Wire transfers of funds	37,340,974,000	29,770,676,000

* Includes coupons from obligations guaranteed by the United States.

† Two or more checks, coupons, etc., handled as a single item are counted as one "piece."

in connection with the adoption of Regulation W by the Board of Governors of the Federal Reserve System, governing extensions of consumer instalment credit. In addition to the actual work of administering the regulation, a serious effort was made, through meetings held in various parts of the District, and through correspondence and interviews, to assure an adequate understanding of the regulation by banks, retailers, and other lenders of instalment credit.

FINANCIAL STATEMENT

Total earning assets ("total bills and securities") of the New York Reserve Bank showed a net reduction of \$53,900,000 during 1941. This decrease reflected mainly a further relinquishment of Government direct and guaranteed obligations in favor of other Federal Reserve Banks through the regular quarterly readjustments of participations in System

(In thousands of dollars)

ASSETS	Dec. 31, 1941	Dec. 31, 1940
Gold certificates on hand and due from U. S. Treasury	\$ 8,164,207	\$ 9,757,527
Redemption Fund—Federal Reserve notes	1,047	972
Other cash	46,842	51,324
Total reserves	\$ 8,212,096	\$ 9,809,823
Bills discounted:		
Secured by U. S. Government obligations, direct and guaranteed	\$ 615	\$ 245
Other bills discounted	75	491
Total bills discounted	\$ 690	\$ 736
Industrial advances	\$ 1,098	\$ 1,756
U. S. Government securities, direct and guaranteed:		
Bonds	\$ 385,295	\$ 379,573
Notes	204,177	265,782
Bills	2,724	
Total U. S. Government securities, direct and guaranteed	\$ 592,196	\$ 645,355
Total bills and securities	\$ 593,984	\$ 647,847
Due from foreign banks	\$ 18	\$ 18
Federal Reserve notes of other banks	4,493	4,773
Uncollected items	316,326	234,525
Bank premises	10,507	9,701
Other assets	11,148	13,228
Total assets	\$ 9,148,572	\$10,719,915

Open Market Account security holdings. Total security holdings of the Federal Reserve System as a whole expanded slightly after the United States became involved in the war in December, and at the end of 1941 were higher than at the end of 1940. The remaining part of the decrease in this bank's earning assets during 1941 was caused by a further decline in industrial advances and in loans to member banks; while lending activities increased slightly over 1940, the amount of loans outstanding at the close of the year was somewhat smaller than a year previous.

The further expansion in Federal Reserve notes in circulation—the major component of total currency outside the Treasury and Reserve Banks—apparently was caused mainly by increased business activity, due to the rearmament program, and its related factors of enlarged payrolls, higher salaries and wages for individual workers, and higher commodity prices. Accompanying this business activity and larger deposits, banks in general were obliged to keep on hand more “till money” for customers' use, and, as usual in wartime, hoarding by foreigners and others was also a factor of some importance.

(In thousands of dollars)

LIABILITIES	Dec. 31, 1941	Dec. 31, 1940
Federal Reserve notes in actual circulation . . .	\$ 2,110,650	\$ 1,576,404
Deposits:		
Member bank—reserve account	\$ 5,639,629	\$ 7,556,979
U. S. Treasurer—General Account	220,654	131,605
Foreign	306,991	633,979
Other deposits	475,283	492,197
Total deposits	\$ 6,642,557	\$ 8,814,760
Deferred availability items	\$ 266,815	\$ 201,083
Other liabilities	143	175
Total liabilities	\$ 9,020,165	\$10,592,422
Capital accounts:		
Capital paid in	\$ 51,806	\$ 51,096
Surplus (Section 7)	56,651	56,447
Surplus (Section 13b)	7,070	7,070
Other capital accounts	12,880	12,880
Total capital accounts	\$ 128,407	\$ 127,493
Total liabilities and capital accounts . . .	\$ 9,148,572	\$10,719,915
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	93.8%	94.4%
Commitments to make industrial advances	\$ 460	\$ 700

The reserve account of member banks was drawn down nearly \$2,000,000,000 during 1941, chiefly because of the transfer of funds to other Federal Reserve Districts through commercial and financial transactions (discussed in a preceding section of this report), and the heavy demand for currency. This outflow of funds and a net reduction of \$327,000,000 in foreign deposits were the principal causes of a decrease of \$2,172,000,000 in total deposits.

