THIRTY-EIGHTH
ANNUAL REPORT

OF THE

FEDERAL RESERVE BANK OF NEW YORK

For the Year Ended December 31

1952

Second Federal Reserve District

FEDERAL RESERVE BANK
OF NEW YORK

March 9, 1953

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

I am pleased to transmit herewith the thirty-eighth annual report of the Federal Reserve Bank of New York reviewing the year 1952.

ALLAN SPROUL,
President.

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The Year in Perspective

DURING the initial period of reconversion, reconstruction, and planning for the future that followed World War II, the year 1952 was singled out as the distant date when many challenging goals were to be achieved. It was to mark the end of the postwar "transition" period, when the world would be ready for the International Monetary Fund to preside over a system of convertible currencies and an unobstructed flow of trade. With the launching of the four-year Marshall Plan in 1948, sights were fixed on achieving "dollar viability" for Western Europe, and indirectly for the other friendly countries of the world, by 1952. The outbreak of hostilities in Korea in June 1950 disrupted these plans, and threatened to interrupt the remarkable progress that had been achieved up to that time. Then a new focus was placed on 1952 as the year in which a revived defense effort in the United States would approach its peak. Subsequently, 1952 was also set as the target date for completing the skeleton of a unified military force for the defense of Western Europe.

Thus 1952 brought together a constellation of goals, all of world-wide significance, and all dependent in part for their fulfillment upon the vigor and capacity of the American economy itself. While it was no doubt inevitable that the reach should exceed the grasp, and while there have been many disappointments, the record of achievement in strengthened military preparedness, and in economic production and trade, has been substantial both here and abroad in the years following World War II. The "transition" period is not yet over; there is a basis now for feeling that in some respects it may continue for years to come; but some necessary foundations have been laid for sustained economic progress — for growing production, employment, and trade — within and among the free nations of the world. The grave threat is that of prolonged military and economic tension provoked by Soviet imperialism. If that threat can be removed or held at bay, the economic underpinnings that had been put into place by the end of 1952 promised a basis for eventual attainment of the broad objectives, if not the specific forms, of the original postwar goals.

Economic Progress in the United States

The disruptive inflation which had broken out intermittently through the first five postwar years was halted in 1951, and many prices settled downward in 1952. Consumer prices, which had lagged behind the inflationary surge of wholesale prices that occurred after the Korean outbreak in June 1950, moved generally sideways through the year 1952, and wholesale prices declined. By the year end, the index of sensitive commodity prices had fallen back close to the pre-Korea figure.

While developments during 1951 had foreshadowed the possibility of further price corrections, and of generally stable economic conditions, the economic forecasters were uneasy at the beginning of 1952. The defense program was scheduled to rise to an annual rate of 65 billion dollars by the end of December, a year-to-year increase of 20 billion. Consumer incomes were certain to remain high and demand was likely to continue strong, while record outlays for business plant and equipment were indicated by surveys of the plans already launched. Moreover, the projected further increases in Government expenditures were expected to require in 1952, for the first time since the Korean outbreak, substantial Governmental borrowing to finance a cash deficit of perhaps 10 billion dollars for the calendar year. In the face of these prospects, two troublesome questions arose. Could the surprising elasticity already demonstrated by an economy operating at almost full capacity be stretched even further; could it provide increases in the real volume of goods and services produced, and changes in their composition, comparable to those that had been attained in 1951? And, even if it could, would it be possible to avoid an inflationary expansion of credit as massive additional demands were placed upon the economy?

What happened was a substantial growth in production, and at the same time a gratifying degree of price stability. It proved advisable to lower the scheduled peak of defense expenditures somewhat, and to spread out the increases over 1952 and on into 1953. But, while this softening of the impact of the defense program was no doubt a major factor in averting inflationary strains, that modification would not have been enough without the resilience, adaptability, and further growth of the economy itself. The behavior of consumers was also a stabilizing influence. There was no repetition of the spending sprees that had occurred in the late summer of 1950 and early in 1951, and liquid savings continued to grow, roughly matching the growth in long-term capital requirements. An important part was also played by the continued development of the potentialities for credit control that had been opened up in the spring of 1951 — by preventing an excessive addition to the money supply, and by creating an atmosphere of credit restraint conducive to more effective utilization of the economy's real resources.

In the final result, Government expenditures for defense rose to an annual rate of roughly 55 billion dollars by December 1952, a rise from the end of 1951 of about 10 billion dollars, or only half the increase originally projected. Over the same period, the nation's gross product rose by an estimated 23 billion dollars (annual rate), permitting a substantial increase in personal consumption expenditures, while private domestic investment expanded slightly more than had been estimated at the beginning of the year. Although business inventories increased moderately, as described further in the next section of this *Report,* the absorption of current production in expanding inventories was much less for the year as a whole than in 1951. This change reflected in part the working-out within the year of needed correction in the overbalanced stocks of some soft goods lines and may also have reflected, among other factors, the inducement to tighter control of inventory positions resulting from the more general restrictions upon credit availability. The net effect, over much of the period that defense expenditures were rising rapidly, was some shift of resources from production for inventory to production for current use, thus making possible a greater combined increase in Government expenditures, consumption, and plant and equipment outlays than would have been permitted solely by the expansion of the gross product itself. Over the last half of the year, the increase in defense expenditures was relatively small, and the continued additions to total output flowed partly into inventories, as well as into other investment and consumption.

Mainly because of the cutback in scheduled defense expenditures, the Government's cash deficit for the calendar year emerged as 1.6 billion dollars, instead of 10 billion. However, owing largely to the seasonal pattern of Treasury receipts, the Government's cash borrowing demands during the last half of the year did aggregate nearly 9 billion dollars (to cover both the Government's operating cash requirements and cash redemptions of other outstanding debt). This volume of Governmental demand for credit was superimposed on a record volume of security flotations by State and local governments and a new peak in private capital demand. Fortunately, these demands were met very largely by a record volume of liquid savings.

Although the combined additions (net) to debt and equity financing were more than one-fourth larger than the comparable increases in 1951, and represented an unprecedented aggregate volume for any period short of total war, the volume of additional credit provided by the commercial banking system through the expansion of demand deposits was much less than in 1951. A larger part of the increase in commercial bank credit in 1952 represented channeling of new time and savings deposits at commercial banks into productive uses. Correspondingly, the over-all growth in the money supply (adjusted demand deposits plus currency in circulation) was about 4 billion dollars, or roughly 3 per cent, compared with a rise of almost 7 billion dollars, or nearly 6 per cent, in 1951. Much of the explanation for the restraint upon bank credit expansion, in the face of aggregate demands for funds of potentially inflationary proportions, lay in the firmer control exercised over the general availability of money and bank reserves during 1952.

The effectiveness of monetary and credit policy over the past year resulted mainly from a flexible use of open market operations by the Federal Reserve System which caused member banks to become substantial borrowers of reserve funds. The basis for flexible open market operations was established by the Treasury-Federal Reserve accord in March 1951. Borrowing at the Reserve Banks again became an effective instrument of credit restraint when the System became able, on its own initiative, to control the flow of its funds into the Government security market. Once the banks could be kept more or less continuously dependent upon borrowing to meet deposit drains and increases in their required reserves, they understandably became more cautious, reluctant lenders and investors. In addition, the new Federal Reserve policy initiated in 1951 also exerted a restraining influence upon the other major types of financing institutions. With funds no longer readily available from the Federal Reserve through sales of Government securities in the market, these other lenders had to schedule their loans and investments within the limits set by the flow of new savings coming to them and funds arising from repayment of past loans or investments (and whatever sales could be made out of their portfolios to others already in possession of investable funds). The inducement thus given to attracting additional savings, and to weighing carefully the relative merits of competing outlets for funds, helped to provide the financial framework for a noninflationary accommodation of the heavy demands placed upon the economy's resources in 1952.

By the end of the year, the economy had largely completed the physical tasks of making room for an expanded defense program, and barring a further deterioration in international relations could again turn the greater part of its capacity for expansion to meeting civilian needs. Because defense expenditures presumably would continue at high levels for some time, there was no prospect of major reconversion problems, nor of serious "gaps" in demand to be opened up by a swift curtailment of Government spending. Nor would there, because of the successful maintenance of civilian production during the defense build-up, be large accumulated backlogs of pent-up deferred consumer demand. The stage was set for a resumption of the orderly processes of growth and change of an economy responsive to the free choice and spending decisions of private consumers, and to the stimulus exerted by the competitive efforts of private enterprise to serve these consumer markets.

This was a promising, and a challenging, outlook. But there were disturbing questions. Could the private economy continue to generate sustained high level employment without temporary, perhaps serious, lapses as changes or corrections occurred in one sector of the economy or another? Would over-all economic activity again reflect, for example, those characteristic inventory cycles that had recently been submerged beneath the dominating influence of increases in Government spending? Would there be a resumption of long waves of fluctuation in housing and construction activity? Would there be a slump in business plant and equipment expenditures because the creation of stand-by capacity for defense might mean excess capacity for continuing civilian requirements? Would consumers themselves continue to spend at high rates, or had there been, for example, an approach to saturation of the demand for many types of consumer durables? Would savings outrun the outlets for profitable investment? Was the consumer and mortgage debt structure too large, so that any decline of incomes would exert a whipsaw effect as production and employment had to give way to the prior claims of debt repayment upon temporarily reduced incomes? Or was it necessary, as an offset to these various uncertainties, for Government to assure a continuous injection of additions to demand — injections that might result in continuous rises in prices, in creeping inflation, instead of the general stability or reduction of prices that might be hoped for as a means of spreading more widely and efficiently the results of our enormous productive capacity?

There was little immediate concern over these questions at the close of 1952; the early prospects for 1953 pointed toward more consumer spending, slight further increases in defense outlays, sustained plant and equipment expenditures, and a strong housing market. In fact, the risk most frequently mentioned was that of an "over-confidence boom". But for the longer run, these other questions had to be weighed against the capabilities already demonstrated by the economy before Korea — capabilities for "rolling readjustment", for aggressive innovation under the competitive pressure of buyers' markets, and for recovering from such brief but general corrective downswings as that of 1949. By checking inflation during the period of rapid defense build-up in 1951 and 1952, the economy was better prepared for the maintenance of economic stability in the years ahead.

International Economic Developments

Inflation had generally been halted around the world by the end of 1951 and did not break out again in 1952. Although there were threatening signs at one time or another in countries as far apart as Austria and Norway in Europe, or Australia and South Africa in the sterling area, the prevailing tendency was for stability or decline in wholesale prices in most countries. Several South American countries, largely for special internal reasons, were the notable exceptions, and some of them had apparently reached at least a temporary price plateau by the year end. The scare buying that followed the outbreak of hostilities in Korea in 1950 had injected disturbing price distortions into the economies of primary-producing and industrial countries alike. But the general tapering-off of prices in 1951 and the succession of corrective realignments that continued on through 1952 had, by the year end, brought about a notable decline in the price averages and an approach toward equilibrium in the interrelations among the prices of the major commodities in world trade.

The cessation of world-wide inflation was not merely the outcome of a "scare-buying cycle" running its course — from excess to retrenchment to balance — but reflected actions taken to deal with important internal sources of inflationary dangers in many countries. All faced the common challenge raised by growing government budgets, and the accompanying threat that budget deficits and excessive monetary expansion would be superimposed on economies that were already close to the maximum employment of men and resources permitted by existing productive facilities. In some countries the overriding urge, and a growing one since the end of World War II, was to expand social services; in others, it was to speed industrialization (or mechanization); and in others it was, more broadly, to raise the standard of living; but regardless of emphasis, every country wanted some part of all of these. The common danger was that of trying to do too much too fast, and of precipitating the distortion, waste, and uneconomical direction of effort that come with inflation. To all of this had been added, particularly for the countries of Western Europe, the great enlargement of defense programs that followed the Korean outbreak in 1950.

It was thus in some measure a reflection of internal restraint by most of the Western countries that inflation did not break out again in 1952. Government budgets were not all balanced; actually only a few succeeded in that. But there was growing concern over "budget discipline", and in most countries vigorous efforts were made to finance whatever budget deficits emerged through methods that would exert the least inflationary impact. As a counterpart of tighter fiscal policies, monetary and credit restrictions were much more widely imposed, in 1951 and 1952, than at any other time in the past two decades, thus helping to curb any tendencies toward an insupportably large growth of private investment and spending.

For Western Europe another important factor in avoiding inflation during 1952 was the downward revision that became apparent in the scale of defense outlays, compared with original projections. Unlike the situation in the United States, however, this stretching-out, or cutting-back (whichever it may prove to be) did not come after most of the ground toward the original goals had been covered. The combined defense expenditures of the European members of the North Atlantic Treaty Organization had reached an estimated annual rate equivalent to roughly 10 billion dollars at the end of 1952, and most of these countries were still attempting to wedge into their economies some further additions to their defense programs. A major persisting uncertainty for Western Europe thus continued to be the risk that more defense spending in fulfillment of existing plans might bring more inflation (unless offset by reduced spending for other purposes), while the United States had largely passed through that stage by the end of 1952. Also in contrast with our experience, Europe did not succeed for the year as a whole in raising production as a significant offset to potential inflationary pressures. Increases in heavy manufacturing barely offset the decline in the lighter industries and on balance overall industrial production appeared to be about the same as in 1951. A general rise was apparent in the final quarter of 1952, however, and good harvests provided a moderate increase in per capita food production during the year.

Along with the subsidence of inflation, most countries also experienced improvement in their net balance-of-payments position. This did not reflect, however, an increase in the volume of international trade, but was instead the mixed result of an expansion in some exports that was more than offset by increasingly severe restrictions upon imports on the part of countries most threatened by unbalance in their international accounts — notably the sterling area group. While an approach to balance that depended upon further direct restrictions upon the flow of trade and international payments was widely regretted, as a deviation from the long-run goals for economic expansion throughout the "free" areas of the world, the results in terms of strengthened international monetary reserves were encouraging. Stronger reserves might eventually, it was hoped, provide the base from which to move toward relaxation of the restraints upon trade and currencies, and toward a gradual self-sustaining expansion in the volume of world trade and production.

There was a moderate decline in trade, not only among the other friendly countries of the world but also in their combined merchandise trade with the United States. Correspondingly, although many countries came close to over-all balance in their accounts and a number succeeded in adding to their aggregate foreign exchange reserves, there was still a considerable "dollar gap" in the relations of the rest of the world with the United States. Nonetheless, largely because the combined amount of dollars supplied through grants of foreign aid, Government loans, and private investment abroad exceeded the aggregate amount of the world's dollar deficit, some countries were able to increase their reserves of gold and dollars as well. Compared with the peak dollar gap of more than 11 billion dollars in 1947, the aggregate deficit of about 2½ billion dollars on trade and services account (excluding military aid) in 1952 represented a decisive improvement. Similarly, the combined holdings of gold and dollars by foreign countries (excluding gold holdings of the USSR), which had hovered around 15 billion dollars through 1948 and 1949, had nearly reached 20 billion by the end of 1952. The increase in the last year, including both dollar earnings and additions of newly mined gold, was about 0.9 billion dollars.

