THIRTY-THIRD

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1946

LETTER OF TRANSMITTAL

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, June 17, 1947.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Thirty-third Annual Report, prepared by direction of the Board of Governors of the Federal Reserve System, covering operations during the calendar year 1946.

Yours respectfully,

M. S. ECCLES, *Chairman.*

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ANNUAL REPORT OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

During 1946 inflationary developments gained impetus in the United States. In the last half of the year, after the abandonment of most of the stabilization controls, commodity prices in general rose more sharply than in any period of similar length since 1917. Many prices were close to or above previous peaks. Unusually wide variations in rates of increase for different commodities and services were creating serious distortions in the price structure. As the year ended it remained to be seen how far inflationary influences had spent their force or whether they might lead to further price rises.

This inflationary aftermath of wartime monetary expansion and shortages of goods occurred notwithstanding rapid reconversion to peacetime production and a lessening of the inflationary impact of current fiscal and monetary developments. During the war, as explained in the Board's *Annual Report* for 1945, requirements of war finance had necessarily dominated fiscal and monetary policies. Because of the wartime excess of current incomes (after taxes) over goods and services available for purchase, there was an inevitable growth in liquid assets, i.e., bank deposits, currency, and Government securities, held by individuals and businesses. This high degree of liquidity, together with heavy current and deferred demands and continued shortages of goods and services, generated strong pressures toward rising prices during the transition period.

Notwithstanding shortages of materials, industrial strife, and other obstacles, production of civilian goods increased rapidly to new high levels in 1946. Millions of demobilized veterans and workers released from other war activities were quickly absorbed in peacetime pursuits. Incomes rose above the wartime peak. Consumers' expenditures showed a phenomenal and generally unexpected expansion; business inventories increased rapidly, and there were unusually large additions to plant and equipment. Construction increased greatly as additional supplies of materials became available. Finally, the endeavor to meet urgent shortages in other countries resulted in a volume of exports larger than in any previous peacetime year. These demands more than offset the effects of the further decline in Government war expenditures.

MONETARY SITUATION IN 1946

Monetary and credit expansion slackened in 1946. Following the ending of hostilities the Federal Government's budgetary deficit was drastically reduced, and for the year as a whole the Treasury's cash receipts exceeded cash payments. About 23 billion of the 280 billion dollar public debt outstanding at the end of February was paid off in 1946 by drawing upon large Treasury deposits built up at commercial banks during the Victory Loan Drive. The reduction in public debt was reflected in a decrease in bank holdings of Government securities and in bank loans on such securities, as well as in Government deposits at banks. Important trends of war years were thus reversed.

Bank loans increased sharply in 1946 and at the end of the year total loans of all banks were larger than at any time since 1930. Loans to commerce and industry, to owners of farms, homes, and other real estate, and to consumers accounted for the 1946 expansion. In part, these increased loans to private borrowers reflected the credit needs of the expanding peacetime economy, but some of the credit extended was probably used for speculative purposes. In either case the loans added to the capacity of borrowers to bid for scarce resources and augmented inflationary pressures. The increase in consumer loans, which reflected in part the growing supply of consumers' durable goods, was restricted somewhat by the Board's Regulation W. Toward the end of the year this regulation was substantially amended, principally by releasing noninstalment credits from its restrictions.

Bank loans on securities declined sharply over the year. Most of the decrease was in loans to finance the purchase of Government securities, but stock market credit also declined. In the early months, when stock prices were rising and the market was active, the reduction in credit reflected action by the Board in January raising margin requirements from 75 to 100 per cent to prohibit further extensions of credit for purchasing or carrying stocks. Later in the year declining stock prices also contributed to liquidation of stock market credit.

Total bank deposits decreased during the year, owing to the use of Treasury balances to retire bank-held Government securities. Deposits held by the public, however, continued to increase, although at a slower rate than during the war years. The public's total holdings of liquid assets also expanded at a more moderate pace than in the war years. Corporations maintained their bank deposits at a high level, but reduced their holdings of Government securities, while individuals continued to expand their deposits and made little change in their holdings of Government securities. Growth of currency in circulation, which had been rapid in wartime, virtually ceased in 1946.

Retirement of the public debt by the Treasury had the effect of putting some pressure on the reserve positions of banks and thus tended to restrict further expansion of bank credit. Of the securities retired 4.5 billion dollars were held by the Federal Reserve Banks and the redemption of these securities with funds drawn from commercial banks reduced bank reserves. Retirement of securities held by nonbank holders resulted in a shift of deposits from Treasury war loan accounts, against which no reserves were required to be held, to other accounts, against which reserves were required, and thus increased the reserve needs of banks. Retirement of bank-held debt reduced Treasury deposits at banks and bank holdings of short-term securities by corresponding amounts and had no effect on the reserve position of banks. In addition to these pressures, the deposit growth resulting from loan expansion also increased the reserve needs of banks. Banks, therefore, in addition to having their securities portfolios reduced by debt retirement, had to sell Government securities to the Reserve System in order to maintain their reserve positions.

Another factor putting some restraint on expansion of bank credit was the discontinuance by the Federal Reserve Banks of their preferential discount rate of ½ per cent on advances to member banks secured by Government securities maturing or callable within one year. This action, taken in the spring, made it necessary for borrowing banks to pay the regular discount rate of one per cent and thereby discouraged the practice being followed by some banks of borrowing to meet reserve needs instead of liquidating Government securities.

Pressures resulting from these developments greatly diminished further monetization of the public debt by the banking system, to which attention was called in the Board's *Annual Report* for 1945. During 1945 and the early part of 1946 banks had increased their holdings of Government securities, particularly of long-term issues. This expansion was based in part on excess reserves temporarily available during war loan drives and more permanently on reserve funds obtained through sales of short-term low-rate issues to the Federal Reserve System at the established pattern of rates. The reserves created provided the basis for a multiple credit expansion. This practice had the effect of expanding bank deposits and of depressing long-term interest rates. Under the changed banking conditions prevailing during most of 1946, banks were less inclined to sell short-term securities for the purpose of expanding further their holdings of longer-term securities, and largely confined such sales to meeting deficiencies in required reserves in part resulting from increased loans. This readjustment in banking practice helped to retard the pace of bank credit and monetary expansion during 1946 and to lessen the creation of new inflationary pressures from this source.