Accompanying the reduction in member bank reserve balances, this bank's gold certificate holdings dropped \$1,593,000,000, mainly through settlements for funds transferred to other districts.

INCOME AND DISBURSEMENTS

In 1941, current net earnings of \$3,440,000 were considerably less than in 1940, owing to reduced income and to increased expenses—total earnings were \$1,570,000 less than in 1940, and net expenses were

Profit and Loss Account For the Calendar Years 1941 and 1940 (In thousands of dollars)

	1941	1940
Earnings	\$ 11,415	\$ 12,985
Net expenses	7,975	7,341
Current net earnings	\$ 3,440	\$ 5,644
Additions to current net earnings:		
Profits on sales of U.S. Government securities	\$ 386	\$ 3,408
All other	9	638
Total additions	\$ 395	\$ 4,046
Deductions from current net earnings:		
Losses and reserves for losses on industrial advances (net)	\$ 50	\$ 103
Special reserve on bank premises	480	
All other	3	32
Total deductions	\$ 533	\$ 135
Net earnings	\$ 3,302	\$ 9,555
Dividends paid	\$ 3,098	\$ 3,065
Transferred to surplus (Section 7)	204	6,529
Transferred from surplus (Section 13b)		—39
Surplus (Section 7) beginning of year	\$ 56,447	\$ 53,326
Addition as above	204	6,529
	\$ 56,651	\$ 59,855
Transferred to other capital accounts		3,408
Surplus (Section 7) end of year	\$ 56,651	\$ 56,447

\$634,000 more than in 1940. The reduction in gross earnings was due to a smaller amount of earning assets held throughout the year. Increased expenses were incurred because of the cost of printing more Federal Reserve notes to meet the increase in circulation, and because of additional expenditures for postage and expressage, printing and supplies, supplemental compensation to employees, larger assessments by the Board of Governors of the Federal Reserve System, and many other items of expense in connection with the greater volume of work in the bank.

The additions to current net earnings, almost entirely profits of \$386,000 on sales of United States Government securities, were much smaller than in 1940, and were somewhat exceeded by deductions from current net earnings for losses and reserves, leaving net earnings of \$3,302,000 which compares with \$9,555,000 in 1940. Notwithstanding the fact that net earnings were substantially reduced during 1941, there was a sum sufficient to provide for payment of the usual 6 per cent dividend to member banks, amounting to \$3,098,000, and for the transfer of \$204,000 to ordinary surplus.

Membership Changes in 1941

The revival of interest in membership in the Federal Reserve System on the part of State chartered banks and trust companies, which began in 1940, continued throughout 1941, with the result that forty such banks in the Second Federal Reserve District became members during the year. This was the largest annual increase in number of member banks for any year since 1918. Including National banks, which are required by the Federal Reserve Act to be members, the member banks at the end of 1941 represented 81 per cent in number, and held about 92 per cent of the total assets, of all National banks, State banks, and trust companies in the District.

It is particularly interesting to note that most of the new members are located in the smaller cities and towns throughout the District. Most of the large city banks have been members for many years, but the proportion of State banks and trust companies continuing to operate as nonmember institutions has, until recently, been relatively high in the smaller communities. The total assets of member State banks have exceeded 80 per cent of the total assets of all State banks for a number of years, but it was not until 1941 that more than half of all the State banks in the District had joined the Federal Reserve System. Now 54

per cent of all the State banks and trust companies in the Second Federal Reserve District are members.

The tables below give further details with regard to the number of member and nonmember banks and changes in membership during the year.

**Number of Member and Nonmember Banks in
Second Federal Reserve District at End of Year**
(Exclusive of Savings banks and Industrial banks)

Type of bank	December 31, 1941			December 31, 1940		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	580	0	100	587	0	100
State banks and trust companies	217	187	54	178	231	44
Total	797	187	81	765	231	77

Changes in Federal Reserve Membership in Second District During 1941

Total membership beginning of year	765
Increases:	
State banks and trust companies admitted	40
Total increases	40
Decreases:	
Member banks combined with other members	5
Member bank combined with nonmember	1
Insolvency	1
Voluntary liquidation	1
Total decreases	8
Net increase	32
Total membership end of year	797
Nonmember banks combined with members	4

Changes in Directors and Officers

On June 6, 1941, the Board of Governors of the Federal Reserve System announced the appointment of Randolph E. Paul, a member of the law firm of Lord, Day & Lord, New York, N. Y., as a Class C director for the unexpired portion of the term ending December 31, 1943.