The persistent problems in restoring a sustainable and adequate flow of trade, which had been aggravated by World War II and then partly obscured by events following the Korean outbreak, again came to the forefront of world concern in 1952. In part, solutions were sought through further integration among the European economies, and in building trade relations among the other countries of the world outside the United States. Continued functioning of the Organization for European Economic Cooperation, and its European Payments Union, as well as initial success in establishing the North Atlantic Treaty Organization as a vehicle for coordinated economic (as well as military) effort, and the development of the Schuman Plan organization for unified control over Continental European coal and steel production, all represented temporary or permanent regional achievements in 1952. Technical assistance for both the industrialized and the nonindustrialized countries was provided in increasing scope, under the auspices of the United Nations, the International Bank and Fund, the Colombo Plan for southeast Asia, and our own Technical Cooperation Administration. But the long-run, underlying challenge still remained that of achieving a sustainable balance, and a framework for growth and stability, in the international economic relations of the other friendly countries of the world with the United States.

There was a wholesome shift of emphasis abroad during the year, epitomized by the phrase "trade, not aid". The clear implication was that other countries recognized their basic need as that of expanding productivity and achieving a balanced output of the goods and services for which they possessed a comparative economic advantage in manpower and resources. There was a further implication that the United States should go as far as practicable in opening its markets to the products of the rest rest of the world.

The United States Economy in 1952

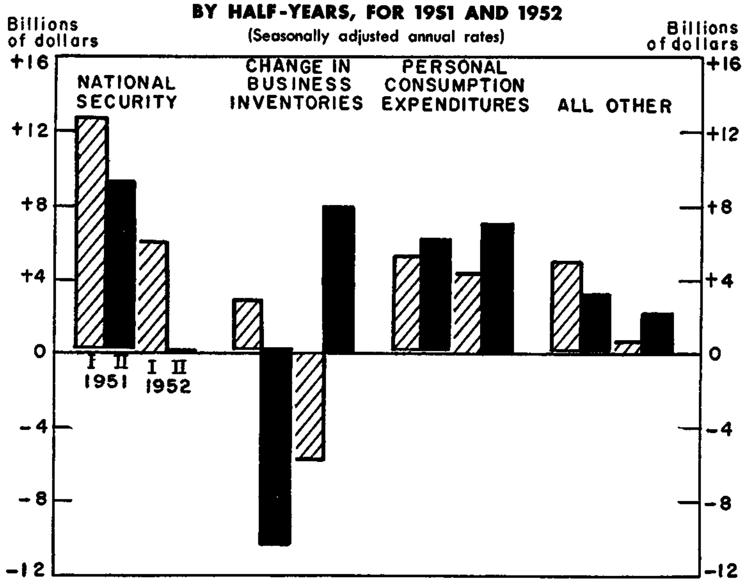
Most comprehensive indicators of business activity in the United States reached new peaks during 1952, but for the most part the gains were moderate and centered in the latter part of the year. For 1952 as a whole, the total dollar volume of goods and services produced was 5 per cent greater than in 1951, but about half of this advance was attributable to the higher average price level which prevailed in 1952.

Approaching the Peak of Rearmament Demands

Increases in production were unevenly distributed, as among major components of gross national product and as between the first half and the second half of the year. The accompanying chart shows the principal changes, by half-years, occurring in 1951 and 1952. The outstanding development shown by the chart is the sharp falling-off of additions to national defense expenditures. In 1951 increases in defense expenditures absorbed most of the growth in gross national product, while increases

CHANGES IN MAJOR COMPONENTS OF GROSS NATIONAL PRODUCT BY HALF-YEARS, FOR 1951 AND 1952

(Seasonally adjusted annual rates)



Source: U. S. Department of Commerce. Data for half-years based on changes in quarterly data, e.g., a second-half change was computed as the change from the second to the fourth quarter.

in consumer expenditures and other demands, though considerable, reflected price increases in the first half of the year and were made possible in the second half, in effect, by a decisive reduction in the rate of business inventory accumulation. In 1952 inventory curtailment continued through the first half of the year, again roughly offsetting the increases in personal consumption and other demands, while additions to the gross national product were concentrated in the national defense sector. Through the last half of the year, however, defense expenditures were practically level, and nearly all of the increase in the gross national product became available to the private sectors of the economy. The leveling-off in defense spending in the second half of 1952 reflected the effect of the steel strike in July and August and the stretching-out of delivery dates on some items, but it also signaled the effects of substantial modifications in the pace, and in the expected peak volume, of the defense program.

At the end of 1952, defense plans called for further gradual increases, with spending continuing close to peak levels throughout 1953 and 1954, and as long thereafter as necessary to achieve preparedness. These revised defense goals resulted largely from cutbacks in projected orders for "military hard goods", in conformity with the principle that had guided the new defense program from the beginning — that effort should be concentrated upon preparation of facilities for the output of military goods, rather than upon stockpiling the goods themselves. The fact that most of the remaining scheduled rise in defense expenditures was to be for weapons, planes, and other heavy equipment suggested that the stimulus of expanding defense activity was already tapering off by the end of 1952. Much of the additional amount still to be added to defense expenditures was already reflected in the work and outlays which necessarily had to be made by the contracting firms many months ahead of the date of final delivery and Government payment. Consequently, although the defense program was expected to exert a steady demand for goods and services at an annual rate of roughly 55 billion dollars for some time to come, the responsibility for the nation's further economic growth and development had by the end of 1952 been shifted back to the private sector of the economy.

The Strength of the Civilian Economy

The marked growth in defense output during the past two and a half years has been accomplished without serious curtailment in supplies of civilian goods. Unlike World War II, we have built up no important backlog of repressed demand for durable goods and housing. Consumers have been able to buy a moderately increasing volume of goods and services, although for a while they experienced delays in obtaining certain items. At the same time, business has been spending record amounts for new plant and equipment, in many cases adaptable to either war or peacetime production. The nation's total manufacturing capacity is estimated to have expanded by approximately 50 per cent in the seven years since the end of World War II. Aggregate expenditures for other types of plant and equipment by utilities, railroads, commercial firms, farmers, and other enterprises have also been at or close to record levels. In 1952, businessmen (other than farmers) invested an estimated 26.9 billion dollars in new plant and equipment, and surveys indicate that they plan to spend nearly as much on capital goods during 1953.

Some industries reached a state of inventory congestion in the latter part of 1951 and the early months of 1952. Nondurable goods industries, such as textiles, leather goods, and paperboard, were forced to cut back production until they worked off heavy stocks. Producers of consumer durable goods, other than automobiles, reduced output in many cases even below the levels implied by restrictions then in effect on the use of steel, copper, and aluminum. The television industry was particularly hard hit by excessive inventories at factories, distributors, and retail outlets. By midyear, however, most industries had brought their stocks into better balance with sales, and thereafter they stepped up production to levels more nearly equal to current consumer takings.

Even in the early months of the year, when consumer goods inventories were heaviest, the over-all rate of industrial production remained relatively high. The major setback to production during the year was the steel strike in June and July, which — together with brief shutdowns in April and May — caused the loss of nearly 20 million tons of steel output. Recovery from the effects of the strike in both defense and nondefense lines was exceptionally rapid. The accompanying recovery in many consumer goods lines made the rise in production during the latter part of 1952 a general one, and by the fourth quarter industrial production was at the highest rate since V-E Day. At the start of 1952 there had been concern that shortages of steel, copper, and aluminum, in particular, would create serious bottlenecks, dislocating civilian production and contributing to inflationary pressure. But the combined effects of modifications in the defense program, increased capacity for steel and aluminum production, and increased imports of copper (although at higher prices) prevented extreme strain, and larger allotments — at least of steel and aluminum — were promised for nonmilitary uses in 1953.

During much of 1952, consumers bought with restraint, in sharp contrast to their behavior in the early months of the Korean war. Well-stocked stores and relatively stable prices gave little cause for buying sprees, and retailers often found extensive promotions necessary in order to move goods. In the final months of 1952, however, there were indications that consumers were beginning to spend somewhat more freely. Personal consumption expenditures in the fourth quarter of 1952 were estimated at an annual rate of 222.0 billion dollars, 11.5 billion dollars more than a year earlier. This rise slightly exceeded the increase in disposable personal income, leaving estimated net saving at nearly the same dollar volume as in the fourth quarter of 1951, but at a somewhat smaller percentage of income. The physical volume of consumption, as indicated by expenditures in constant prices, was about 4 per cent greater in the fourth quarter of 1952 than a year earlier, while real per capita consumption rose 2 per cent. Even so, consumer purchases during the fourth quarter of 1952 fell slightly short of the physical volume of such purchases during the buying spree in the summer of 1950. As in 1950, the rise in consumer spending was aided by rapid expansion of consumer instalment credit, particularly after controls on credit terms were lifted in May 1952.

The Sideways Movement of Prices

With consumer demand high but industry's ability to supply that demand at least equally high, consumers' prices were relatively stable over the year. The December 1952 index of consumer prices was less than 1 per cent above the December 1951 figure, and no greater than it was at midyear. The slight rise in the index of consumer prices was attributable to a continued gradual rise in rents and in the cost of fuels and services; prices of clothing and homefurnishings were lower at the end of 1952 than at the end of 1951. Throughout the year, the index fluctuated within a range of less than 2 per cent. Because of the lower price level in the early part of 1951, the entire year 1952 averaged about 2 per cent above the year 1951. Wholesale prices during 1952 continued the downward drift which started in April 1951. The decline was not a sharp one — 1952 averaged about 3 per cent lower than 1951 — but it was fairly steady. Most of the decline centered in prices of farm products, which by the end of 1952 were 15 per cent below their March 1951 peak. Bumper crops, both here and abroad (with consequent reduction of export demand), and heavy livestock marketings contributed to the decline in agricultural prices. Prices of commodities other than farm products and foods showed a slight over-all decline during 1952, largely attributable to the pressure of heavy inventories, both domestic and international, in the first half of the year. Some offset to these price declines occurred when prices of such basic commodities as steel, aluminum, and coal were raised following wage increases in those industries, but a new wage-price spiral did not develop, and for the last five months of the year the general level of industrial prices was virtually unchanged. Against this background, the price controls imposed under the Defense Production Act during 1951 were successively modified, and controls on many prices were suspended or removed.

The avoidance of price inflation was apparently the result both of coincidence and of policy. When defense expenditures were increasing, and might otherwise (in conjunction with extraordinarily large capital investment) have generated inflationary pressures, other sectors of the economy were going through a sizable inventory correction. Had the inventory adjustment not been offset, however, a deflationary movement might have developed. Later in the year when all civilian sectors were expanding, and there was some return of inventory accumulation, the defense program was stretched out so that it placed only a small additional demand upon the nation's resources. The economy thus entered 1953 with the defense program approaching a plateau, with inventories generally well balanced, with business investment continuing at high levels, and with consumer demand rising. The part that monetary and credit policy played in contributing to the balance achieved in 1952 is discussed in other sections of this *Report*.

Economic Trends in the Second District

Business in the Second Federal Reserve District shared in the defense expansion and the general national prosperity during 1952. Employment reached a new record, and in October 1952 unemployment claims dropped to a postwar low. Production by heavy industry in this area expanded more markedly than in the country as a whole, partly because the steel strike affected this District's output less than some of the other major industrial areas. Some of the more important consumer goods industries were affected early in the year by reduced demand and the need for working off heavy inventories. However, once these stocks had been reduced to better balanced proportions, industry and trade in the Second District advanced to new peaks.

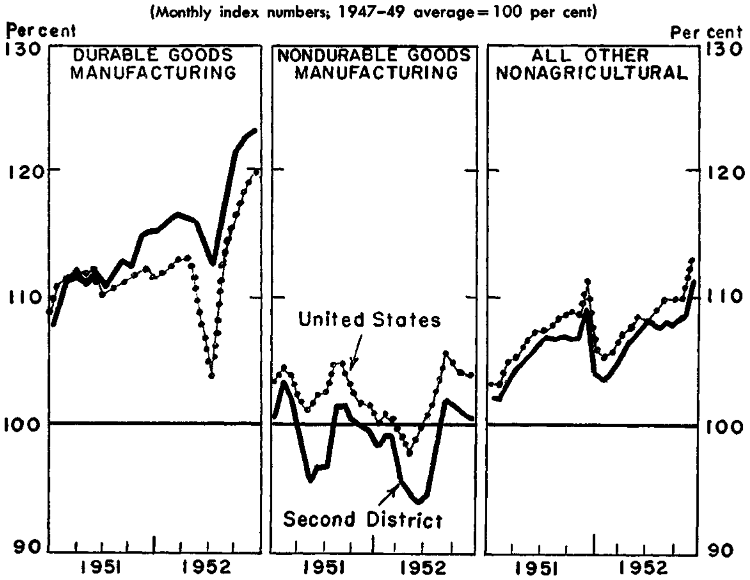
One of the best indicators of the generally high level of business activity that prevailed in the Second District is the over-all rate of income payments, which set a new record in 1952. Tentative estimates made at this bank indicate that income payments in the District were approximately 41 billion dollars in 1952, compared with 38.6 billion in 1951. The rise in income appeared to be greatest in wages and salaries, while farm incomes showed little or no gain. The year-to-year increase of 7 per cent in estimated total income for the District was somewhat greater than the 5 per cent rise in the rest of the United States. In other postwar years (except in 1949) income payments in the Second District have declined in relation to the national total.

The relatively better showing in the Second District than in the rest of the country was concentrated in durable goods manufacturing. For 1952 as a whole, employment in durable goods factories in this area averaged 6 per cent higher than in 1951, compared with a rise of less than

1 per cent in the country as a whole, while the aggregate number of workers in nondurable goods manufacturing and in nonmanufacturing lines showed approximately the same minor year-to-year changes in this District as in the entire United States. The effects of the steel strike on this area were relatively minor, except in the steel-producing Buffalo area. In other sections of the District, many durable goods firms had built up sizable inventories of steel (or were not directly affected by steel shortages); consequently, cutbacks in employment were not particularly severe or prolonged. On the whole, the durable goods industries in the District have consistently had a sharper rate of growth during the past two years than those in the country as a whole, as shown in the accompanying chart. These gains have been centered in the metal-working industries, particularly aircraft, ordnance, and electrical apparatus. Undoubtedly the rise in metal-working employment in the Second District reflects the stimulus of defense orders, while at the same time there may have been less of an offsetting contraction than there was in other industrial areas because of materials restrictions in the manufacture of automobiles and

NONAGRICULTURAL EMPLOYMENT IN THE UNITED STATES AND THE SECOND DISTRICT

(Monthly index numbers; 1947–49 average = 100 per cent)



Source: Computed by the Federal Reserve Bank of New York from data supplied by the Departments of Labor of New York State, New Jersey, Connecticut, and the United States.

other consumer durables, which are relatively less important in the Second District's metal-working industry.

Nearly 6 billion dollars of defense contracts was received by firms in the Second District during the first nine months of 1952, bringing the total since the start of the Korean war to approximately 15 billion dollars, or over one fifth of the national total. Firms benefiting from these contracts were principally those producing electronic equipment and other electrical machinery, aircraft, ordnance, instruments, and photographic equipment. Some aircraft and tank factories were affected by the defense program stretch-out; nevertheless, metal-working employment has continued to account for the major share of this area's employment increases. Other types of manufacturing, on the whole, actually employed fewer workers in 1952 than in 1951.