Federal Reserve policy continued, as throughout the war, to be directed toward maintaining orderly conditions in the Government securities market and the general level of prices and yields of such securities. These policies facilitated the operation of the Treasury's vast financing program, helped to maintain the confidence of investors in the value of Government securities, and prevented unsettlement of the Government securities market such as followed the previous world war. Notwithstanding inflationary tendencies otherwise present, the prices of Government bonds continued substantially above their par values.

POSTWAR MONETARY POLICY

Authorities continue to be faced with the problem of adapting to peacetime requirements the monetary and fiscal structure inherited from wartime financing. In this, monetary policy will need to be closely related to the management of the public debt, and will require continued cooperation between the policies of the Treasury and the Federal Reserve.

Unless appropriate policies are devised to deal with the problems arising from an overly ample money supply, a vast public debt, extensive holdings of Government securities by the commercial banking system, and the existing structure of interest rates, the monetary and credit situation can be an unstabilizing element in the economy for many years. The Federal Reserve System will need to regain control over the volume of credit and to exercise some measure of flexibility in credit policy, while maintaining the low cost of debt service and continued stability in the Government security market.

Although developments in 1946 restrained the expansion in total bank credit and money supply and halted the decline in long-term interest rates that had resulted in the course of war finance, some of the conditions responsible for these tendencies continue to exist. Commercial bank holdings of Government securities at the end of 1946 were 50 billion dollars above prewar holdings. Over 40 billion of the bank holdings mature or are callable within five years. Commercial banks can readily obtain additional reserves by selling some of these securities to the Reserve System, which will have to purchase them if it wishes to maintain stability in the Government securities market. The assurance of stability in turn renders long-term securities the more attractive to bank investors. With a slowing down of the debt-retirement program and a decline of bank earnings in prospect, shifting into longer-term issues may be resumed in the future. Continued credit expansion and further downward pressure upon long-term rates of interest would result.

Under existing powers of the Federal Reserve System and with the necessity for maintaining stability in the market for the vast and widely distributed public debt, it is not possible for the Reserve System to maintain the same degree of control over the supply of bank reserves, and hence over potential credit expansion, that it formerly had. Certain measures of monetary regulation that can be adopted might exercise a degree of restraint, although they would not be sufficient to counteract strong tendencies toward inflationary or speculative credit expansion. Some of these measures are discussed in the following paragraphs.

Treasury refunding policies. To prevent further credit expansion at this time, the sale of Government securities to banks by nonbank holders should be discouraged. A shift of holdings from banks to other investors should be encouraged, so as to absorb available savings not attracted into private investment outlets. Much can be accomplished toward these ends through the selection of securities to be offered by the Treasury in its large-scale refunding of maturing issues during the years to come.

Securities offered to absorb the savings of the public should not be marketable issues of the conventional types. Long-term marketable issues, being subject to Federal Reserve support in case they should tend to decline in price, are in effect demand obligations bearing a higher rate of return than is customary for short-term securities. Because of the excess of long- over short-term rates, moreover, prices of long-term bonds rise for a period as they approach maturity; holders may, therefore, sell them before maturity at a premium and thus obtain an even higher return than that offered by the interest coupon.

Additional offerings of long-term marketable securities, even though initially ineligible for purchase by banks, would encourage some holders to sell existing issues of eligible securities to banks in order to purchase new issues. The resulting increase in available longer-term issues would again offer banks an opportunity to sell short-term securities to the Reserve Banks and to purchase longer issues, thus leading to creation of reserves and further multiple credit expansion. The refunding of short-term securities held by banks with marketable securities at existing long-term rates, therefore, would raise the interest cost of the Treasury without accomplishing the purpose of curtailing bank holdings or checking their expansion.

Such long-term bonds as need be issued to absorb the savings of the public not invested in private outlets should be in a nonmarketable form. They should be redeemable on demand prior to maturity at a discount so as to give a lower yield if not held until maturity, and sales should be limited to the amount of current savings or net additions to investment funds of the purchasers. These bonds would be similar to the present Series G savings bonds, with differences as to purchase limits and maturities. Through such an instrument an appropriate rate could be paid for genuine long-term savings, and the income of bona fide investors could be protected and their capital safeguarded against loss in case of necessary liquidation before maturity. Through these issues, the Treasury at the same time would be protected against having to pay a high coupon rate on highly liquid securities to purchasers who hold for a short period only.

Interest rates. In view of the large supply of Government securities of various types and issues outstanding and the possibility that banks may wish to increase their earnings, the tendency for banks to sell short-term securities to the Reserve System and purchase longer-term issues may recur at any time. The inducement for such shifts could be diminished by a narrowing of the margin between short-term and long-term rates on market issues of securities. If short-term rates are kept down, however, and such shifting in bank holdings does recur, rates on long-term marketable issues would tend to decline.

In view of the large public debt outstanding, it is desirable to maintain at the existing low levels the rate at which the Government can borrow on its long-term obligations. At the same time, it will be desirable to avoid further declines in rates which reflect the pressure of excessive bank credit expansion rather than a surplus of current savings over the capital demands of business. Further declines in long-term rates would reduce the return on savings invested in marketable issues and lower the incomes of endowed and savings institutions which depend on earnings from investments. This would seriously impair the functions of these institutions and lead to a weakening of our social and economic structure.

If the tendency for banks to shift from short-term to longer-term securities should be resumed, it could be discouraged by discontinuance of the Federal Reserve policy of purchasing short-term Government securities at present low rates. This would result in a rise in short-term interest rates and thus reduce the incentive for further monetization of the public debt. While it would continue to be necessary for the System to support Government securities and maintain an orderly market, the relationship between rates for various types of market issues might be permitted to become more responsive to demand and a greater degree of flexibility would be restored to control of credit through the money market.

New credit control powers needed. It should be recognized, however, that higher rates on short-term Government securities would not in themselves restore to the Federal Reserve System an adequate degree of control over the supply of bank credit. A readjustment of short-term rates and the introduction of some flexibility into rate policy would provide some check to further bank shifting and credit expansion, but it would not wholly solve the problem. As banks become accustomed to the higher level of short-term rates, and restricted longer-term issues become eligible for bank purchase in the market, a tendency to shift may reappear.