At a regular election in the autumn of 1941, William J. Field, President, Commercial Trust Company of New Jersey, Jersey City, N. J., was elected by member banks in Group 2 as a Class A director, for a term of three years beginning January 1, 1942, to succeed Otis A. Thompson, Norwich, N. Y., whose term expired December 31, 1941. At the same time member banks in Group 2 elected Frederick E. Williamson, President, The New York Central Railroad Company, New York, N. Y., as a Class B director, for a term of three years beginning January 1, 1942, to succeed Walter C. Teagle, New York, N. Y., whose term also expired December 31, 1941.

In December, 1941, the Board of Governors of the Federal Reserve System reappointed Beardsley Ruml, Treasurer, R. H. Macy & Co., Inc., New York, N. Y., a Class C director of this bank for a term of three years beginning January 1, 1942 and redesignated him Chairman and Federal Reserve Agent of this bank for the year 1942. The Board of Governors of the Federal Reserve System also redesignated Edmund E. Day, President, Cornell University, Ithaca, N. Y., Deputy Chairman for the year 1942.

On January 8, 1942, the resignation of Robert T. Stevens, a Class B director since January 1, 1934, was accepted by this bank. Mr. Stevens had been called into active service with the United States Army.

As the successor to Mr. Stevens, the member banks in Group 3 nominated without opposition Carle C. Conway, Chairman of the Board, Continental Can Company, New York, N. Y., as a Class B director for the term ending December 31, 1942; the election took place on March 6, 1942.

In December, the Board of Governors of the Federal Reserve System reappointed Marion B. Folsom, Treasurer, Eastman Kodak Company, Rochester, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1942. The directors of this bank appointed Robert R. Dew, President, Dunkirk Trust Company, Dunkirk, N. Y., a director of the Buffalo Branch for a term of three years begin-

ning January 1, 1942, to succeed Frank F. Henry, Director, General Mills, Inc., Buffalo, N. Y., whose term expired December 31, 1941.

The directors of this bank appointed Reginald B. Wiltse as Managing Director of the Buffalo Branch, effective January 9, 1942, to succeed Robert M. O'Hara, who retired December 31, 1941, having reached the retirement age. Mr. Wiltse was formerly Assistant Manager of the Buffalo Branch.

CHANGES IN OFFICERS

Effective April 1, 1941, the Board of Directors of this bank appointed Todd G. Tiebout and Rufus J. Trimble, formerly Assistant Counsel, as Assistant General Counsel.

Effective November 1, 1941, Loren B. Allen, formerly Chief, Credit Division of the Credit Department, was appointed Manager of the Credit Department.

On January 9, 1942, the appointment of Edward O. Douglas, formerly Manager of the Personnel Department, as Assistant Vice President, effective immediately, was announced by the Board of Directors of this bank; at the same time, William A. Heintz, formerly Chief, Personnel Division of the Personnel Department, was appointed Manager of the Personnel Department, also effective immediately.

In addition to the appointment of Reginald B. Wiltse as Managing Director of the Buffalo Branch, the Board of Directors of this bank appointed George J. Doll as Assistant Cashier of the Buffalo Branch, effective January 9, 1942.

MEMBER OF FEDERAL ADVISORY COUNCIL

At its meeting on January 8, 1942, the Board of Directors of this bank reappointed George L. Harrison, President of the New York Life Insurance Company, New York, N. Y., to serve during the year 1942 as the member of the Federal Advisory Council for the Second Federal Reserve District.