This District's major industrial center, New York City, has still received only a relatively small amount of defense work, either directly or on subcontracts. In fact, until the closing months of the year New York City was officially classified as an area of "substantial labor surplus". To a large extent, this reflected the persistent weakness in nondurable goods industries. In the District as a whole, the important apparel industry showed a moderate rise in employment, but all other major nondurable goods industries reported lower average employment in 1952 than in 1951. Even after heavy inventories were worked off by textile, paper, and leather goods manufacturers, continued cautious buying by their customers tended to limit the recovery during the latter part of the year.

The increased purchasing power of Second District consumers during 1952 was not fully reflected in retail sales. While not necessarily a representative indicator of total retail sales, this District's department store sales were 5 per cent below those in 1951, whereas most other Federal Reserve Districts showed increases, averaging about 1 per cent. This unfavorable comparison resulted mainly from substantial decreases in department store sales in the metropolitan area of New York City, however, where department stores have been subject to special adverse influences. The rapid growth of the suburbs, the changing character of city population, traffic and transportation difficulties in main shopping areas, and the more liberal prices or credit terms offered by some specialty stores have all played a part in the declining competitive position of department stores in New York City and elsewhere. The relative showing of all types of retail sales in the City and the District was considerably better than that of the department stores alone.

In the field of construction, this District appeared to have more than kept pace with the rest of the country. Available information on permits and contract awards indicate a somewhat greater increase between 1951 and 1952 in residential building here than in the country as a whole. (Housing activity as reported in the national totals indicates starts of more than 1.1 million units in 1952, second only to the record set in 1950.) Large outlays continued to be made for defense plant expansion and for increased public works. Contracts for commercial and educational building showed sizable increases in this area, whereas in the rest of the country such construction made only minor gains.

Farmers in the Second District on the whole fared somewhat better in 1952 than those in the nation's major agricultural areas. Prices received by farmers, nationally, averaged 5 per cent lower in 1952 than in 1951 with major price declines centered in such products as livestock and cotton. However, for major Second District products, such as dairy and poultry products, fruits, and vegetables, prices were generally well maintained; a composite index of prices received by New York State farmers rose 6 per cent in 1952. Production of both milk and eggs in the District rose in 1952, and the potato crop was about one-tenth larger. Truck crops and fruit orchards in some parts of the District felt the effect of the prolonged dry weather during the summer of 1952. Altogether, cash income from farm marketings in New York State was about 4 per cent higher in 1952 than in 1951 — a slightly greater increase than in the country as a whole — but, in New Jersey and Connecticut, farmers' cash income declined somewhat. Production costs continued to rise, however, and apparently resulted in a slightly lower level of net farm income in this District during 1952.

Federal Reserve Credit Policy

The stability achieved by an economy pressing at the limits of its productive capacity is precarious, and there is the constant threat that shifts in the pattern of consumption expenditures, of business outlays, or of Government spending may disturb the existing equilibrium. Whenever such shifts occur, or become likely, easy access to a ready supply of bank credit may serve to feed or sustain an inflationary movement. Yet without some flexibility in the availability of money and credit, necessary shifts of productive resources may be impeded, or the potentialities of the economy for larger output may be incompletely realized. The monetary and credit policies of the Federal Reserve System during 1952, therefore, had to find an appropriate middle ground, seeking a supply of money and credit adequate to evoke maximum production, while sufficiently limited to promote the most economical use of available real resources and to deter inflationary forces.

The policy adopted was to provide the bank reserves necessary to support normally expected changes in the volume of credit requirements, but only at such times, and in such forms, as to maintain continual moderate restraint on extensions of bank credit. During the early months of 1952, this was a policy of monetary neutrality. Over this period of declining seasonal requirements, such a policy involved the use of open market action to prevent the accumulation of excess reserves in the banking system which might, then or later, encourage easier credit tendencies. As the year progressed, the seasonal expansion of business credit and the Treasury deficit financing which pressed upon bank credit facilities brought about a gradual shift in the effect of Federal Reserve policy from neutrality to mild and then progressively more marked restraint. Reserve balances were provided to the banks by the Federal Reserve System in the last half of the year to replace seasonal reserve drains and to support a seasonal growth of credit. But security purchases by the Federal Reserve System for this purpose, both outright and under repurchase contracts with dealers, were so scaled as to maintain almost continual tightness in the money market and pressure on the reserve positions of member banks. The degree of restrictiveness involved in this policy tended to increase through the last quarter of 1952, as expanding credit demands on the banking system created a greater need to resort to the "discount windows" of the Reserve Banks for necessary reserve funds.

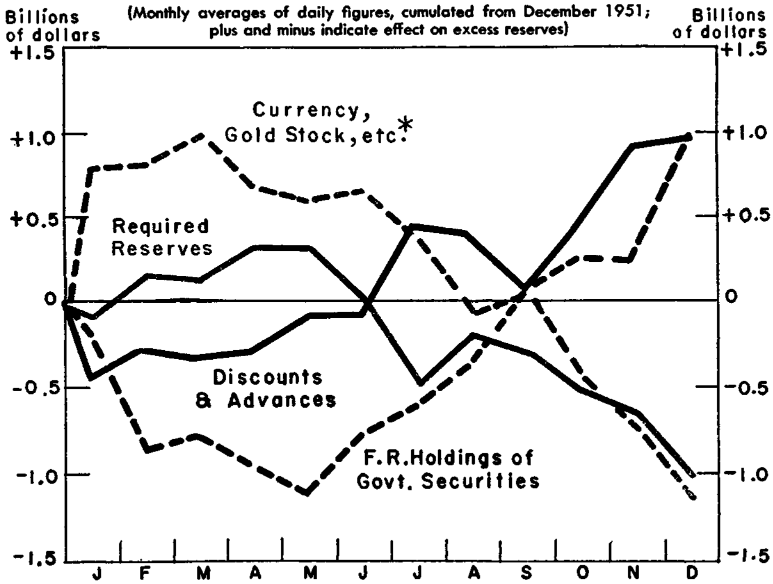
Reliance upon General Credit Controls

Member banks' discounts with the Federal Reserve Banks were the principal source of reserves to offset intramonthly and, in part, seasonal influences affecting the money market and the demand for credit during the year. In the early months, declines in the volume of Government securities held in the System Open Market Account were directed toward maintaining a degree of reserve pressure that would keep the member banks on the threshold of borrowing. The primary function of the discount mechanism was to facilitate banks' intramonthly adjustments to the usual swings in the flow of funds. Later in the year, when needs for additional Federal Reserve credit arose, the System supplied only part of the banks' requirements through security purchases. Increasingly, the banking system turned to discounting to replace seasonal reserve losses and, in effect, to obtain the reserves required to support an expanding volume of deposits. As illustrated in the following chart, discounts provided a major portion of the reserve balances acquired by the banking system in the last half of 1952.

The development and execution of a flexible Federal Reserve credit policy was greatly aided during 1952 by changes that had taken place during 1951 in the System's relationship to the Government security market. In earlier postwar years, the latitude for flexible credit policy was severely circumscribed by the responsibility assumed by or placed on the Federal Reserve System to support, through market purchases, the prices of certain Government securities. After the Treasury-Federal Reserve accord of March 1951, the policy of rigidly supported prices was abandoned and System support, as such, was extended only during periods of Treasury refunding operations. Aid to the Treasury at such times usually involved System purchases of maturing issues at a slight premium in

CHANGES IN FACTORS AFFECTING MEMBER BANK EXCESS RESERVES DURING 1952

(Monthly averages of daily figures, cumulated from December 1951; plus and minus indicate effect on excess reserves)



*Includes changes in currency in circulation, gold stock, Treasury cash, "float", and Treasury, foreign, and "other" deposits with the Federal Reserve Banks.

order to prevent any possible impairment of the Treasury's terms during the period of the offering and thus assure the maximum volume of exchanges. In practice, the System usually acquired a large part of the holdings that would otherwise have been redeemed for cash, and the effect was to hold the cash drain due to redemptions of maturing issues to a minimum. Some of the reserves gained by the banks through these operations were recaptured by the System through sales in the market of other short-term issues. But the policy of aid to the Treasury during debt operations also imposed restrictions on the scope for flexible credit policy, particularly in view of the frequency of Treasury refundings, and tended to make more difficult the development of a free market for Government securities that would reflect underlying supply and demand conditions. Therefore, during the latter part of 1952, the System modified its approach, attempting to provide only such aid to Treasury refundings as was broadly compatible with real needs for reserve funds and with the System's current credit policy objectives.

The general balance in the economy in the past year, the slower rate of growth in defense expenditures, and the greater scope for employment of the generalized instruments of credit policy made the selective credit controls which had been imposed in the two preceding years somewhat less necessary for the special purposes that had caused their adoption under the Defense Production Act of 1950. Regulation W for control over the down payment and instalment terms of consumer credit was withdrawn by the Board of Governors in May, and the Congress did not renew the enabling legislation in June. Following a request by the President in March that the Voluntary Credit Restraint Program suspend review of the financing proposals of States and municipalities, this cooperative screening of all larger loans and investments by the major institutional lenders was reduced in coverage. In May, the entire Program was suspended and the authorizations under which the various committees had acted to recommend priority for defense-related financing lapsed at the end of June. Congress did extend the authority to control the terms of real estate loans beyond June, but it provided that the regulations should be relaxed if housing starts fell below an annual rate of 1,200,000 units for three successive months. This minimum was not reached in June, July, or August, and in September the Board suspended its Regulation X which had provided the basis for control over the terms of conventional real estate mortgage credit. The removal of these various selective credit control instruments during the past year posed no immediate threats to stability in any sector of the economy. The steady and rapid growth in consumer credit after the lifting of Regulation W, however, did lead to concern over evidences of a competitive deterioration of terms on the part of some lenders, and over the potential dangers of growing consumer indebtedness in a period of high level current income.

Impact of System Policy on the Money Market and the Government Security Market

In the face of Federal Reserve policies designed to limit the availability of credit, persistent credit demands resulted in almost constant tightness in the money market after January 1952. The major exceptions to the prevailing tightness occurred around the tax payment dates in March, June, and September, when the Treasury supplied reserves to the banking system by allowing its balances with the Federal Reserve Banks to run down temporarily so as to avoid undue strain on the money market during the tax collection period. In June and September, refunding of the July 1 and October 1 maturities was undertaken by the Treasury near the middle-of-the-month tax dates, and System security purchases in aid of the Treasury operations temporarily strengthened the other factors making for money market ease at these periods.

However, in each instance, the ease generated was short-lived and was followed by renewed pressure on bank reserve positions. The funds provided through Federal Reserve security purchases in June were partly recaptured by offsetting System sales. In early July the banks needed higher required reserve balances to support the Treasury deposits growing out of the bank-financed subscriptions to the 4.2 billion dollars of new cash financing at that time, and as a result there was a contraction of excess reserves followed later by some increases in member bank borrowing. Federal Reserve credit put into the market in September during the Treasury financing period served also as part of the planned release of funds to provide for the banks' seasonal needs.

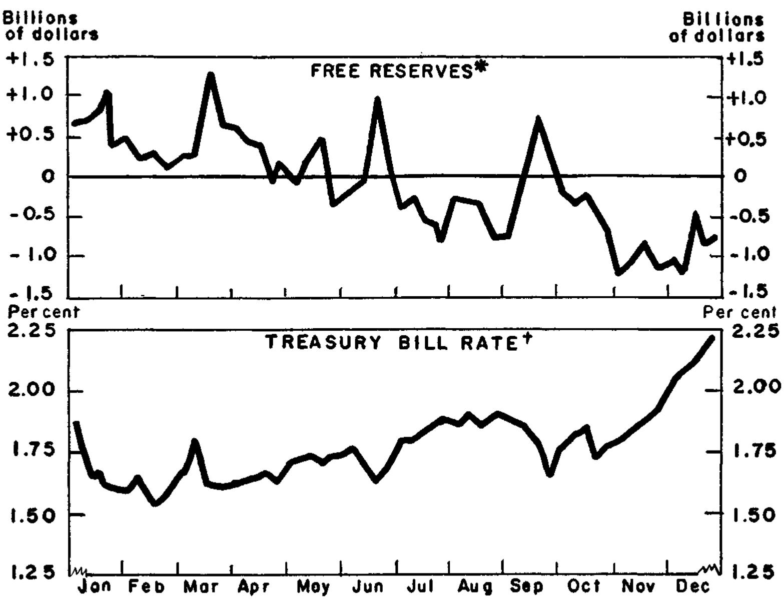
Within most months, the pattern of float and currency movements created moderately easier conditions briefly at midmonth, but at no time could the banking system rely upon a sure and ready source of reserve balances, as had been the case when the Federal Reserve System had been committed to a policy of support of the Government security market. The competition for available reserve balances served to maintain the rate on Federal funds in the New York money market for lengthy intervals at levels only nominally below the discount rate at the Federal Reserve Bank, and the supply of funds offered at these rates was seldom equal to the demand. As a result of these circumstances, credit extensions and commitments in 1952 had to be approached by the banks in full awareness that the necessary funds to support them might be acquired only with difficulty.

During roughly the first half of 1952, commercial bank lending was under no particular pressure to expand; loans of all commercial banks in this period increased at a rate only slightly more than half that for the similar period in 1951. The principal aim of Federal Reserve credit policy at this time was to absorb free reserves accruing to the banks from gold inflows, reduced currency circulation, and other sources. By so doing, the System hoped to check any tendency the banks otherwise might have had to seek outlets for such idle funds, and to prevent a build-up of free reserves at the ready command of the banks that could have given them greater leeway in meeting credit requests. Had these funds not been absorbed, their use by the banks would have created a situation of apparent ease in the money and security markets, instead of caution and restraint. Once such funds had become imbedded in the deposit base through a further expansion of bank credit, their eventual recovery for use in financing the necessary autumn seasonal expansion would have been extremely difficult.

In the last half of the year, the expanded demands upon bank credit in conjunction with the limited supply of reserves in the money market caused many commercial banks, anxious to minimize their borrowing from the Federal Reserve Banks, to dispose of short-term Government securities and other investments to acquire the funds to meet the credit demands of their customers. The New York City banks, in particular, undertook thus to provide for one form of bank credit by disposing of another. These institutions as a group were under pressure to restrict their total loans and investments because of a net loss of deposits to out-of-town banks over the year which occasioned a substantial outflow of reserve balances. As a result, nearly two thirds of the net increase in loan credit at the weekly reporting New York City banks in the last six months of 1952 was offset by a decline in security portfolios, and this despite the large volume of new Treasury borrowing over the period. While the record of the New York City banks in this respect was outstanding, the weekly reporting banks in other large cities also reacted to the System's policy of credit restraint. Significantly, these larger commercial banks, which have traditionally operated on the narrowest excess reserve margins, and which are therefore most immediately vulnerable to restrictive Federal Reserve credit policies, were responsible for much less than their pro rata share of the increase in total commercial bank credit that actually occurred in 1952. Only the commercial banks outside the 94 "weekly reporting" centers showed an aggregate expansion in their investment portfolios as well as in loans for the last half of 1952.