More important, an increase in short-term rates would not prevent the shifting by banks from holdings of Government securities to private loans or corporate securities, if attractive loans or investments were available. On the basis of such shifts the banking system would be in a position to create reserves and to engage in uncontrolled credit expansion. Under existing Federal Reserve powers there is no assurance that such a development could be prevented except by permitting interest rates to rise to a point that would unstabilize and perhaps demoralize the entire Government securities market.

Effective regulation of bank credit expansion in the future can be assured only by providing for a more direct way of decreasing the ability of banks to shift at will their holdings of Government securities to the Reserve System and thus to engage in excessive credit expansion. An attempt to restrict credit through sale by the System of securities in the open market or even by limiting the System's purchases might cause sharp declines in prices of

Government securities which could not be tolerated and which might fail to accomplish the desired purpose. In Canada and England monetization of the public debt by banks is limited by well-established banking traditions, and by informal understanding between the authorities and the relatively small number of banks operating in those countries. These arrangements are not possible in this country with its 14,000 independent commercial banks.

If, in the changed postwar situation, the Reserve System is to be able to perform the function for which it was established, namely, to adjust the supply of bank credit and money to the needs of the economy, and, especially, to prevent undue credit expansion in periods of inflation, additional powers will be required. In its 1945 *Annual Report* the Board proposed for consideration by the Congress various measures which, if adopted, singly or in combination, would give the Reserve System a more effective degree of control over bank credit and over the level of interest rates. The problems then presented will continue for many years. Action along these lines will be needed to rehabilitate the traditional instruments of Federal Reserve policy—open-market operations, discount rates, and reserve requirments—and to assure a reasonable degree of financial stability in the future.

LEGISLATIVE PROPOSALS

Purchase of Government securities directly from Treasury. Under existing law the Federal Reserve Banks have temporary authority to purchase Government securities directly from the United States, subject to the limitation that the amount of securities so purchased and held by them at one time shall not exceed 5 billion dollars. There was practically no limitation on such purchases until they were prohibited by the Banking Act of 1935. Large-scale Treasury operations during the war led to the modification of that restriction under the War Powers Act, which expired on March 31, 1947. The Board, with the concurrence of the Treasury Department, recommended to the Congress that this authority be extended, and a bill granting a three-year extension was signed by the President on April 28, 1947.

While not used extensively, the authority has proved a useful means of facilitating Treasury operations and of effecting temporary adjustments in the money market. It has provided the Treasury with a line of credit to which it may turn to obtain funds to meet temporary contingencies, ordinarily around tax payment dates, and has made it possible for the Treasury to operate with a smaller cash balance than might otherwise have been necessary, thus effecting savings in the cost of carrying the public debt.

Consumer credit regulation. In its 1945 *Annual Report,* the Board recommended that Congress give consideration to legislation which would authorize the Federal Reserve System to continue regulation of consumer credit. The use of consumer credit has been increasing rapidly since V-J Day, notwithstanding the restraint imposed by the Board's Regulation W, and is likely to increase more rapidly in the future as more consumers' durable goods become available, as wartime savings are drawn down, and as instalment sellers, sales finance companies, banks, and other credit-granting institutions increase their competitive efforts to expand their business. The Economic Report of the President to the Congress on January 8, 1947, stated that "undue expansion of deficit financing on the part of millions of American families can gravely hurt our business system."

The experience of this country over the quarter century before the war suggests that increased use of consumer credit, particularly instalment credit, to finance the purchase of durable goods, may be needed to sustain long-term economic growth. This experience also shows, however, that over-expansion and subsequent severe contraction of consumer credit can have highly unstabilizing effects on the national economy.

Excessive fluctuations in consumer credit could be restrained by regulation, flexibly administered, such as the Board has maintained since 1941 on the basis of a wartime Executive Order. The Board does not feel, however, that the authority should be continued on this basis beyond the time required for appropriate legislative review and determination by the Congress as to whether the consumer credit problem should have specific legislation.

Regulation of this type is particularly appropriate at the present time when the supply of money is already excessive in relation to the available volume of goods. It can restrain excessive demands for credit by limiting the borrowing capacity of prospective purchasers of goods without operating, as general instruments of credit policy must do, by increasing the cost of credit to the Government or to industry.

In present circumstances producers and distributors of consumers' durable goods have a broad and active market, at prevailing prices. In course of time, however, as production catches up with deferred demand, they will need to take steps to broaden the market. In the long run, the sound and tested method of free enterprise would be to find ways of gradually lowering prevailing prices. That is the direction which competition should take, and will sooner or later have to take. To stave it off by attempting to maintain prevailing prices through the competitive granting of easier and easier credit terms might work for a short time, but only at the cost of eventual convulsive readjustment. Continuance of consumer credit regulation of the type now in effect can do much, both now and later on, to prevent competition from taking that economically unsound direction.

Reserve Bank guarantee of loans to business. In order that there may be a means of prompt financial assistance to small- and medium-size business enterprises whenever the need occurs, the Federal Reserve Banks should have authority to guarantee in part business loans made through established banking channels. Accordingly, the Board has recommended to the Congress that such authority be provided. Under the proposal the Reserve Banks would guarantee business loans made by chartered banks. Guarantees would be subject to a fee charge which would increase with the guarantee percentage. The maximum guarantee would be 90 per cent. A major purpose of the recommendation is to strengthen and make more effective existing facilities for financing small enterprises, and particularly to assure an adequate and continuing availability of long-term loans to these businesses.

In proposing the legislation to provide this authority, the Board has also recommended repeal of Section 13b of the Federal Reserve Act, adopted in 1934, which empowers the Federal Reserve Banks to make and to guarantee industrial loans. Certain provisions of this section have proved so restrictive as seriously to impair the ability of the Reserve Banks to lend directly to business or to assist banks and other lenders in such lending. In lieu of Section 13b, the Board has recommended that a paragraph be added to Section 13 of the Federal Reserve Act authorizing the Federal Reserve Banks to guarantee loans made by chartered banking institutions to business enterprises on a much more effective basis than that permitted by present law.