Directors and Officers

		DIRECTORS	<i>Term Expires Dec. 31</i>
<i>Class</i>	<i>Group</i>		
A	1	LEON FRASER President, The First National Bank of the City of New York, New York, N. Y.	1943
A	2	WILLIAM J. FIELD President, Commercial Trust Company of New Jersey, Jersey City, N. J.	1944
A	3	NEIL H. DORRANCE President, The First National Bank and Trust Company of Camden, Camden, N. Y.	1942
B	1	DONALDSON BROWN Vice Chairman of the Board and Vice President, General Motors Corporation, New York, N. Y.	1943
B	2	FREDERICK E. WILLIAMSON President, The New York Central Railroad Company, New York, N. Y.	1944
B	3	CARLE C. CONWAY Chairman of the Board, Continental Can Company, New York, N. Y.	1942
C		BEARDSLEY RUMML, <i>Chairman</i> Treasurer, R. H. Macy & Co., Inc., New York, N. Y.	1944
C		EDMUND E. DAY, <i>Deputy Chairman</i> President, Cornell University, Ithaca, N. Y.	1942
C		RANDOLPH E. PAUL Lord, Day & Lord, New York, N. Y.	1943

DIRECTORS—BUFFALO BRANCH

	<i>Term Expires Dec. 31</i>
GILBERT A. PROLE Genesee Farm Supply Company, Batavia, N. Y.	1942
HOWARD KELLOGG President, Spencer Kellogg and Sons, Inc., Buffalo, N. Y.	1943
MARION B. FOLSOM Treasurer, Eastman Kodak Company, Rochester, N. Y.	1944
GEORGE F. RAND President, The Marine Trust Company of Buffalo, Buffalo, N. Y.	1942
RAYMOND N. BALL President, Lincoln-Alliance Bank and Trust Company, Rochester, N. Y.	1943
ROBERT R. DEW President, Dunkirk Trust Company, Dunkirk, N. Y.	1944
REGINALD B. WILTSE, <i>Managing Director</i>	1942

MEMBER OF FEDERAL ADVISORY COUNCIL

GEORGE L. HARRISON,
President, New York Life Insurance Company,
New York, N. Y.

OFFICERS

ALLAN SPROUL, *President*

LESLIE R. ROUNDS, <i>First Vice President</i>	WALTER S. LOGAN, <i>Vice President and General Counsel</i>
RAY M. GIDNEY, <i>Vice President</i>	JAMES M. RICE, <i>Vice President</i>
L. WERNER KNOKE, <i>Vice President</i>	ROBERT G. ROUSE, <i>Vice President</i>
JOHN H. WILLIAMS, <i>Vice President</i>	

EDWARD O. DOUGLAS,
Assistant Vice President
GEORGE W. FERGUSON,
Assistant Vice President
J. WILSON JONES,
Assistant Vice President
HERBERT H. KIMBALL,
Assistant Vice President

SILAS A. MILLER,
Assistant Vice President
ARTHUR PHELAN,
Assistant Vice President
HAROLD V. ROELSE,
Assistant Vice President
VALENTINE WILLIS,
Assistant Vice President

TODD G. TIEBOUT, *Assistant General Counsel*
RUFUS J. TRIMBLE, *Assistant General Counsel*

LOREN B. ALLEN,
Manager, Credit Department
DUDLEY H. BARROWS,
Manager, Cash Department
ROBERT H. BROME,
Assistant Counsel
WESLEY W. BURT,
Manager, Government Bond Department
DONALD J. CAMERON,
Manager, Foreign Department
FELIX T. DAVIS,
Manager, Check Department
NORMAN P. DAVIS,
*Manager, Foreign Property Control
Department, and Manager, Security
Loans Department*
EDWIN C. FRENCH,
Manager, Collection Department
MARCUS A. HARRIS,
Manager, Securities Department
WILLIAM A. HEINL,
Manager, Personnel Department

MYLES C. McCAHILL,
Manager, Service Department
ROBERT F. McMURRAY,
Manager, Safekeeping Department
HORACE L. SANFORD, *Manager, Research
Department, and Secretary*
WILLIAM F. SHEEHAN,
*Manager, Bank Examinations Depart-
ment, and Chief Examiner*
INSLEY B. SMITH,
Manager, Bank Relations Department
FREDERICK STOCKER,
Manager, Cash Custody Department
WILLIAM F. TREIBER,
*Assistant Counsel and
Assistant Secretary*
CHARLES N. VAN HOUTEN,
Manager, Security Custody Department
JOHN H. WURTS,
Assistant Counsel

WILLIAM H. DILLISTIN, *General Auditor*
HAROLD A. BILBY, *Assistant General Auditor*

OFFICERS—BUFFALO BRANCH

REGINALD B. WILTSE,
*Managing Director*HALSEY W. SNOW,
*Cashier*GEORGE J. DOLL,
Assistant Cashier