The frequent use of short-term Government securities in making bank portfolio adjustments to changes in private credit requirements resulted in a very close relationship between short-term security yields and conditions of ease or tightness in the availability of bank reserves. In the absence of arbitrary restrictions on changes in market yields, and in a money market environment that permitted very little slack, this result was to be expected. At certain periods, particularly in the fall of the year, heavy nonbank investment was sufficient to absorb bank offerings at fairly steady yields. But in the closing months of 1952, corporation investment in short-term Government issues tapered off and in December

FREE RESERVES AND THE ISSUE RATE ON TREASURY BILLS, 1952



*Wednesday figures. Free reserves are member bank excess reserves less borrowing from the Federal Reserve Banks.

†Average issue rate on new Treasury bills.

was replaced by net selling to provide for tax payments and other year-end cash needs. In addition, the sale in October and November of 4.5 billion dollars of tax anticipation bills to mature in March and June raised the total of Treasury bills outstanding to the highest level on record, and exceeded the absorptive capacity of the nonbank market. As a result, bill yields in December climbed to the highest levels in nearly twenty years. The chart illustrates the relationship between short-term security yields and the availability of bank reserves over the past year.

Despite the recurring periods of money market tightness, and despite occasional thinness in the Government security market, trading in Government securities was conducted in orderly fashion during 1952. Changes in prices and yields which in other recent years might have occasioned widespread unease and tension came to be accepted as the normal characteristics of a free market. In dealing with the market, the Federal Reserve Bank of New York made use of repurchase contracts with Government security dealers and thus aided the maintenance of an active dealer market when a release of reserves was appropriate to offset temporary or seasonal factors tending to reduce bank reserves. This device permits the System to "tie a string" to reserves released into the Government security market, so that the withdrawal of reserves after the temporary need has passed is somewhat easier than if outright purchases were made (which would have to be followed by outright sales, or run-offs of maturing Treasury bills on a large scale).

Growth of Bank Credit and the Money Supply

The total increase in bank loans in 1952 amounted to 8.0 billion dollars, about 800 million larger than the increase in 1951. The composition of the growth in total loans showed noticeable contrasts with 1951, which largely accounted for the differences in aggregate loan increases. Available statistics indicate that consumer instalment credit in its various forms accounted for a much larger share of the total credit expansion in 1952 than in the previous year, and business loans a much smaller share. Nearly the entire growth in consumer credit outstanding took place subsequent to the removal of Regulation W in May 1952.

Seasonal factors played a larger role in shaping the timing and the composition of changes in the business lending of banks during 1952 than they had in most recent years. A contraction of bank business loans of somewhat less-than-seasonal proportions occurred in the first half of the year, followed in the second half by an expansion of roughly seasonal dimensions. In the previous year (following the entry of the Chinese into the Korean war), business loans had expanded contraseasonally in the first six months, and were topped by a normal expansion during the last six months only moderately smaller than that in the last half of 1952. The growth in defense-related loans to the metals and metal-products industries, loans which in considerable measure were not of a truly seasonal character, was largely responsible for the less-than-seasonal contraction in the first half of 1952. In the last half of 1952, however, the growth of loans to metals concerns fell off and loans to sales finance companies rose sharply, while other business loans generally increased along seasonal lines.

The aggregate security investments of all banks increased in 1952 by contrast with a small decrease in the previous year. While the growth in banks' holdings of "other" securities was only moderately larger than in 1951, their holdings of Government securities increased by 1.3 billion dollars in 1952, representing a substantial swing from the 1.6 billion dollar decrease in this category of bank assets for the previous year. Much of the expansion in banks' Government security portfolios reflected the Treasury's fall financing in tax anticipation bills. As discussed further in the next section of this *Report*, aggregate demands for all forms of credit and capital in 1952 were considerably greater than in 1951.

Despite the greater expansion in bank credit in 1952, privately owned demand deposits increased by much less than they had in the previous year, a growth of 2.9 billion dollars as against 6.0 billion dollars in 1951. Consequently, the increase in the total money supply in 1952, in the form of adjusted demand deposits and currency in circulation, was less than two thirds that of 1951. Net nonbank investment in Government securities helped to absorb a significant part of the Treasury's new money financing and acted as a brake on the growth of private demand deposits. At the same time, the sharp increase in liquid savings at all types of savings institutions helped in avoiding an inflationary increase in the money supply. The increase of less than 3 per cent in privately held demand deposits in 1952 would appear to have been consistent with the normal secular increase required to serve the needs of a healthy, growing industrialized economy. Velocity of money use, as measured by the average rate of turnover of demand deposits, was slightly less than in the preceding year at banks outside New York City and about 8 per cent greater in New York City (possibly reflecting greater activity in the securities markets in 1952).

Revival of the Discount Mechanism

A primary purpose underlying the creation of the Federal Reserve System was to provide a source to which banks could turn to make adjustment for temporary and seasonal swings in their needs for funds, and the discount mechanism, through which member banks may borrow reserve funds from the Federal Reserve Banks, was originally intended as the means of providing this accommodation. Under the circumstances which prevailed during most of the decade beginning in 1942, however, banks and others had semiautomatic recourse to Federal Reserve credit through the Government security market. Discounting, which had fallen into disuse as a result of the gold inflows and other accretions to bank reserves during the 1930's, could not be reactivated as an effective instrument of credit control until a flexible Federal Reserve open market policy had been restored. The open market policies followed by the Federal Reserve System after the early part of 1951, and in 1952, resulted in a re-introduction of many member banks to the use of the discounting privilege. By December, discounts at all Reserve Banks had climbed to the highest level (2.4 billion dollars) in more than thirty years. The aggregate volume of member bank borrowing in the Second Federal Reserve District during 1952 (as mentioned below in the description of this bank's operations) was the largest since 1929. The average daily volume of outstanding borrowing was nearly double that of 1951. Nearly half of the 720 member banks in the Second District made use of the discount facility on one or more occasions during the year.

Reserves created for the banking system by System purchases of Government securities are liquid assets acquired by a bank without incurring a specific offsetting liability, and thus may be employed by an individual bank on the assumption that the reserves will remain available until deposits are withdrawn. Reserves acquired through discounting, by contrast, create a contractual liability for the individual bank and may be employed only in the knowledge that the bank must make provision to meet its obligation to repay. For this reason, and because of the traditional reluctance of banks to remain in debt, a policy which results in borrowing by the banks as a group to secure needed reserves is believed to exercise a restrictive influence on bank credit policies. Therefore, greater reliance on discounting as a source of reserves, as a result of, or in conjunction with, a flexible Federal Reserve open market policy, helps reconcile the economy's need for a flexible credit base with a policy of restraint on the availability of bank reserves to limit over-all credit expansion.

Success in a policy of limited credit availability of the type adopted by the Federal Reserve System in 1952 required that there be either voluntary or imposed inhibitions on the volume of member bank borrowing. Otherwise, attempts to regulate the volume of bank reserves through open market operations, while the "discount window" remained wide open, would be a self-defeating process. The coincidence of a much increased use of the discount apparatus and a sizable expansion of bank credit in the last half of 1952 might have appeared puzzling to some observers. It might even have seemed to indicate a rather general willingness of banks to borrow, for profit-seeking purposes, because of tax benefits and in order to take advantage of a situation in which yields on most money market instruments were in excess of the discount rate. But discount policy has traditionally relied upon the reluctance of American bankers to be in debt at the Reserve Banks (thus placing the Reserve Banks in a position to question and admonish) as a built-in regulator on the use of the discount privilege. Indeed, available statistics indicate that throughout last year the groups of banks that were the most active borrowers were also the most consistent sellers of Government securities and were, generally, those banks which were experiencing some deposit drains and whose total loans and investments showed relatively little expansion. The volume of discounting in the latter part of 1952 was thus a measure of the restrictive effectiveness of System policy, rather than an indication of an inconsistency between open market policy and the use of the discount mechanism.

To some degree, the rate charged member banks for discount accommodation at the Reserve Banks may also serve as a deterrent to borrowing. In earlier years, central bank authorities sometimes attempted to maintain a "penalty" discount rate as a means of regulating borrowing. In actual practice, however, the discount rate could rarely be a penalty rate except with reference to the lowest-yielding credit instruments in the market, as market rates tended to rise with the discount rate. While no point would be served by allowing the discount rate to become fundamentally out of line with prevailing market rates, thus needlessly encouraging borrowing, the penalty rate concept, as such, has not in recent years been the guiding consideration in discount rate policy. Discount rate changes reflect the response of monetary and credit policy to the complex of economic and credit developments; they do not follow automatically from any single set of considerations. Depending upon circumstances, the discount rate may be increased, for example, to signal a shift in the direction of System policy, or an intensification of existing policy. Or it may be increased to conform with a restrictive open market policy and with the market rates that such policy has already helped bring about. It may also be increased simply as a means of reaffirming a policy whose outlines have been blurred or have begun to wear off, with the passage of time since the last policy action.

Effective January 16, 1953 the discount rates of eight of the Federal Reserve Banks were raised to 2 per cent from the rate of 1¾ per cent that had been in effect since August 1950, and the other four Federal Reserve Banks took similar action during the following week. This change largely reflected a continuation of the policy of limiting access to bank reserves that had been in effect in 1952, the discount rate being thus brought more nearly in line with the short-term market rates of interest that had resulted from the continuation of this System policy into the new year.

The Sources, Uses, and Cost of Funds

Heavy demands for credit and capital funds in 1952 were financed, as indicated above, without inflationary pressures being reflected in the price level. The combination of flexible monetary policy, the relatively free markets and freely determined costs of money that such a policy implies, and enlarged liquid savings, were the major factors in cutting the nation's financial cloth to fit the size of its activities in physical terms.

The Over-all Pattern of Borrowing and Lending

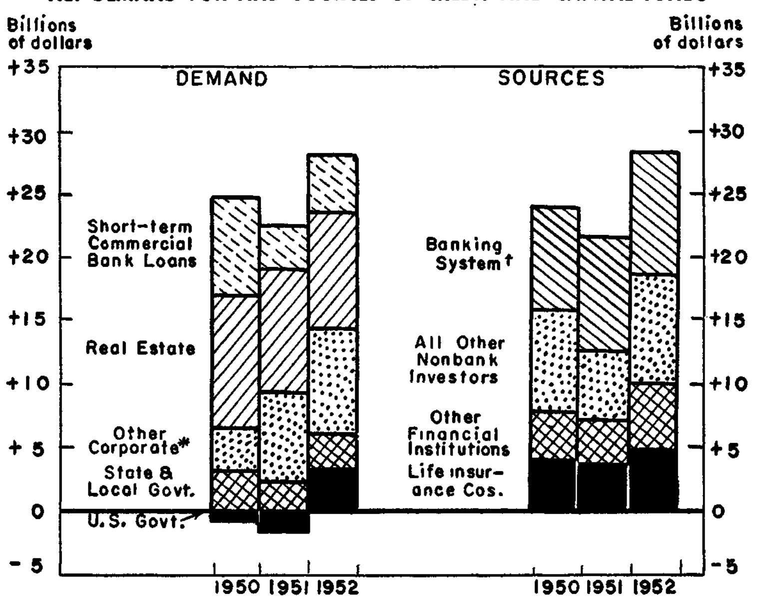
Aggregate demands for funds rose substantially in the year, as shown in the accompanying chart. Almost the entire increase came in the demand for long-term financing. The expansion of shorter-term credit needs was only moderately larger than in 1951; the volume of new borrowing (net) by business was considerably smaller but was more than offset by the increased growth of consumer borrowing from commercial banks. In the capital markets, the major increase in demand came from the various units of government. The expansion in private demand was moderate; increased corporate security financing was in part offset by a small reduction in real estate borrowing.

The Federal Government accounted for most of the growth in governmental demand for funds between 1951 and 1952. Associated almost entirely with expanding outlays for defense, Federal cash expenditures rose more than cash receipts, resulting in a cash deficit for the calendar year 1952 of 1.6 billion dollars, in contrast to a small net cash surplus in 1951. In order to cover this net cash outlay, and to increase the cash balances in its general fund, the Treasury borrowed 3.4 billion dollars net from the market. In 1951 the Treasury had been able to retire net 1.3 billion dollars of outstanding debt held by the public.

Pressing needs for State and local government facilities and services brought peak outlays for public construction in 1952, and resulted in the largest volume of new "municipal" security flotations on record. Offerings of revenue bond issues for the financing of self-sustaining capital projects doubled in volume. However, maturities of outstanding issues, sinking fund retirements, and State and local government trust account purchases reduced, in part, the impact on the market of the large volume of new "municipal" offerings. The net aggregate demand was in the neighborhood of 3 billion dollars.

Corporations likewise raised a record amount of funds through net

NET DEMAND FOR AND SOURCES OF CREDIT AND CAPITAL FUNDS



*Includes the increase in net long-term debt and net new equity security flotations.

†Includes net increase in commercial bank loans and investments and net change in Federal Reserve holdings of Government securities.

new security flotations. Offerings totaled 7½ billion dollars in 1952, compared with 6.1 billion in 1951. Paradoxically, total corporate uses of funds were considerably smaller in 1952 than in 1951. Responding to the Government's program for providing large defense plant capacity, outlays for capital assets increased, but inventory accumulation fell off and was accompanied by a substantial reduction in corporate borrowing from commercial banks. Internal funds generated from corporate operations were not much different in aggregate amount from 1951; a decline in retained earnings was not quite offset by larger depreciation allowances. The additional factor which played a large part in causing the substantial increase of corporate external financing in the new security issue market was the drying-up of tax accruals as a source of additional funds. Current accruals fell off in 1952 because of a reduction in aggregate corporate profits and, as a result, were smaller than actual tax payments made during the year on 1951 liabilities.

The only sector in which private demands for long-term funds rose less than in 1951 was real estate financing. The growth in net debt on small homes and on farms was virtually the same as in 1951, but the volume of net new mortgage financing on commercial building was about ½ billion dollars below 1951, reflecting in large part Government restrictions on such construction. The combined demand for new mortgage money was roughly 9½ billion dollars net in 1952.

A somewhat higher proportion of the supply of funds came from personal savings than in the previous year. Individuals continued to set aside a sizable portion of their growing after-tax incomes. Higher rates of return realized from most types of investment instruments were passed on to individual savers, chiefly in the form of higher interest rates on thrift deposits, and were an additional influence attracting an increased volume of liquid savings to financial institutions. Direct investment of liquid savings by individuals, principally in corporate and municipal securities, also rose substantially, according to reports of the Securities and Exchange Commission for the first nine months of the year.

Nevertheless, the volume of savings of the public was not large enough to meet all demands for long-term and permanent capital; new savings just about kept pace with the expansion of demand. The banking system thus provided to the capital markets nearly the same additional amount of funds as in 1951. However, the expansion in shorter-term bank lending was greater in 1952 than in 1951, principally because of the growth in consumer credit, and consequently the rise in total credit extended by the banking system was larger than in 1951. As indicated earlier in this *Report,* the growth of Federal Reserve credit was considerably smaller in 1952, representing chiefly a drop in net purchases of Government securities.