By the repeal of Section 13b, the Federal Reserve Banks would be required to return funds heretofore advanced to them by the Treasury to help support their industrial loan activities. The appropriation of about 139 million dollars available under existing law for industrial loan operations of the Reserve Banks would be repealed and Government appropriations would no longer be used for this purpose. A bill containing these provisions was introduced in Congress early in 1947.

This legislation, which would be strictly permissive, would not place the Reserve Banks in competition with the private banking system. Loans guaranteed would originate with local banks dealing with local people whom they know and with whose character, capability, and capacity they are familiar. No loan would be considered for guarantee except on request of the lender prior to extension of credit, and the Reserve Bank to which the guarantee request was made would have full responsibility for acting on it. The twelve Federal Reserve Banks and their twenty-four branches afford a regional organization through which established banks in all areas of the country would have convenient access to a guaranteeing agency.

The principal purpose of the legislation would be to make term loans, especially to smaller businesses, for the purpose of providing them with necessary capital that they could not otherwise obtain. It would fill a gap in private financing that now exists by enabling these enterprises to obtain essential financing. The costs of going to the capital markets for small business are prohibitive. Also, many banks properly feel that they cannot extend some term credits without a degree of protection. The bill provides for a way of spreading the risk through insurance for a fee. It is not the purpose of the bill to provide guarantees for either short- or long-term financing which banks can and should extend without assistance.

The basic need of the smaller, independently owned business enterprises is for long-term funds. Some businesses need funds for modernization of plant and equipment and additional facilities. The need also arises from the sharp increase in prices and greatly expanded volume of business resulting in a much larger volume of accounts receivable and of inventories. Because of these various factors many enterprises whose financing needs have ordinarily been met through current borrowings now need a funding of their short-term obligations into a term loan.

Owners of small enterprises, as a rule, prefer to obtain funds on a loan rather than on an equity basis because they do not wish their stock ownership to be diluted or to run the risk of losing control of the business. Term loans amortized out of profits meet this need. This type of financing is particularly suitable for small businesses that can retire loans only gradually.

The proposed guarantee procedure established by the Federal Reserve Banks would be subject to general regulations prescribed by the Board and to several statutory limitations. No guaranteed loan could have a maturity of more than 10 years. The guarantee would not exceed 90 per cent of any loan. The aggregate amount of all guarantees would not exceed the combined surplus of the twelve Federal Reserve Banks. The total amount of all guarantees which are individually in excess of $100,000 would not be permitted to exceed 50 per cent of the combined surplus of the Reserve Banks.

Authorization of the Reserve Banks to guarantee business loans in part would apply tested principles and procedures. Even under the restricted powers granted in 1934, the Reserve Banks have approved 3,542 applications amounting to a total of nearly 570 million dollars. For the System as a whole the interest and fees collected have exceeded expenses and losses. During the war, the Reserve Banks acquired further loan guarantee experience in their administration as fiscal agents of the War Department, Navy Department, and United States Maritime Commission of the V-loan program for guaranteeing war production loans. They processed authorizations for 8,771 of such loans, aggregating 10.5 billion dollars. Guarantee fees collected by the Reserve Banks far exceeded their expenses and the losses sustained by the guarantors.

Limitation on Federal Reserve branch buildings. As the result of the tremendous increase in the operations of the Federal Reserve Banks and their branches, especially in their fiscal agency operations for the Treasury Department and other Government agencies, the building facilities of many of the branches of the Federal Reserve Banks have become inadequate for the effective performance of their functions. Consequently, the Board has recommended legislation which would permit necessary construction of Federal Reserve Bank branch buildings, exclusive of vaults, machinery, etc. The cost would be met entirely from Federal Reserve Bank resources.

Bank holding company legislation. The need for new legislation to provide more effective supervision and control of bank holding companies and to curb abuses in that field continues to be a matter of serious concern to the Board. As pointed out in the Board's *Annual Report* for 1943, Congress attempted to deal with this matter in the Banking Act of 1933, but experience has demonstrated that the existing law is clearly inadequate to accomplish its purposes. To correct this situation, the Board has recommended legislation which would treat bank holding companies in much the same manner as banks themselves and would include provisions regulating expansion and requiring the divorce of activities unrelated to banking. Bills designed to carry out the Board's recommendations were introduced in Congress in 1945 and 1946, but no action was taken. The abuses described in the Board's 1943 Report continue and the urgent need for legislation still exists.

Capital requirements for member banks. The Board has recommended repeatedly the enactment of legislation which, particularly so far as capital requirements are concerned, would eliminate existing discriminations against national and State member banks with respect to the operation of branches and in this regard place them on a comparable basis with State nonmember banks. The Board continues to feel that such legislation is necessary. The laws of many States permit State banks to operate branches with much less capital than that required of national and State member banks under Federal law. This results in unfair discrimination against member banks and, in effect and without justification, closes the door in many instances to membership of sound banks in the Federal Reserve System. There are also other provisions of the law with respect to capital requirements for membership in the System which prevent State banks, that otherwise would be entitled to the privilege, from becoming members, and the Board believes consideration should be given by the Congress to changes in these provisions.

GOVERNMENT FINANCE IN TRANSITION

Following drastic reduction of Federal Government expenditures during the second half of 1945, the decline during 1946 was at a much slower rate. Budget expenditures, which reached a wartime peak of 27 billion dollars in the second quarter of 1945, fell to 12 billion dollars by the first quarter of 1946, and amounted to 9 billion in the last quarter. Notwithstanding lowered individual income tax rates in 1946, receipts remained large, reflecting the continued high level of national income.

For the year as a whole, as shown in the accompanying table, budget expenditures were only slightly larger than budget receipts, compared with a deficit of 44 billion dollars in 1945. The large cash balance, built up to 26

BUDGET EXPENDITURES AND RECEIPTS AND CHANGES IN PUBLIC DEBT
[In billions of dollars, for calendar years]

	1946	1945
Expenditures[1]	45.1	89.8
Net receipts	41.6	46.0
Budget deficit	3.5	43.7
Change in general fund balance	−22.5	+ 3.8
Change in gross public debt: total	−19.0	+47.5

[1] Including net expenditures of trust accounts, etc.

billion dollars during the Victory Loan Drive, was drawn upon to retire outstanding public debt, which was reduced by 19 billion dollars during 1946.