Conditions in the Capital and Credit Markets

In the case of some markets, such as those for corporate debt instruments and State and local government securities, the aggregate supply of new issues was apparently larger than the volume of currently generated savings initially seeking such investments. Readjustments of portfolios among the various groups of investors consequently occurred as market offerings were distributed. In order to make room for corporate issues, life insurance companies and, to a lesser extent, the mutual savings banks made net sales of Government securities (although much reduced from 1951) and reduced their net purchases of Veterans Administration-guaranteed and Federal Housing Administration-insured mortgages. Other investors took up this slack. Industrial corporations, State and local government investment funds, other nonbank investors, and the banking system absorbed the net sales of Government securities, while savings and loan associations acquired an unusually large proportion of the new mortgages. A large part of the increase in the supply of new State and local issues was absorbed by individuals and personal trusts, but substantial price concessions were required to take many new issues off the market, as it became necessary to attract some investors for whom the tax exemption on these issues was not so important a consideration.

Gross flotations of new corporate security issues (exclusive of investment company securities) reached the all-time high record of 9.7 billion dollars, about 2 billion more than were floated in 1951. Because of rising interest rates on new offerings, refunding issues were small. Exchange offerings plus those issued to retire other types of debt, together with market purchases and retirements of outstanding issues out of general corporate cash balances, brought net new corporate security flotations down to 7½ billion dollars.

Nearly all of the increase in gross new offerings was in debt issues rather than in equities, in keeping both with the apparent preferences of the issuers and with the requirements of major investors in this market. Direct placement of new corporate security issues (almost entirely in the form of debt instruments) with institutional investors, principally with the larger life insurance companies, amounted to 4.1 billion dollars during the year, up 700 million from the previous year's volume. These privately negotiated placements accounted for about 42 per cent of the total new corporate security offerings, compared with 44 per cent in 1951. There was thus an increase of about 1.3 billion dollars in bond flotations offered in the open market through investment bankers, making available a larger supply and diversity of corporate obligations to investors not ordinarily engaged in negotiating direct placements.

Apparently, high dividend yields and Federal corporate income and excess profits tax rates continued to be a deterrent to new equity financing. Offerings of new equity securities in 1952 were slightly less than the previous year's total of about 2 billion dollars, as sales of new preferred stock issues declined by about 300 million dollars. Although favorable levels of prices for outstanding issues prevailed, common share flotations rose only 200 million dollars from a total of 1.2 billion dollars in 1951. Despite the lag in stock financing and the sharp expansion in debt issues, the debt-equity ratio in the capital structure of all corporations as a group showed little change as corporations continued to rely heavily on retained earnings for a large part of their total financing.

Considerable difficulty was experienced in placing some new State and local issues with investors because of the enlarged supply. Expectations of a continuation of this growth in supply and of a reduction in Federal income and excess profits taxes scheduled under existing law for 1953 and 1954, which would reduce the tax-exemption value of municipal bonds, further complicated the marketing process. To clear the market, yields had to approach a point at which such issues would become attractive to investors with less to gain from the tax-exemption privileges of State and municipal securities. Thus, in the closing months of the year, some revenue bonds of State and local governments and independent authorities, being solely dependent upon the earnings of toll highways, bridges, and other facilities for meeting their debt service rather than upon taxes, were sold at yields comparable to those of corporate bonds.

The mortgage market remained relatively strong. Yield differentials were an important factor in determining the form of financing made available for small home purchases. Investors favored the higher-yielding conventional loans over FHA and VA mortgages on which official rates had not been changed. The restrictive credit terms of Regulation X also tended to exercise some restraint on mortgage lending early in the year, but suspension of the Regulation in September was not followed by material changes in the terms of new mortgage loans.

Treasury borrowing was substantially in excess of the small cash deficit realized for the calendar year. The Treasury borrowed to increase its working balances, and to offset a sizable volume of net redemptions of nonmarketable securities and run-offs of maturing marketable issues. The concentration of receipts in the first half of the calendar year under the Mills plan also made it necessary for the Treasury to borrow during the second half of the year in anticipation of heavy tax receipts in the first half of calendar 1953. As a result of these various needs, the Treasury raised 1.9 billion dollars through cash issues in the first half of 1952, and 8.7 billion in the last half. Additions to weekly bill issues during the second quarter of the year provided 1.6 billion, and the remaining 300 million dollars raised during the first half-year was obtained from a combined cash and exchange offering of the 1975-80 nonmarketable, convertible bonds that had been first introduced in March 1951. On July 1, a marketable six-year bond produced 4.2 billion dollars, and issues of tax anticipation bills in October and November provided 4.5 billion. The Treasury also completed exchanges of 28.2 billion dollars of securities for maturing and called issues during the year, exclusive of the regular roll-overs of Treasury bills. Despite the heavy burden imposed on the market by these operations, no serious congestion was created, and the assistance provided by the Federal Reserve System in connection with Treasury exchange and cash offerings was lessened during the course of the year. A small exchange in December was carried through without any direct Federal Reserve support.

The commercial banks were called upon to underwrite a large part of the Treasury's new financing as well as to meet a large part of the additional credit needs of business and consumers and a small part of the requirements of long-term borrowers. The banks purchased initially the largest part of the Treasury's two tax anticipation bill issues in the latter part of the year, gradually selling some of them to other investors, principally industrial corporations. And nearly two thirds of the Treasury's major new money offering, the 4.2 billion issue of 2⅜'s of June 1958 floated in the middle of the year, had become lodged in the banks by the year end, although initially subscribed for in the main by nonbank investors, many of whom were attracted by expectations of a quick profit. On balance, the commercial banks acquired (net) about 1.7 billion dollars of Government securities over the year. Their holdings of medium-term eligible bonds rose appreciably, but most of their purchases were financed with the proceeds of the sale of short-term Treasury securities to State and local government sinking funds, trust accounts, and, particularly in the second half of the year, to industrial corporations investing their tax accruals.

The growth in commercial bank funds placed at the disposal of other capital markets was about the same as in the preceding year. Real estate loans, term loans to business, and net purchases of State and local government securities each rose by ¾ of a billion to one billion dollars in both years.

Private demands for short-term bank credit were somewhat larger than in 1951. As mentioned earlier, a moderate seasonal decline in certain types of business loans in the first half of the year was offset in considerable part by expanding borrowings of defense producers in the metal products industries. For the year as a whole, however, the expansion of commercial and industrial loans of the banks was considerably less than in 1951; but, largely because of a marked increase in consumer loans after Regulation W was suspended in May, the total loans of all commercial banks increased about one billion dollars more than in 1951.

Financing Costs

Only moderate upward adjustments of interest rates resulted from the huge volume of financing requirements in 1952, considering the pressure of demand and the restrictions on the availability of reserves. Bank lending rates on business loans rose mainly at the banks which most frequently adjust their lending rates with changing conditions. The increase was about ¼ of 1 per cent, on the average, for smaller loans (from 4.7 per cent for 1951 to 4.9 per cent in 1952), with somewhat larger increases for the larger-sized loans. Rates on other types of loans, and on credit and investment instruments, also rose moderately. In the urban mortgage field, some institutions which had not raised their rates on new conventional loans in 1951, after removal of Federal Reserve support of the Government bond market, increased their posted rates during 1952 by ¼ to ½ of 1 per cent. The shift away from VA-guaranteed or FHA-insured loans also had the effect of raising average prevailing rates on new mortgages, and some trading in the insured or guaranteed mortgages at discounts from par at times raised their effective yields.

Treasury financing costs also rose somewhat during the year. The yield on new Treasury bills reached a peak rate of about 2¼ per cent in December 1952, approximately ⅜ of 1 per cent above the highest cost of December 1951 bill financing. (The average bill rate receded to about 2 per cent early in 1953.) One-year money rose, generally, by more than ¼ per cent to about 2⅛ per cent. The Treasury paid 2⅜ per cent for six-year money on July 1, compared with yields of 2⅛-2¼ per cent in this part of the market in the corresponding period of 1951. Average yields of medium-term issues rose between 1/5 and 1/4 of 1 per cent over the year. Long-term bonds showed lesser increases in yield, but near the close of December their yields rose slightly above the highs of December 1951.

In contrast, yields on the medium and highest grades of corporate bonds traded in the market declined slightly over the year, despite the record-breaking new issue volume. Average yields for the year as a whole (2.96 per cent for the Aaa and 3.52 per cent for the Baa series) were slightly higher, however, about 1/10 of 1 per cent, than last year's average. But trading in corporate bonds in the secondary market was not extensive, so that quotations on outstanding issues did not always reflect market conditions and the trend of yields for new offerings. The rate of return on new issues of comparable grades, a more accurate barometer, showed a somewhat larger increase in 1952. Nevertheless, yield changes over the year tended to narrow the spread between corporate and Government bond yields. Reflecting the difficulties of clearing the market of supplies of unsold new issues of State and local government securities, which were sizable from time to time, financing costs for these offerings showed the most marked increases, ranging from 1/5 to 1/3 of 1 per cent depending upon the quality of the issue.

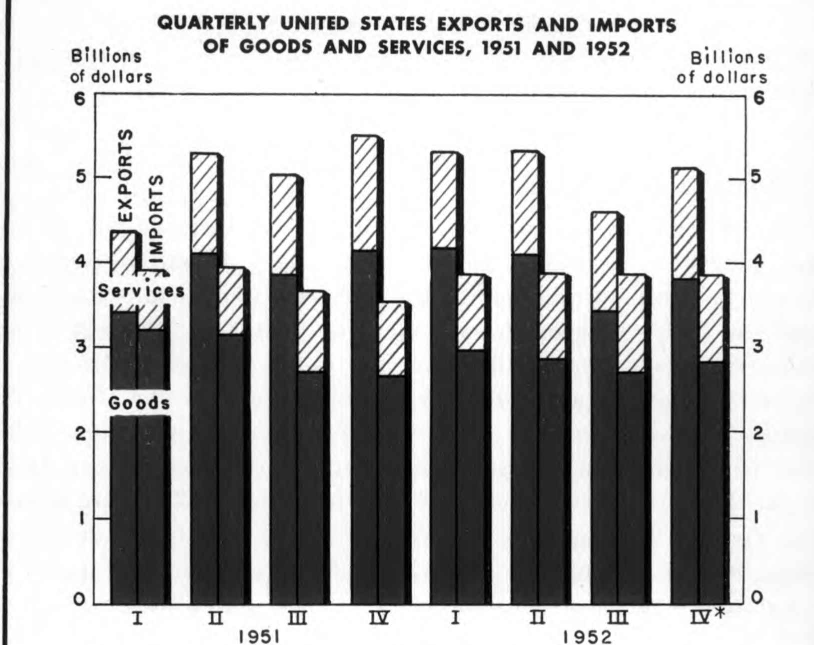
The United States in the World Economy

The Changing Dollar Problem

During 1952, the balance of international payments of the United States underwent a notable change. The heavy balance-of-payments deficits of foreign countries with the United States, which had begun in the summer of 1951, continued through the first quarter of 1952, but in the second quarter a reversal took place, and during the remainder of the year foreign countries as a whole (with some help from our foreign aid program) were able to acquire substantial amounts of gold and dollar assets. The net increase in these holdings attributable solely to transactions with the United States amounted to approximately 1.2 billion dollars during the last three quarters of 1952, contrasted with a loss of almost 1 billion in the preceding nine months. Evidently the corrective measures taken abroad, especially in the sterling area, with a view to arresting the earlier reserve drain had taken effect. To some extent, the reversal of the trend reflects also an abatement of inflationary pressures in important trading areas of the world, as well as improved harvests abroad of certain agricultural products usually imported from the United States. Larger United States Government loans to Europe and rising American military expenditures abroad also affected the reserve position of several foreign countries.

The United States export surplus of goods and services declined only moderately, from 5.2 billion dollars in 1951 to approximately 5.0 billion in 1952; excluding military aid, however, the surpluses were 3.7 billion dollars and 2.6 billion dollars, respectively. (These figures for 1952, and all other balance-of-payments data for the year in this *Report,* are still preliminary.) But these year-to-year comparisons do not reflect adequately certain important developments that affected the various components of the goods and services account. Closely paralleling the shift from losses to gains in foreign gold and dollar assets, our export surplus (excluding military aid), which had amounted to 3.7 billion dollars during the nine months beginning July 1951, fell to 1.5 billion (or by 59 per cent) during the nine-month period beginning April 1952.

Total United States exports of goods and services, aggregating 20.4



*Fourth-quarter data for 1952 are preliminary.

Source: U. S. Department of Commerce

billion dollars in 1952 (including 2.4 billion dollars of military aid), were somewhat higher than during the previous year. The slight rise was almost entirely attributable to an increase in services sold to foreign countries, since merchandise exports, amounting to 15.5 billion dollars, remained at the 1951 level. The 1952 figure for merchandise exports contains, however, noticeably expanded shipments of military equipment which offset a decline in exports of nonmilitary goods. Similarly, a slight increase in United States payments for imports of goods and services, from 15.1 billion dollars in 1951 to 15.4 billion in 1952, was due solely to increased payments on service account. United States merchandise imports in 1952 were almost 400 million below the previous year's level of 11.7 billion, largely as a result of sharply reduced prices for raw material imports. Increased payments for services, on the other hand, reflected in the main substantially higher tourist and troop expenditures abroad as well as larger payments by the United States Government for its share in the construction cost of NATO facilities.

The net outflow of private investment capital did not reach the relatively high level attained in 1951, mainly because of reduced direct investments in Canada and because of some liquidation of Canadian portfolio security holdings by United States investors; both developments occurred during the second half of the year. There was, however, a sharp expansion in disbursements under United States Government credits, the net outflow increasing by more than 450 million dollars over the previous year, with beneficial effects on the foreign dollar reserve position. Included was a 154 million dollar disbursement to France under an Export-Import Bank credit, which was granted to prefinance arms deliveries under United States offshore procurement contracts and which was intended to mitigate France's dollar stringency. Largely because of this payment, total net disbursements by the Export-Import Bank during the year amounted to 207 million dollars as against 69 million in 1951.

This outflow of private and Government capital, combined with private remittances and Government grants, was substantially in excess of the United States current account surplus. The resulting accretion to foreign gold and dollar assets was, of course, not evenly distributed among the major trading areas, the largest share accruing to Western Europe.

The Changing Pattern of Foreign Aid

During 1952, the first full year of the Mutual Security Program, the United States Government's foreign aid activities continued to be geared to its major foreign policy objective — the strengthening of the defenses of the free world, in particular those of Western Europe. Foreign aid transactions in 1952 for the first time fully reflected the shift from economic to military assistance, from stimulating recovery to speeding rearmament, that had been in evidence since Korea. Total Government aid, in the form of both grants and loans, was approximately 4.9 billion dollars, as against 4.6 billion in 1951; this increase was chiefly the result of stepped-up military aid shipments (which accounted for well over half of all grants, compared with one third the previous year), and of larger disbursements under Government credits.

Economic assistance (the so-called "defense support" program), although lower than in 1951, was continued at a considerable rate in order to ease the stresses generated by the armament efforts of certain countries. The United Kingdom, which once more became eligible for such aid early in the year, after having seen it suspended in 1951, was the largest single beneficiary in 1952, receiving over one quarter of all "defense support" given to Western Europe. Moreover, technical assistance (the "Point Four" program) was continued and expanded in the underdeveloped areas of the free world, where the raising of living standards is considered to be a prime prerequisite for political and economic stability. At the end of the year, such assistance was being given to thirty-five countries on three continents.