The publicly-held marketable debt decreased by 22 billion dollars in 1946 and savings notes outstanding by 2.5 billion. Savings bonds, on the other hand, increased by 1.6 billion dollars; Series F and G bonds continued to increase, while redemptions of Series E bonds, although declining from the high rate at the beginning of the year, continued to exceed sales. Special Treasury issues to Government trust accounts and to members of the Armed Forces (leave bonds) increased by more than 5 billion dollars.

The total public debt continued to increase somewhat in the first two months of the year, reaching a peak of 280 billion dollars at the end of February, and then was reduced to 259 billion at the end of the year. From the beginning of the debt-retirement program on March 1 to the end of the year, marketable public debt was reduced by 23 billion dollars. Maturing bonds amounting to 2 billion dollars and about half of the 13 billion of maturing notes were paid off in cash, as were somewhat over 14 billion dollars out of 38 billion of maturing certificates. The remaining notes and certificates retired were replaced by new certificate issues. At the end of 1946 the total amount of certificates and notes outstanding was smaller than at any time since early 1944, but owing to the amount of bonds approaching maturity, the total volume of outstanding issues maturing within one year continued relatively large.

The debt-retirement program was the major factor bringing about changes in the ownership of marketable debt throughout the year, but there were also some shifts through market purchases and sales. By far the largest reduction in holdings of Government securities occurred in the case of commer-

CHANGES IN OWNERSHIP OF UNITED STATES GOVERNMENT SECURITIES DURING 1946

[Partly estimated; par value, in billions of dollars]

Type of issue	Total outstanding	U.S.Gov't agencies and trust funds	Federal Reserve Banks	Commercial banks[1]	Mutual savings banks	Insurance companies	Indiv's, corp's, and others
Marketable public issues: total	**−22.2**	**−0.7**	**−0.9**	**−15.9**	**+1.1**	**+0.9**	**−6.7**
Treasury bills			+1.9	−1.3			−0.6
Certificates	−8.2		−0.9	−6.9	+0.2	+0.1	−0.7
Treasury notes	−12.9		−1.8	−9.6			−1.5
Treasury bonds: total	*−1.1*	*−0.7*	*−0.2*	*+1.9*	*+0.8*	*+0.8*	*−3.7*
Due or callable—							
Within 5 years	+9.7			+7.3	+0.4	+0.6	+1.4
5 to 10 years	−5.7	−0.3	−0.1	−4.4		−0.1	−0.8
10 to 20 years	−2.6	+0.2		−1.3	−0.2	+0.6	−1.9
Over 20 years	−2.4	−0.7		+0.2	+0.6	−0.3	−2.2
Nonmarketable public issues: total	**−0.5**			**−0.1**			**−0.4**
Savings bonds[2]	+1.6						+1.6
Savings notes	−2.5						−2.5
Other	+0.5			−0.1			+0.6
Special issues	**+4.6**	**+4.6**					
Total interest-bearing securities[3]	**−18.3**	**+3.9**	**−0.9**	**−16.0**	**+1.1**	**+0.9**	**−7.3**

[1] Includes holdings by commercial banks covered in the Treasury Survey of Ownership of Government securities.
[2] Series A-D, E, and F savings bonds included at current redemption values.
[3] Total includes guaranteed securities not included in preceding groups.

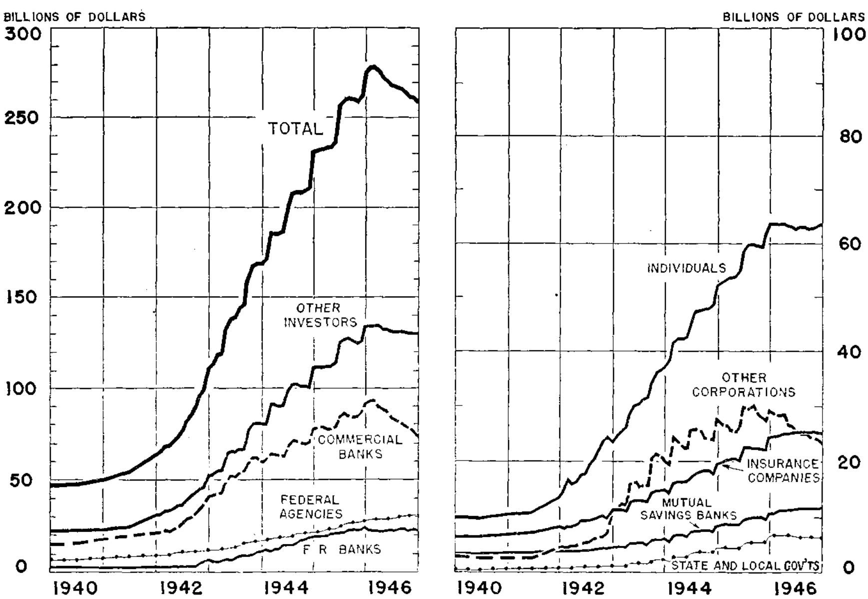
NOTE: Detailed figures may not add to totals because of rounding.

cial banks, which held about half of the issues retired. As shown in the table, commercial bank holdings declined by 16 billion dollars. This reflected retirement of about 12 billion and sales of about 4 billion. The sales were mostly to the Reserve Banks to replace reserves absorbed by retirement of Reserve Bank holdings. As a result there was little net change in the System's portfolio, although 4.5 billion dollars of its holdings were retired.

Other groups, which received nearly 7 billion dollars for retired issues, repurchased about 2.5 billion of Government securities in the market. Individuals and corporations, however, sold long-term issues (mostly acquired in war loan drives) to institutional investors and apparently increased their holdings of short-term issues, after allowance for retirements.