However, as the year drew to a close it became increasingly clear that considerable changes would take place, affecting both the over-all pattern and the extent of future United States foreign aid. Increased uneasiness abroad over continued dependence upon United States gifts, as exemplified by the call for "trade, not aid", and certain public pronouncements in this country seemed to point toward a reduction in future economic aid. While a sizable backlog of already allocated, but as yet unexpended, military aid appropriations assures a continued and possibly increasing flow of military equipment abroad in the immediate future, there were indications that grants of economic aid in the form of commodities and industrial equipment may be curtailed.

From direct economic aid, the emphasis has been shifting to offshore procurement, i.e., the purchase abroad by the United States of military equipment for both its own and other NATO forces. Under this procedure, which assures the expansion of military production capacity in Europe, while at the same time providing additional dollar earnings to the producing countries, 621 million dollars' worth of contracts were let in the fiscal year 1952, and an additional billion of similar contracting was projected for fiscal 1953. These foreign contracts will, however, remain small, compared with the actual dollar needs of foreign countries, and in the aggregate are likely to be much less than our economic aid grants to Europe in recent years. If, as has been advocated, such aid is to be made unnecessary by dollar flows to the rest of the world through increased imports into the United States and expanded private American investment abroad, there remain, of course, many hurdles to be cleared on both sides.

Financial and Economic Developments Abroad

Rearmament and the Control of Inflation

By mid-1952 the stresses and strains brought about by rising defense expenditures were being widely felt in the Western world. Production generally did not increase as much nor as fast as had been planned, with the result that a number of Western European countries encountered more or less serious difficulties in diverting resources to defense on the scale originally contemplated. In the United Kingdom, the imperative necessity of restoring external balance by expanding exports could not be met without limiting the demands of rearmament on the engineering industries. In France, the defense effort at home and in Indo-China greatly aggravated the budgetary imbalance. In many countries, defense expenditures at the end of the year were running at double the pre-Korea rate, with consequent intensified strain upon their fiscal position, and they were expected to rise further, even though at a slower pace than heretofore. Maintenance of internal financial stability was further threatened, in many instances, by the persistent pressure for higher money incomes and a reluctance, despite the requirements of defense and exports, to forego continuing improvements in the consumption of manufactured goods, as well as public and private investment of a comparatively less essential nature.

Despite these strains, inflationary pressure was brought under improved control during the course of the year. A number of European countries consolidated during 1952 the measure of internal stability that they had attained early in the year; in most industrial countries, economic stabilization was facilitated by falling prices of primary commodities which brought reduced import costs.

The relative stability thus restored throughout much of the Western world was in part attributable to the use of flexible monetary policies. In the United Kingdom, a 1½ per cent increase in the bank rate to 4 per cent in March induced a substantial rise in the short-term interest rate structure; government bond yields also rose, reaching a peak about midyear. The interest rate pattern in the major countries of the overseas sterling area and in Canada likewise moved upward noticeably. On the other hand, in several Continental European countries, which had already resorted extensively to monetary policy in earlier years, both short and long-term interest rates either leveled off or actually declined. Central bank discount rates were reduced in Belgium, Germany, and the Netherlands.

In many countries, the availability of money continued to be restricted by general credit controls, sometimes accompanied by selective controls over particular uses of credit. In addition, the United Kingdom also reduced bank liquidity through debt-funding operations that lowered the outstanding volume of bank-held Treasury bills. In several countries, however, there was a moderate relaxation of restrictive monetary policies, in most cases following an improvement in the country's balance of payments. In addition to the central bank discount rate reductions already mentioned, the Netherlands removed, and Germany reduced, their commercial bank reserve requirements. Canada suspended its selective credit controls, while Australia discontinued central bank control over the purposes for which commercial bank advances might be made.

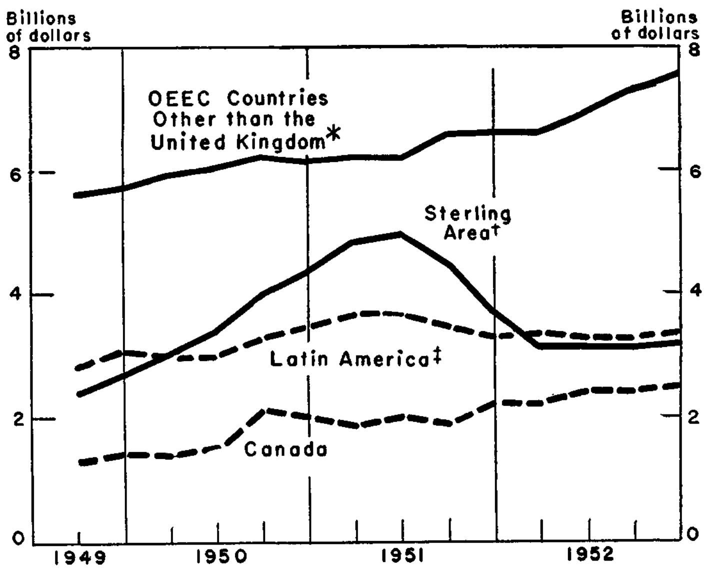
In several countries, the postwar economic expansion slowed down somewhat as the inflation-nurtured boom subsided. As a result, there was a certain amount of apprehension regarding the current outlook, and the falling-off in demand for the products of the textile and some other consumer goods industries was sometimes interpreted as an undesirable decline of aggregate demand. On balance, however, the abatement of inflationary pressure tended to assist some highly desirable shifts in the distribution of productive resources. There was a growing recognition, moreover, of the urgent need for further adjustments in the pattern of production and employment. In the industrial countries, substantial increases in the output of capital goods for defense and exports appeared to be called for, while the primary-producing countries faced the problem of increasing their production of certain foodstuffs and raw materials for which the prospective rise in world industrial output promises an expanding market.

Progress Toward International Payments Balance

Total gold and dollar holdings of foreign countries (including newly mined gold, but excluding all gold reserves of the USSR) showed an increase of over 1.3 billion for the nine months beginning April 1952, when they touched their recent low. As appears from the accompanying chart, Continental Western European countries participating in the Organization for European Economic Cooperation increased their gold and dollar holdings by about 1 billion and Canada by some 300 million. Among the Continental countries, the growth of gold and dollar holdings was especially marked in Belgium, Germany, and the Netherlands. The sterling area started to rebuild its monetary reserves in the latter part of the year. Latin America (as well as the nonsterling-area countries of Asia and Africa, which are not shown in the chart) experienced, in the aggregate, no gain; however, the decline in some countries' aggregate gold and dollar holdings slackened considerably toward the year end, and certain of these countries made substantial additions to their monetary reserves.

As noted in the section dealing with the United States in the world economy, the most significant factor in last year's improvement of foreign gold and dollar holdings was the marked decline in the United States export surplus; a contributing cause of the improvement in reserves was the continued disbursement of United States economic aid. The decline in

GOLD AND DOLLAR HOLDINGS OF SELECTED COUNTRIES AND AREAS



*Including Switzerland, which accounts for about 2 billion dollars of the amount shown in the chart.

†Including the United Kingdom, but excluding Eire and Iceland.

‡Excluding sterling, French-franc, and Dutch-guilder areas.

exports from the United States appeared to be the outcome, to a substantial extent, of a reduction in demand for this country's export products, which in turn reflected basically the abatement of inflationary pressures in many countries and areas. In most industrial countries, the effects on international payments of the slackening of domestic demand and of the resultant reductions in imports were reinforced by the fall in primary commodity prices, which improved their terms of trade. In the primary-producing countries, on the other hand, the fall in commodity prices brought about some reduction in exchange earnings. However, these price declines were from the highest levels ever recorded and a large volume of exports (though somewhat smaller than in 1951) was maintained as a result of the great industrial activity in the United States and Western Europe. On the whole, the return to more competitive price conditions seemed to have contributed to the establishment of a better balance in the economies of the Western world.

The improvement in the international payments positions of certain countries and areas was achieved in part at the cost of imposing new direct restrictions on trade and payments, some of them discriminatory in character. These restrictions inevitably struck at the exports of other countries, with the result that, except in a few places, larger exports contributed little to the general improvement in the balances of payments. More particularly, the value of intra-European trade and of Western European trade with overseas countries other than the United States and Canada receded from the peaks attained in the first quarter of 1952. A large part of the expansion in intra-European trade, which had been achieved mainly as the combined result of the establishment of the European Payments Union and the liberalization of imports, was thus lost. The import restrictions also apparently had the effect of reinforcing the protection of certain industries that were relatively uneconomic or inefficient.

Developments in 1952 showed once again that the international payments problem is by no means merely one of adjustment with the dollar area alone. The European Payments Union was subjected to considerable strain, and some of the EPU creditor countries were confronted with a difficult problem in attempting to devise a policy helpful to the debtor countries without endangering their own monetary stability, and without introducing vexatious controls that would decrease the existing degree of convertibility of their currencies. Another sign of the scope of international payment difficulties was the shortage of sterling in certain Latin American and other countries.

A free multilateral trade system and general currency convertibility had thus not been attained by the year end, although 1952 was supposed to mark the achievement of these objectives as expressed in the Articles of Agreement of the International Monetary Fund. Nor had Western Europe attained the self-supporting status which the European Recovery Program was expected to create by the target date of 1952.

Much, nevertheless, had been accomplished. The deficit of the rest of the world with the United States on account of goods and services (excluding military aid shipments) was reduced from 11.4 billion dollars in 1947 to 2.6 billion in 1952, largely as a result of an increase in United States imports. For the countries that participated in the European Recovery Program (and their dependencies) the deficit with the United States was reduced from 5.7 billion in 1947 to less than 0.5 billion in 1952, and a portion of this remaining deficit was directly attributable to increased defense expenditures and to the disruption of East-West trade. The large increase over prewar in the volume of exports of some European countries, especially the United Kingdom, was another notable achievement. In addition, as a result of Western Europe's remarkable physical reconstruction and industrial modernization and re-equipment, the area's industrial output rose to some 40 per cent above prewar. Meanwhile, the groundwork had been laid for an accelerated economic development of the primary-producing countries.

On the other hand, there still remained a significant shortfall on the achievement of international balance. In the changed circumstances following the Korean outbreak, of course, the same significance could not be attached to 1952 as in the earlier postwar years. The need to strengthen the Western defenses made the restoration of international balance more complex and difficult than had been anticipated. Nevertheless, the gap between attempt and success could not be attributed exclusively to the requirements of defense, since the defense programs were only gradually translated into effective demand, and since, moreover, the diversion of resources to defense was being effected out of a substantially higher output — particularly industrial output — than before the war.

A particularly important aspect of the international payments problem was the way in which the improvement in many foreign countries' dollar position tended to lag behind the improvement in their over-all balances of payments. Despite the abatement of inflationary pressure, the continuing dollar deficits suggested that much remained to be done in the way of transferring resources to dollar-earning or dollar-saving tasks.

Moreover, certain serious distortions that had developed in international price and cost relationships and in exchange rate structures remained to be corrected. Another reason for uncertainty was the apparent inadequacy of some countries' monetary reserves. Wide and sudden swings in world commodity prices during the postwar years exerted a marked influence on the reserve positions of certain industrial countries; in primary-producing countries the reserve positions were affected by a failure to conserve the windfall resulting from high prices and by attempts to rush industrialization. These reserve inadequacies were further accentuated by erratic capital movements.

Nevertheless, the recent improvement in the international payments positions of most Western European countries seems to have been of a sturdier character than the earlier recovery of September 1949-June 1951. In the first place, the recent rise in gold and dollar holdings of the Western European countries was not made at the cost of a general depletion of their raw material stocks. In addition, most of these economies had been operating at close to all-time record levels, despite the subsidence of inflationary demand in domestic and foreign markets. Finally, the ability of these countries to encourage more efficient and productive use of their resources, and thus to sustain long-term international equilibrium, had been enhanced by their increased reliance upon the guidance of the price mechanism and upon controls over the availability and cost of credit.

Developments in the New York Foreign Exchange Market

There was a further increase in activity of the New York foreign exchange market during the past year and the volume of trading appeared to be the largest since before World War II. As in recent years, most of the trading was concentrated in the pound sterling, the Canadian dollar, and the Swiss franc, with sterling turnover predominating.

Increased interest and activity in the pound sterling reflected, to a large extent, the greater freedom given to banks in the United Kingdom in dealing in United States dollars and the widening of the Bank of England's official rates; both developments occurred in December 1951. The New York spot quotation for the pound ranged between the official limits of $2.78 and $2.82, holding for most of the year below $2.80. In March, following the budget speech of the British Chancellor of the Exchequer, the rate rose to $2.81 3/8, which proved to be the high for the year, and in the latter part of the year it again strengthened to reach $2.81. Quotations for sterling for forward delivery followed the same general pattern as the spot rate, three and six-month contracts being quoted at discounts as wide as 3-1/16 cents and 5-19/32 cents, respectively, in January 1952 and as narrow as 11/32 and 27/32 of a cent at the end of the year. In general, there was a good demand for sterling in the New York market during the year and, in fact, because of the British import restrictions and other factors which tended to curtail the supply of sterling in the New York market, banks here were compelled to look to London for some of the supply.

New York trading in the Canadian dollar was considerably more active than in recent years, reflecting the action taken by the Canadian Government in December 1951 in releasing all controls over the Canadian dollar. Stimulated largely by a movement of United States capital (and also foreign capital invested in the United States) to Canada for investment purposes, the Canadian dollar in the early part of 1952 rose to a premium vis-a-vis the United States dollar for the first time since November 1933. By August, the Canadian dollar had reached a premium of 4-11/32 per cent over the United States dollar. The rate eased subsequently, and in the latter part of the year it leveled off at a premium of about 3 per cent.

The rate for the Swiss franc appreciated from a low of $0.2287½ in the latter part of January 1952 to a high of $0.2334½ at the end of the year. Among other currencies, the free rate for the Uruguayan peso fluctuated within a wide range, moving from a high of $0.4245 in mid-January to a low of $0.34 at the beginning of April. At the end of the year, the Uruguayan peso was quoted in the free market at $0.37. There were no significant developments in other foreign exchanges traded in New York.

Volume and Trend of the Bank's Operations

Domestic Operations

The general rise of economic activity in 1952 was reflected in a higher physical and dollar volume of the varied operations of this bank. The only significant reduction in duties resulted from the termination of the Reserve System's responsibilities for selective control over the terms of consumer and real estate credit, and the dissolution of the Voluntary Credit Restraint Program.

As noted in earlier sections of this *Report,* the member banks increasingly availed themselves of the discount facilities of the Reserve Bank in order to fill temporary needs for reserves. The number of applications for discounts and advances received and processed at this bank in 1952 increased 26 per cent over the previous year to 3,925, the largest number since 1934. There were 350 member banks in this District which borrowed at some time during the year. The aggregate dollar volume of all loans made during the course of the year rose by 74 per cent, to 23.5 billion dollars, the largest amount since 1929.

The larger demands of the member banks for currency and coin to meet their customers' needs in 1952 were reflected in the further rise in this bank's sorting and counting activity shown in the accompanying table. Shortages of coin, which had been persistent during much of 1951, were generally alleviated in 1952. The supply was sufficient for all requirements except during the seasonal peak at the close of the year, when allotments among member banks were resumed for a brief period. The number of Government checks handled increased 4 per cent; of non-Government checks, 6 per cent. The aggregate number of checks — 490.7 million — was processed more efficiently and with less time lag than in recent years because of an increase in operator efficiency brought about by a slackening in the turnover of the personnel involved, and aided by the use of new electrical proof machines of greater capacity. Substantial progress was also made in improving operating techniques for the clearance of postal money orders, a duty assumed for the postal authorities on July 1, 1951. A volume of 58.4 million items was attained in 1952, the first full calendar year of operation. Among the collection items shown in the table, United States Government coupons paid and "all other collection items" continued the trends discussed in last year's *Annual Report.* One new item, however, is shown for the first time, namely, "Credits for direct sendings of collection items". This item, which increased moderately in 1952, measures the work involved in sending advices to member banks to notify them of credits due them for items they have sent directly to other Federal Reserve Banks for collection.

The security operations handled by the bank as fiscal agent of the United States were of moderately larger volume in 1952 than in 1951. The number of transactions in United States Savings bonds — the most important fiscal agency item from the standpoint of physical volume — increased 6 per cent, almost entirely because of an increase in sales of small denomination issues. The work performed on a fiscal agency basis for the International Bank for Reconstruction and Development was reduced sharply, as smaller issues were sold in 1952 and fewer temporary serial issues were exchanged for permanent bonds. Work connected with the

Some Measures of the Volume of Operations of the Federal Reserve Bank of New York

(Including Buffalo Branch)

*Number of pieces handled**	1952	1951
Discounts and advances	3,925	3,118
Currency received and counted	1,065,539,000	1,054,382,000
Coin received and counted	1,415,250,000	1,382,011,000
Gold bars and bags of gold coin handled	158,000	259,000
Checks handled:		
United States Government checks	53,308,000	51,168,000
All other	437,439,000	411,951,000
Postal money orders handled	58,405,000	26,676,000†
Collection items handled:		
United States Government coupons paid	4,584,000	4,895,000
Credits for direct sendings of collection items	330,000	317,000
All other	7,114,000	6,393,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Savings bonds	24,082,000	22,715,000r
All other United States obligations	2,954,000	3,132,000
Obligations of the International Bank for Reconstruction and Development	117,000	259,000
Safekeeping of securities:		
Pieces received and delivered	5,494,000	4,592,000
Coupons detached	2,286,000	1,905,000
Transfers of funds‡	308,000	294,000
Amounts handled		
Discounts and advances	$ 23,472,385,000	$ 13,521,593,000
Currency received and counted	6,903,818,000	6,769,646,000
Coin received and counted	131,711,000	126,156,000
Gold bars and bags of gold coin handled	2,188,845,000	3,581,392,000
Checks handled:		
United States Government checks	22,711,540,000	19,074,453,000
All other	286,386,244,000	267,749,478,000
Postal money orders handled	874,402,000	399,667,000†
Collection items handled:		
United States Government coupons paid	1,093,483,000	1,161,784,000
Credits for direct sendings of collection items	717,888,000	708,100,000
All other	1,285,007,000	1,034,657,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Savings bonds	1,832,959,000	1,993,231,000r
All other United States obligations	275,711,978,000	271,679,053,000
Obligations of the International Bank for Reconstruction and Development	239,558,000	366,076,000
Safekeeping of securities:		
Pieces received and delivered (par value)	377,410,875,000	349,940,698,000
Transfers of funds‡	253,479,280,000	219,197,584,000

r Revised.

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

† Six months ended December 31, 1951.

‡ Includes wire and mail transfers; excludes Treasury transfers and Reserve Bank interdistrict settlements.

safekeeping of securities for member banks did not change materially in 1952. The increases shown in the accompanying table in the data for pieces received and delivered from safekeeping reflected larger receipts of unissued securities for the purpose of building up an emergency stockpile and the handling of unissued stock incident to the Treasury's revised terms for Savings bonds which became effective May 1, 1952.

The number of wire and mail transfers of funds increased 5 per cent, compared with 13 per cent a year ago, and their dollar value rose 16 per cent, compared with 31 per cent last year. The bulk of those transfers are made for the larger New York City banks located in the downtown area, both for their own account and for the accounts of their customers, and the advices and authorizations they require were formerly delivered by messenger. After extensive testing, it was decided that the installation of equipment for the facsimile transmission of the advices and authorizations would be a feasible and worthwhile means of expediting the work. Participation in the project was offered to the local banks and, by October 14, 1952, fifteen of them had installed the equipment necessary to link them and this bank. Since then, transfer service has improved, and to date the participating banks, which bear 50 per cent of the cost of the project, feel that the network has fulfilled expectations.

The continued growth in most of the operational tasks performed by the bank in 1952 required a larger work force and the average number of employees on the staff increased approximately 5 per cent, compared with the previous year. At the end of 1952, however, total employment (exclusive of officers) at the head office in New York and at the Buffalo Branch equaled 3,950, or slightly less than the total of 3,981 on December 31, 1951.

Foreign and International Operations

Earmarked gold, dollar deposits, U. S. Government securities, and miscellaneous assets held for foreign account at the Federal Reserve Bank of New York increased by slightly more than 1 billion dollars during 1952, bringing the total at the year end to nearly 7.1 billion dollars, a figure not far from the all-time high of 7.5 billion reached in March 1951. This was a reversal of the marked downward trend during the second half of 1951, which had resulted in total assets falling by 1.2 billion dollars net during the year as a whole. All of the principal types of assets held for foreign account participated in the rise in 1952. U. S. Government securities, principally Treasury bills, increased 773 million dollars, earmarked gold rose by 213 million, and dollar deposits by 24 million.

Assets held for the International Bank and International Monetary Fund (which are not included in the above figures) were little changed during the year.

Accounts were opened with this bank, as principal, by two recently established central banks, the Banque Centrale du Congo Belge et du Ruanda-Urundi (which assumed the central banking functions of the Banque du Congo Belge) and the Banco Central del Paraguay (which similarly succeeded the Banco del Paraguay). The Government of Japan also opened an account, designating a subaccount for the Minister of Finance. This subaccount was established as an evidence of good faith in connection with the settlement of outstanding Japanese dollar bonds. The Central Corporation of Banking Companies of Hungary closed its account.

As in the previous year, activity in loans on gold to foreign central banks was at a comparatively low level during 1952, only one central bank being a borrower. The maximum amount of loans outstanding during the year was 45 million dollars, and at the year end only 29.5 million was outstanding. The gold loan policy of the bank, which has been described in the *Annual Reports* for 1946 and 1947, remains unchanged.

As fiscal agent of the United States, the bank continued to administer for the Treasury Department the blocking regulations affecting assets in the United States of Communist China and North Korea and their nationals, and transactions with those countries. During the year 6,800 applications were filed with the Foreign Assets Control Department.

The bank also continued to operate the United States Stabilization Fund pursuant to authorization and instructions of the Treasury Department.

Financial Statements

Statement of Condition

Total assets of this bank increased an additional 180 million dollars in 1952, and at the year end were 13,456 million dollars — the largest amount on record except for 1948. The principal changes during 1952 consisted of a rather large reduction in "total cash" which was more than offset by a further substantial rise in holdings of U. S. Government securities and lesser increases in discounts and advances and "uncollected items".

The most important component of "total cash" — gold certificate holdings — declined 811 million dollars in 1952, whereas a year ago a rise of 256 million occurred. This reversal of trend stemmed entirely from an unfavorable balance of payments with other Reserve Districts, as international gold movements, the other major element affecting the balance, provided a substantial increment in 1952, compared with only a minor increase in 1951.

The increase in the portfolio of U. S. Government securities (705 million dollars) reflected not only this bank's share of the net market purchases by the System Open Market Account but also a larger volume of direct purchases of a temporary nature by the New York Reserve Bank from dealers who were committed to repurchase within a short time. Discounts and advances showed only a year-to-year increase of 112 million dollars because of the usual member bank aversion to showing borrowings on their year-end condition statements. Actually, the member bank use of the borrowing privilege during 1952 was the greatest since 1929 and, together with the increase in this bank's security holdings, was the means by which this bank supplied most of the reserves required by Second District member banks to meet the credit needs of the economy.

Assets of the Federal Reserve Bank of New York

(In thousands of dollars)

Assets	*Dec. 31, 1952*	*Dec. 31, 1951*
Gold certificates	5,977,523	6,788,866
Redemption fund for Federal Reserve notes	135,378	78,065
Other cash	64,367	69,697r
Total cash	6,177,268	6,936,628
Discounts and advances	114,924	2,595
Industrial loans	—	23
U. S. Government securities	6,213,352	5,508,485
Total loans and securities	6,328,276	5,511,103
Other assets:		
Due from foreign banks*	7	9
Federal Reserve notes of other banks	32,307	22,622
Uncollected items	874,505	769,587
Bank premises	7,292	7,464
All other	36,637	28,929r
Total other assets	950,748	828,611
Total assets	13,456,292	13,276,342

* After deducting participation of other Federal Reserve Banks amounting to	16	19

r Revised.

Among the liabilities, Federal Reserve notes of this bank outstanding in the hands of the public increased an additional 208 million dollars, or 3.7 per cent, in 1952 to attain a new peak of 5,796 million dollars. This rise for the Second District compares with an increase of 4.7 per cent in the country as a whole, for which outstandings also reached the highest year-end level on record, 26,250 million dollars.

The member bank reserve account showed a net decline of 184 million dollars in 1952 despite an increase in required reserves that stemmed from a moderate rise in deposits. This situation resulted in a greater deficiency

Liabilities of the Federal Reserve Bank of New York

(In thousands of dollars)

Liabilities	*Dec. 31, 1952*	*Dec. 31, 1951*
Federal Reserve notes	5,796,489	5,588,434
Deposits:		
Member bank—reserve accounts	6,184,727	6,368,672
U. S. Treasurer—general account	44,922	202,462
Foreign*	184,537	165,651
Other	334,153	220,194
Total deposits	6,748,339	6,956,979
Other liabilities:		
Deferred availability cash items	628,042	461,363
All other	5,996	4,642
Total other liabilities	634,038	466,005
Total liabilities	13,178,866	13,011,418
Capital accounts:		
Capital paid in	80,139	75,471
Surplus (Section 7)	167,503	159,744
Surplus (Section 13b)	7,319	7,319
Other capital accounts	22,465	22,390
Total capital accounts	277,426	264,924
Total liabilities and capital accounts	13,456,292	13,276,342
Contingent liability on acceptances purchased for foreign correspondents†	5,977	6,095
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	*48.7%*	*54.7%*
* After deducting participation of other Federal Reserve Banks amounting to	365,403	360,707
† After deducting participation of other Federal Reserve Banks amounting to	13,815	14,818

at the end of 1952 than a year previous, reflecting the larger adjustments that were required to enable member banks to avoid showing heavy indebtedness in their year-end statements. The member banks in this District also had to meet substantial losses of reserves during the year through a net outflow of commercial and financial funds to other districts and transfers into foreign and other deposit accounts maintained at the Reserve Bank. Net Treasury expenditures in this area and the flow of gold from abroad, however, provided sufficient funds to offset a large part of these reserve losses. For the remainder, the member banks turned to the Reserve Banks for temporary accommodation while they gradually liquidated a portion of their Government security holdings.

Capital accounts, in the aggregate, increased 12.5 million dollars during the year. Approximately 7.8 million dollars of net earnings was added to the regular surplus (Section 7). "Capital paid in", reflecting payments for additional shares by member banks that increased their own capitalization (either by the reinvestment of earnings or by the sale of new capital stock), rose by 4.7 million dollars.

The decline in gold certificate reserves in this District (754 million dollars after giving effect to the change in the redemption fund), in conjunction with a virtually unchanged level of deposit and note liabilities combined, resulted in a relatively sharp decline—from 54.7 per cent to 48.7 per cent — in this bank's reserve ratio.

Earnings and Expenses

Gross earnings of the Federal Reserve Bank of New York increased 14.2 million dollars in 1952 to a new high of 104.2 million. Of the year's increase, 11.8 million dollars, or 83 per cent, resulted from a further rise in income from this bank's portion of the Government security holdings of the System Open Market Account. This in turn was due primarily to the higher rates paid by the Treasury on issues refunded during the year, although the average volume of the System's holdings through the year was also slightly higher than in 1951. Income from discounts and advances increased from 1.7 million dollars in 1951 to 3.2 million in 1952 because of the substantial increase in the volume of member bank borrowing.

Expenses increased by 1.8 million dollars during the year to a total of 22.4 million. The greatest part of the increase was occasioned by larger outlays for salaries and wages, although sizable increases also occurred in postage and expressage expense, depreciation, equipment rentals, and the cost of supplying Federal Reserve currency. Reflecting the much greater rise in earnings than in expenses, net earnings before additions or deductions increased 12.4 million dollars to a record amount of 81.8 million.

Changes in additions to or deductions from net earnings were generally small, the principal one being the transition from last year's loss of 0.4 million on the sale of U. S. Government securities to a profit of 0.5 million in 1952.

Net earnings after all adjustments increased to 82.2 million dollars, or 13.2 million more than in 1951. The usual statutory dividend of 6 per cent, amounting to 4.6 million dollars, was paid to the member banks. Of

Statement of Earnings and Expenses For the Calendar Years 1952 and 1951

(In thousands of dollars)

	1952	*1951*
Earnings	104,207	90,019
Expenses	22,367	20,599
Net earnings before additions and deductions	81,840	69,420
Additions to net earnings:		
Profit on sales of U. S. Government securities (net)	459	—
All other	1	21
Total additions	460	21
Total net earnings and additions	82,300	69,441
Deductions from net earnings:		
Loss on sales of U. S. Government securities (net)	—	371
Reserves for contingencies	76	65
All other	5	2
Total deductions	81	438
Net earnings	82,219	69,003
Distribution of net earnings:		
Dividends paid	4,627	4,465
Paid United States Treasury (interest on Federal Reserve notes)	69,833	58,084
Transferred to surplus (Section 7)	7,759	6,454
Total	82,219	69,003
Surplus account (Section 7):		
Surplus—beginning of year	159,744	153,290r
Transferred from net earnings for year	7,759	6,454
Surplus—end of year	167,503	159,744r

r Revised.

the remaining net earnings, 69.8 million, or 90 per cent, was transferred to the United States Treasury in payment of an interest charge levied by the Board of Governors of the Federal Reserve System under Section 16 of the Federal Reserve Act on Federal Reserve notes not covered by gold certificates. The balance of the year's earnings, 7.8 million dollars, or 10 per cent of net earnings after dividends, was transferred to the bank's regular (Section 7) surplus account.

Changes in Membership

During 1952 the total number of banks in this District that are members of the Federal Reserve System declined from 737 to 720. In this period, 17 member banks merged with other banks, two national banks converted to State nonmember banks, and one State bank withdrew from membership. Three State banks were readmitted to membership. The 720 member banks constitute 87 per cent of all national banks, State banks, and trust companies in this District, and hold 96 per cent of the total assets of all such institutions.