The reduction in United States Government security holdings by commercial banks was mostly in Treasury certificates and notes. Notwithstanding the loss of reserve funds under the retirement program, bank investment in bonds continued in moderate amount and was made possible on the basis of reserves gained from the sale of short-term issues to the Federal Reserve Banks and from other sources. The expansion of bond holdings was considerably less, however, than during earlier years when current financing made available a rapidly growing supply of long-term bonds and nonbank investors sold existing issues to commercial banks in order to buy new issues. Reduction in bank holdings of short-term issues during 1946 lengthened

OWNERSHIP OF U. S. GOVERNMENT SECURITIES



NOTE: All data are end-of-month figures, for June and December, 1939-41; monthly thereafter. The groups shown on the right-hand side of the chart are the components of the "Other investors" group shown on the left-hand side.

the average maturity distribution of bank holdings somewhat, more than offsetting the effects of passing time in shortening the average maturity. By maturity groups, the largest increase in holdings occurred in the 1-5-year class although there was also some increase in maturities over 20 years.

Changes in the ownership of total interest-bearing United States Government securities—marketable plus nonmarketable—are shown in the chart. The reduction in holdings of marketable debt was offset, to a small extent, by increased holdings of nonmarketable issues. Holdings of special issues by Government agencies and trust funds continued to increase; savings bonds, held largely by individuals, also increased further, while tax and savings notes, held principally by corporations, declined.

MONEY RATES AND BOND YIELDS

Increased pressure on bank reserves and the lengthened average maturity of bank portfolios resulting from debt retirement, together with elimination of the preferential discount rate, contributed to a slight firming of rates in the money market. It was not possible for rates to rise much since the Federal Reserve System continued to purchase and sell Treasury bills at 3/8 per cent and to support the certificate rate at 7/8 per cent. Under this policy, the large holdings of short-term securities by the banking system provided the basis for an almost unlimited supply of low-cost bank credit altogether at the discretion of individual banks.

By early May all of the Reserve Banks had discontinued the preferential discount rate on advances to member banks secured by Government obligations maturing or callable within one year.[1] Following elimination of this special rate of 1/2 per cent, which had been put into effect during October 1942, the discount rate of one per cent became applicable to advances secured by all maturities of Government obligations. In July following this action several large commercial banks raised their charges on loans secured by Treasury certificates of indebtedness from 7/8 to one per cent and on those secured by longer-term Treasury issues from 3/4 to one per cent. Also, the rate on brokers' borrowings was advanced from 1 to 1 1/2 per cent.

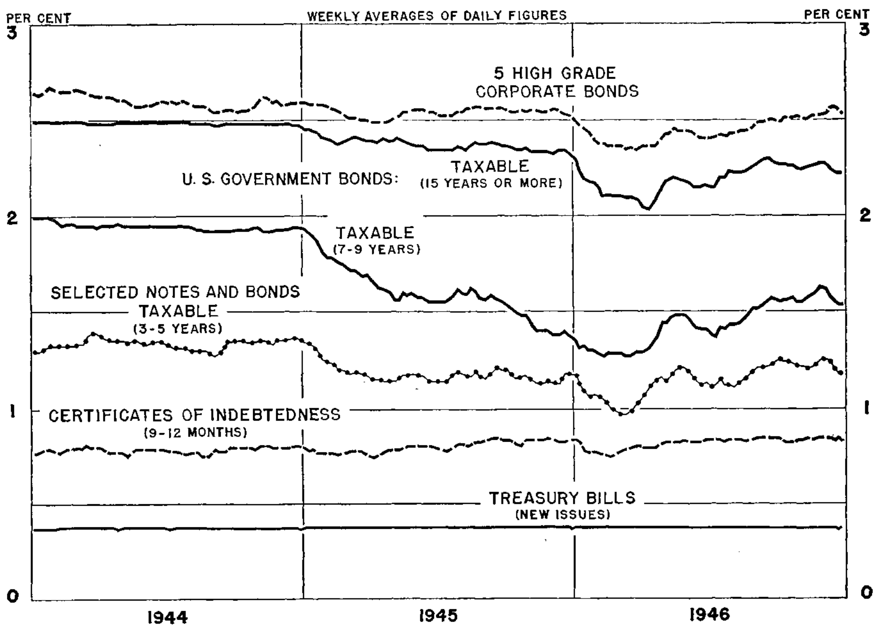
During April and May 1946, the open market rate on 90-day bankers' acceptances in New York City was increased from 7/16 to 1/2 per cent, that is, to the buying rate of the Federal Reserve Bank. In view of the increase in other short-term rates, however, bankers' acceptances became practically unsalable in the market, so that in July an upward adjustment to 3/4 per cent was made in the Federal Reserve buying rate for bankers' acceptances matur-

[1] The preferential discount rate of one per cent on advances to nonmember banks secured by direct obligations of the United States was eliminated at all Reserve Banks by the end of April. The discount rates at each Federal Reserve Bank on Dec. 31, 1946, are shown in Table 10, p. 84.

ing within three months. This action was followed by further advances in the buying and selling rates of acceptance dealers, and in August by an increase to one per cent in the minimum buying rate offered by the Reserve Bank. There were also slight increases in open market rates on commerical paper and stock exchange call and time loans.

Bank rates to commercial borrowers have generally averaged slightly below those for earlier years. Short-term rates in 19 principal cities averaged 2.34 per cent for the four quarterly report periods in 1946, or about the same level as in 1945 and slightly under the level obtaining in 1944.

YIELDS ON TREASURY AND CORPORATE SECURITIES

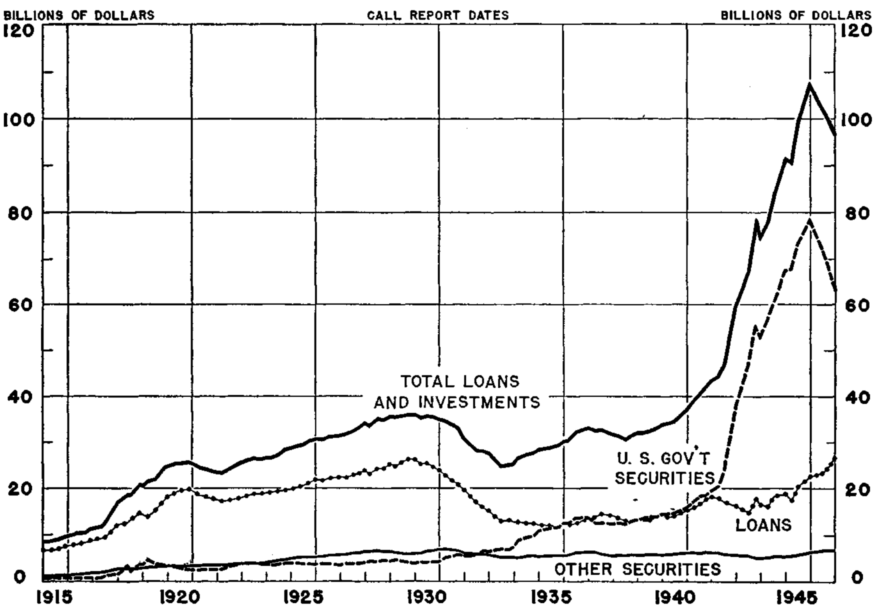


Yields on long-term Treasury securities declined sharply in the early part of the year, when the yield on the longest outstanding issue dropped from 2.46 per cent to 2.12 per cent. For the remainder of the year there was a slight upward trend in yields and at the end of the year the longest-term issue had returned to 2.32 per cent. Long-term yields were nevertheless lower than for any period before 1946. Yields on medium-term issues showed similar fluctuations. High-grade corporate security yields also declined in the early part of the year, as shown in the chart. However, by the end of the year they had regained their initial level and the spread between corporate and long-term Treasury bond yields widened.

BANK CREDIT DURING RECONVERSION

Banking and credit developments during 1946 continued to be greatly influenced by Government financing, but expansion of private credit at banks again became important and was greater than for any year since 1919. Bank reserves were under some pressure because of Treasury retirement of Government securities held by Federal Reserve Banks, because of transfers of deposits from Government to private accounts accompanying Treasury retirement of publicly held debt, and because of loan expansion associated with the rising level of production and consumption and advancing prices. The trend of commercial bank loans and investments during the past 30 years is shown on the chart.

LOANS AND INVESTMENTS OF MEMBER BANKS

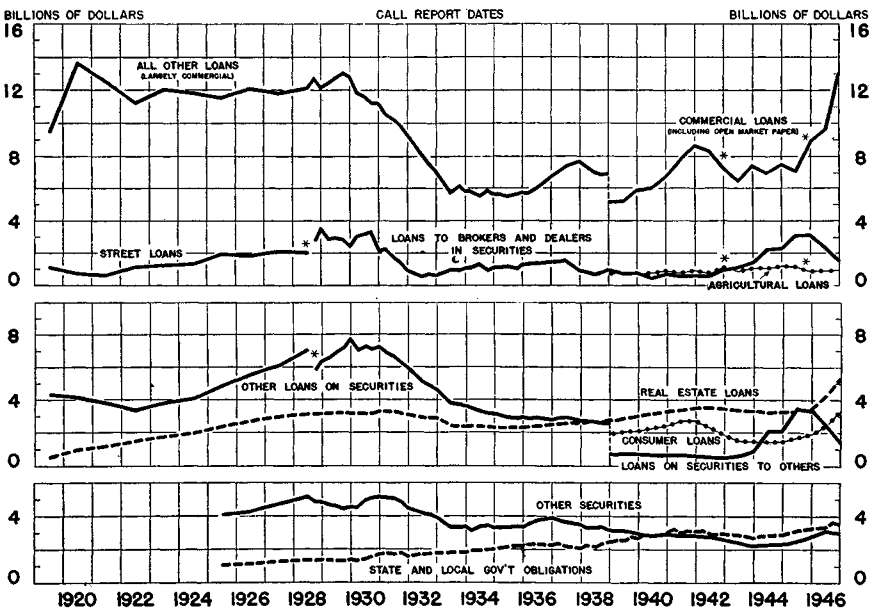


The withdrawal by the Treasury of nearly 22 billion dollars of war loan deposits caused no reduction in member bank required reserves, as no reserves have been required against these deposits since early in the war. The further growth in other deposits, however, did increase required reserves of member banks by over a billion dollars during the year. These needs were partly met by a reduction in excess reserves, which were temporarily large a year earlier, so that the growth in total reserves was limited to about 500 million dollars. Losses of reserves due to Treasury retirement of securities held by Reserve Banks were about offset by Reserve System purchases of securities in the market. Under existing Federal Reserve policies, as previously pointed out, potential credit expansion is limited only by the available supply of suitable loan and investment assets.

Reduction in Government security holdings. Retirement of public debt by drawing on accumulated Treasury balances, discussed earlier, caused a sharp decline in commercial bank holdings of Government securities, particularly of short-term issues, from the extremely high level reached at the end of 1945. In addition to securities redeemed, banks sold short-term securities from their portfolios in order to maintain their reserve positions and to expand loans. Some purchases were made of medium- and long-term issues, but in much smaller amounts than during the war years.

Expansion in bank loans. Bank lending to businesses and individuals became increasingly important during 1946. As shown in the chart, many types of loans at member banks increased to new high levels. There was a sharp advance in loans to business concerns, to real estate owners, particularly of urban property, and to consumers. Bank loans for purchasing or carrying securities, however, declined from the high level prevailing early in the year; the reduction of loans secured by Government obligations was particularly large. Relatively little change occurred in loans to finance farm production.

CLASSIFICATION OF MEMBER BANK LOANS AND INVESTMENTS
OTHER THAN U. S. GOVERNMENT SECURITIES



* Indicates change in series.

NOTE: Figures are partly estimated for street loans, 1925 to 1928, and for all classifications prior to 1925. Street loans include loans made by member banks to New York City brokers and dealers in securities. Commercial loans include commercial and industrial loans, open market commercial paper, and acceptances.

Comparability of both commercial and agricultural loans is affected somewhat by changes in reporting in December 1942 and again in December 1945. Consumer loans are partly estimated prior to Dec. 31, 1942.

More than half of the expansion in private credit at banks in 1946 resulted from loans to businesses. Total business loans outstanding at all member banks, other than those secured by real estate, increased more than 4 billion dollars during the year. The increase reflected borrowings by business of all sizes at banks in all parts of the country. Loans expanded moderately until mid-year and at an exceptionally rapid rate from then until close to the year end.

Increased business borrowing at banks resulted to some extent from the general expansion in operations which required additional plant and equipment as well as larger inventories and extension of credits to customers. Expenditures on plant and equipment increased sharply; the total for the year as a whole was about 80 per cent above that of 1945 and about one-third above that of 1929. At times during the year, especially in the early months, bank credit was used temporarily to finance fixed expenditures while long-term financing through security issues was being arranged.