NUMBER OF MEMBER AND NONMEMBER BANKS IN SECOND FEDERAL RESERVE DISTRICT AT END OF YEAR
(Exclusive of savings banks, private bankers, and industrial banks)

Type of bank	December 31, 1952			December 31, 1951		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	498	0	100	510	0	100
State banks and trust companies	222	106	68	227	111	67
Total	720	106	87	737	111	87

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1952

Total membership beginning of year	737
Increases:	
State banks and trust companies admitted	3
Decreases:	
Member banks combined with other members	16
Member bank combined with nonmember	1
Withdrawal from membership	1
National banks converted into nonmember State banks	2
Total membership end of year	720

The return of three State banks to membership was a direct result of amendments adopted July 15, 1952 to the provisions of Federal law regarding the establishment of branch banks. Each of these three banks, which had previously withdrawn from membership in order to establish a branch beyond the corporate limits of the community where its head office is located, could do so under State law but could not meet certain capital requirements under Federal law. The amendments eased these requirements and made it possible for these banks to come back into membership with their existing capital and still retain the out-of-town branches established in the interim.

Changes in Directors and Officers

Changes in Directors

In April 1952, the Board of Governors of the Federal Reserve System appointed Philip Young, Dean, Graduate School of Business, Columbia University, a Class C director for the unexpired term ending December 31, 1952, to fill the vacancy caused by the death of Robert P. Patterson. Mr. Young was subsequently re-appointed a Class C director by the Board of Governors for the three-year term beginning January 1, 1953.

Member banks in Group 1 re-elected Clarence Francis, Chairman of the Board, General Foods Corporation, New York, N. Y., as a Class B director for a term of three years beginning January 1, 1953.

In November 1952, W. Randolph Burgess, Chairman of the Executive Committee, The National City Bank of New York, N. Y., was elected by member banks in Group 1 as a Class A director for a term of three years beginning January 1, 1953, to succeed John C. Traphagen, Chairman of the Board, The Bank of New York, New York, N. Y., whose term expired December 31, 1952. Mr. Burgess did not assume this office in view of his acceptance of appointment as Consultant and Special Deputy to the Secretary of the Treasury on Debt Management and Monetary Policies.

The board of directors of the bank appointed Bernard E. Finucane, President, Security Trust Company of Rochester, Rochester, N. Y., and Edward P. Vreeland, President, Salamanca Trust Company, Salamanca, N. Y., as directors of the Buffalo Branch for terms of three years each, beginning January 1, 1953. Mr. Finucane was re-appointed; Mr. Vreeland succeeded George F. Bates, Vice President of The Marine Trust Company of Western New York (in charge of the Power City Trust offices, Niagara Falls, N. Y.), whose term expired December 31, 1952. Edgar F. Wendt, President, Buffalo Forge Company, Buffalo, N. Y., was also re-appointed a director of the Buffalo Branch, by the Board of Governors, for a three-year term beginning January 1, 1953. The board of directors of the bank designated Robert C. Tait, President, Stromberg-Carlson Company, Rochester, N. Y., as Chairman of the board of directors of the Buffalo Branch for the year 1953.

Changes in Officers

James J. Carroll, Assistant Vice President, who had been with the bank since 1942, resigned as of March 20, 1952, in order to return to the active supervision of the business in which he had been engaged before he came to the bank.

C. Richard Youngdahl, on temporary leave of absence from the Board of Governors, was appointed an Acting Manager, effective March 31, 1952, and assigned to the Securities Department. Mr. Youngdahl returned to his position as Chief of the Government Finance Section of the Division of Research and Statistics at the Board of Governors on June 10, 1952.

Gustav Osterhus, Manager, Bank Examinations Department, who had been with the bank since August 1921, retired, effective April 1, 1952, because of ill health. Mr. Osterhus died on August 17, 1952.

Donald C. Niles, formerly Chief of the Disbursing Division, Accounting Department, was appointed a Manager and assigned to the Planning Department, effective April 7, 1952.

Lawrence E. Quackenbush, a senior examiner in the Bank Examinations Department, was appointed an Acting Manager and assigned to the Bank Examinations Department, effective April 21, 1952. On September 15, 1952, Mr. Quackenbush was appointed a Manager, his assignment to the Bank Examinations Department being continued.

Otto W. Ten Eyck, Assistant Vice President, who had been with the bank since 1920 and had reached retirement age, left the bank on April 30, 1952.

Charles N. Van Houten, Assistant Vice President, who had been with the bank since July 1916 and had reached retirement age, retired effective June 1, 1952.

Arthur H. Willis, formerly a Special Assistant in the Securities Department, was appointed Acting Assistant Secretary, effective August 7,

1952. On September 15, 1952, Mr. Willis was appointed Assistant Secretary.

Paul R. Fitchen, formerly Manager of the Cash Department, was appointed an Assistant Vice President, effective September 15, 1952, upon his return to the bank after an extended leave of absence as financial adviser to the Union Bank of Burma.

Edward G. Guy's appointment as Assistant Secretary was terminated, effective September 15, 1952. Mr. Guy continues as Assistant Counsel.

O. Ernest Moore, Manager of the Research Department, returned to the bank on October 1, 1952, after an extended leave of absence as financial adviser to the Government of Haiti, under assignment by the Technical Assistance Administration of the United Nations.

William F. Palmer, formerly Controller of the American Airmotive Corporation, was appointed a Manager and assigned to the Accounting Department, effective October 15, 1952.

Alfred L. Pitts, Assistant Counsel, who had been with the bank since October 1941 and had reached retirement age, retired, effective January 1, 1953.

Wesley W. Burt, Manager, Savings Bond Department, who had been with the bank since September 1917 and had reached retirement age, retired, effective January 1, 1953.

Harold M. Wessel, formerly Manager, Accounting Department, was appointed Assistant Vice President of the Buffalo Branch, effective January 1, 1953.

Frederick L. Smedley, formerly Chief of the Check Division (Day), Check Department, was appointed a Manager and assigned to the Personnel Department, effective January 8, 1953.

Member of Federal Advisory Council

The board of directors of this bank selected Henry C. Alexander, President of J. P. Morgan & Co. Incorporated, New York, N. Y., to serve during the year 1953 as the member of the Federal Advisory Council from the Second Federal Reserve District.

Directors and Officers

Class	Group	Directors	Term expires Dec. 31
A	1	Vacancy	1955
A	2	Burr P. Cleveland President, First National Bank of Cortland, Cortland, N. Y.	1953
A	3	F. Palmer Armstrong President, The Keyport Banking Company, Keyport, N. J.	1954
B	1	Clarence Francis Chairman of the Board, General Foods Corporation, New York, N. Y.	1955
B	2	*Marion B. Folsom Rochester, N. Y.	1953
B	3	*Jay E. Crane Vice President, Standard Oil Company (New Jersey), New York, N. Y.	1954
C		*Robert T. Stevens, *Chairman, and Federal Reserve Agent* Director, J. P. Stevens & Co., Inc., New York, N. Y.	1953
C		William I. Myers, *Deputy Chairman* Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1954
C		Philip Young Dean, Graduate School of Business, Columbia University, New York, N. Y.	1955

Directors — Buffalo Branch	Term expires Dec. 31
Robert C. Tait, *Chairman* President, Stromberg-Carlson Company, Rochester, N. Y.	1953
C. Elmer Olson President, The First National Bank of Falconer, Falconer, N. Y.	1953
Lewis G. Harriman President, Manufacturers and Traders Trust Company, Buffalo, N. Y.	1954
Clayton G. White Dairy farmer, Stow, N. Y.	1954
Bernard E. Finucane President, Security Trust Company of Rochester, Rochester, N. Y.	1955
Edward P. Vreeland President, Salamanca Trust Company, Salamanca, N. Y.	1955
Edgar F. Wendt President, Buffalo Forge Company, Buffalo, N. Y.	1955

Member of Federal Advisory Council — 1953

Henry C. Alexander,
President, J. P. Morgan & Co. Incorporated,
New York, N. Y.

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* See footnote on page 64.

Officers

Allan Sproul, *President*
William F. Treiber, *First Vice President*

Harold A. Bilby, *Vice President*
Herbert H. Kimball, *Vice President*
L. Werner Knoke, *Vice President*
Walter S. Logan, *Vice President and General Counsel*
Arthur Phelan, *Vice President*
Harold V. Roelse, *Vice President*
Robert G. Rouse, *Vice President*
Valentine Willis, *Vice President*
Reginald B. Wiltse, *Vice President*
John H. Wurts, *Vice President*

Todd G. Tiebout, *Assistant General Counsel*
Rufus J. Trimble, *Assistant General Counsel*

Donald J. Cameron, *Assistant Vice President*
Howard D. Crosse, *Assistant Vice President*
Felix T. Davis, *Assistant Vice President*
Norman P. Davis, *Assistant Vice President*
Paul R. Fitchen, *Assistant Vice President*
Marcus A. Harris, *Assistant Vice President*
Silas A. Miller, *Assistant Vice President*
Horace L. Sanford, *Assistant Vice President*

Wiliam F. Abrahams, *Manager, Security Custody Department*
Harry M. Boyd, *Manager, Cash Custody Department*
John J. Clarke, *Secretary, and Assistant Counsel*
Harding Cowan, *Assistant Counsel*
Clifton R. Gordon, *Assistant Counsel*
Edward G. Guy, *Assistant Counsel*
William A. Heinl, *Manager, Savings Bond Department*
Peter P. Lang, *Manager, Collection Department*
Angus A. MacInnes, Jr., *Manager, Check Department*
Spencer S. Marsh, Jr., *Manager, Securities Department*
Michael J. McLaughlin, *Manager, Government Check Department*
O. Ernest Moore, *Manager, Research Department*
Herbert A. Muether, *Manager, Building Operating Department*
Donald C. Niles, *Manager, Planning Department*
Arthur H. Noa, *Manager, Service Department*
William F. Palmer, *Manager, Accounting Department*
Franklin E. Peterson, *Manager, Cash Department*
Lawrence E. Quackenbush, *Manager, Bank Examinations Department*
Robert V. Roosa, *Manager, Research Department*
Walter H. Rozell, Jr., *Manager, Foreign Department*
Ralph W. Scheffer, *Manager, Government Bond Department*
Kenneth E. Small, *Manager, Personnel Department*
Frederick L. Smedley, *Manager, Personnel Department*
Thomas O. Waage, *Manager, Public Information Department*
A. Chester Walton, *Manager, Bank Relations Department*
Walter C. Warner, *Manager, Credit Department, and Manager, Discount Department*
Roy E. Wendell, *Manager, Safekeeping Department*
Arthur H. Willis, *Assistant Secretary*

Curtis R. Bowman, *General Auditor*

OFFICERS — BUFFALO BRANCH

INSLEY B. SMITH,
Vice President

HAROLD M. WESSEL,
Assistant Vice President

GEORGE J. DOLL,
Cashier

GERALD H. GREENE,
Assistant Cashier

M. MONROE MYERS, *Assistant Cashier*

INDUSTRIAL ADVISORY COMMITTEE

WILLIAM H. POUCH, *Chairman*
Chairman of the Board, Concrete Steel Company,
New York, N. Y.

ARTHUR G. NELSON, *Vice Chairman*
Chairman of the Board,
A. G. Nelson Paper Company, Inc.,
New York, N. Y.

EDWARD J. NOBLE,
Chairman of the Board,
American Broadcasting Company, Inc.,
New York, N. Y.

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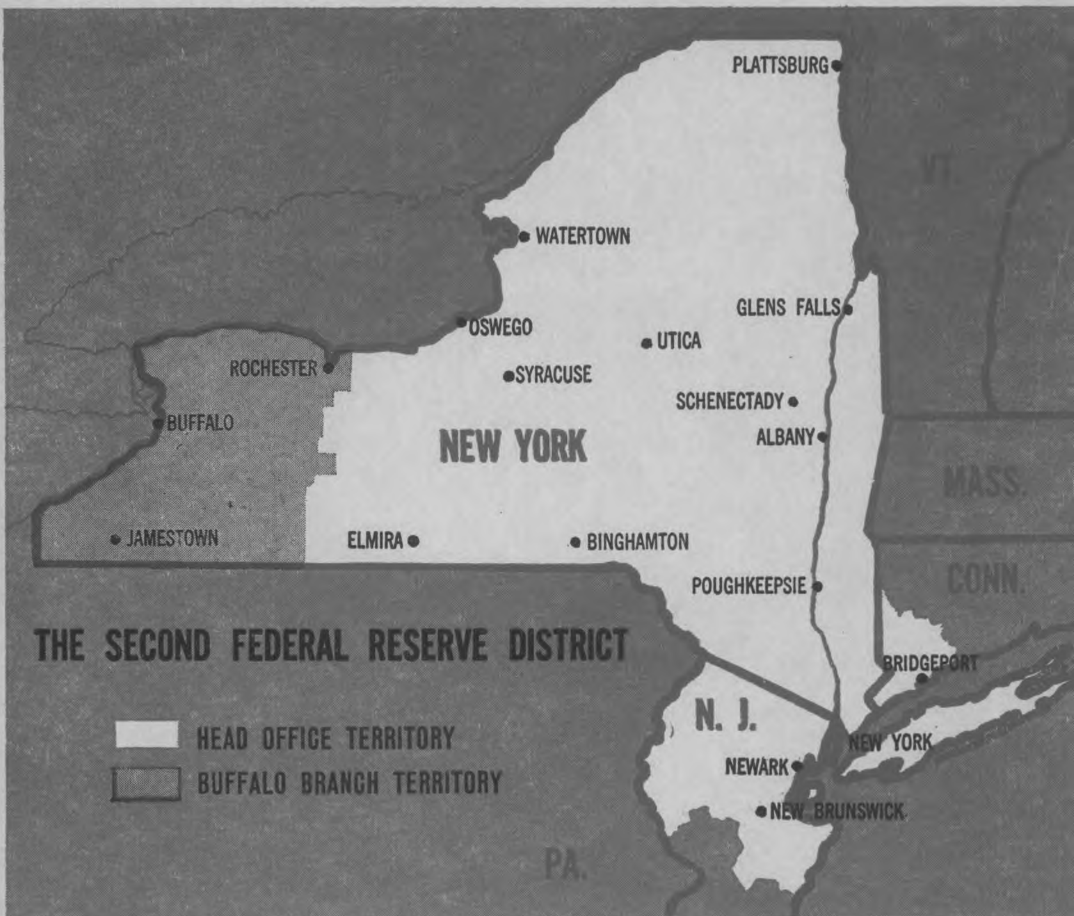
* The following changes which occurred during January 1953 have not been reflected in this List of Directors:

Mr. Folsom resigned as Class B director, effective January 19, 1953, to accept appointment as Under Secretary of the Treasury.

Mr. Stevens resigned as Class C director, and as Chairman and Federal Reserve Agent, effective January 19, 1953, to accept appointment as Secretary of the Army.

To succeed Mr. Stevens, the Board of Governors appointed Mr. Crane, effective January 20, 1953, a Class C director for the unexpired portion of the three-year term ending December 31, 1953 and designated him Chairman and Federal Reserve Agent for the remainder of 1953.


PLATTSBURG
VT.
WATERTOWN
GLENS FALLS
OSWEGO
UTICA
ROCHESTER
SYRACUSE
SCHENECTADY
BUFFALO
ALBANY
NEW YORK
MASS.
JAMESTOWN
ELMIRA
BINGHAMTON
CONN.
POUGHKEEPSIE
THE SECOND FEDERAL RESERVE DISTRICT
BRIDGEPORT
N. J.
HEAD OFFICE TERRITORY
NEW YORK
NEWARK
BUFFALO BRANCH TERRITORY
NEW BRUNSWICK
PA.