The accumulation of an unprecedented volume of inventories and receivables at rapidly rising prices during the last half of the year necessitated, to a considerable extent, the marked expansion in bank credit in that period. The dollar expansion of inventories by manufacturing and trade concerns in 1946 was almost 50 per cent greater than the large increase in 1941, and the indications are that customer receivables also increased by a record amount.

It became clear in 1946 that the exceptional volume of liquid assets—bank deposits, currency, and United States Government securities—accumulated by business during the war would not act as a damper on external financing. Despite these holdings and an unusually large volume of retained earnings, the volume of new funds obtained through bank loans and security issues exceeded that of any year since the late 1920's. Aggregate liquid assets of businesses were reduced moderately, and the major part of the reduction was in holdings of Government securities. In some cases, as would be expected, such assets were not held by the individual businesses that were most acutely in need of funds. Other firms apparently planned to retain the increased liquidity acquired during the war years, even at the cost of obtaining credit, until postwar demands for products and opportunities for profitable investment were more clearly discernible.

Late in the year, the Federal Reserve System conducted a national survey of member bank loans to commercial and industrial businesses. Member banks as a whole were found to have some 672,000 of such loans outstanding, aggregating over 13 billion dollars. Loans to medium and small concerns accounted for the bulk of the loans in number and for over one-third of the total amount. Dollar volume was heaviest among large manufacturing and mining corporations while numerical importance was greatest among small retail stores. Enterprises in all principal industries were included among the borrowers. A particularly noteworthy finding was that more than one-third of the business loans outstanding were term loans having maturities of more than one year and that these loans were a significant source of funds for medium and small concerns as well as for large business corporations. At large banks the major portion of the loans were to businesses engaged in manufacturing and mining, with substantial amounts to wholesalers and public utilities, while at small banks retailers made up the largest group of business borrowers. Small business units did the bulk of their borrowing from medium-size and small banks.

Bank loans to consumers reflected the recovery of expenditures for durable items and the rise in prices of these goods. Consumer credit and its regulation are discussed in other sections of this report.

Expansion of real estate loans has reflected particularly the strong postwar demand for housing and the consequent inflation of real estate activity and prices. These conditions produced a larger number of mortgages available for purchase, and commercial banks apparently increased their share of mortgage holdings relative to other lenders. A large portion of the new loans were in part guaranteed by the Federal Government under the Servicemen's Readjustment Act.

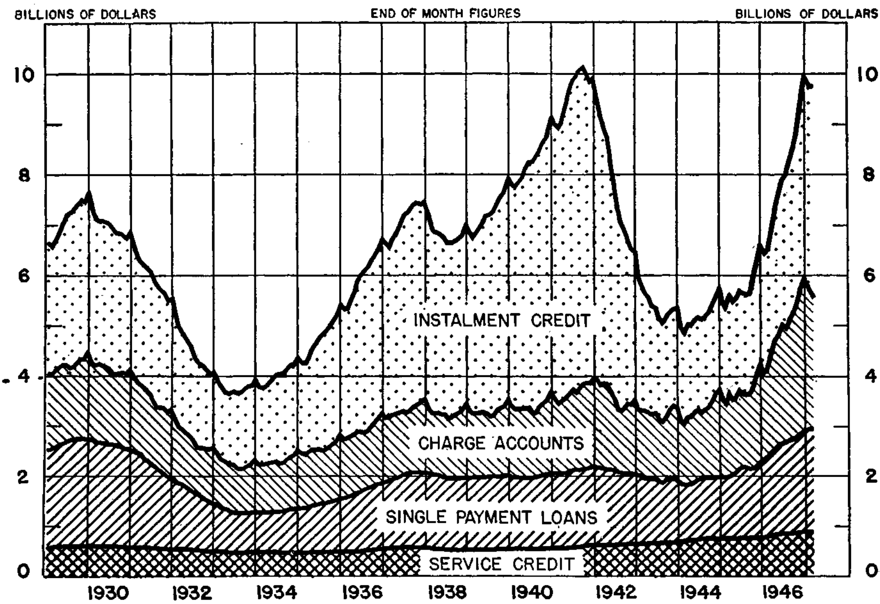
Rapid expansion in bank loans for business, real estate ownership, and consumption purposes was offset in part by a reduction of about 3.5 billion dollars in loans to brokers and dealers and to others for purchasing and carrying securities. Such loans, after reaching a peak at the end of 1945 during the Victory Loan Drive, declined rapidly and almost without interruption. The decline reflected primarily the reduction in loans on Government securities but also some decline in loans on other securities. At the end of 1946 member bank loans for purchasing or carrying securities amounted to 3 billion dollars as compared with 6.5 billion at the end of 1945 and somewhat over one billion at the end of 1941. As pointed out in a later section of this report, loans for purchasing or carrying stocks declined in 1946 to the lowest level in many years.

CONSUMER CREDIT

During 1946, as in the late months of 1945, consumer credit increased rapidly. The total amount outstanding increased during the year by more than 3 billion dollars, or by about 50 per cent. This was a much greater expansion than had taken place in any prewar year and an annual rate of growth without recent precedent. Consumers' goods were again coming on the market in quantity, at prices much higher than before the war, consumers were eager to buy them and in a position to go into debt for the purpose, and both merchants and financial institutions were active in promoting credit extension. Changes in the various components of consumer credit over the past 18 years are shown by the chart on page 20. Although the total amount of consumer credit outstanding at the end of 1946 approached the prewar high, it was still low in relation to the level of national income and this was particularly true of instalment credit.

The large increase in consumer indebtedness during the year had been foreshadowed by the findings with respect to consumer intentions that were brought out by a survey early in the year of liquid assets held by the public, referred to elsewhere. People were intending, it was found, to make extensive use of credit if they could get goods they wanted, notwithstanding their having in hand cash and other liquid assets in unprecedented amounts.

CONSUMER CREDIT OUTSTANDING



Large as the year's increase turned out to be, it would have been larger—and more inflationary—except for the continued restraining influence of the Board's consumer credit regulation, Regulation W. The principal methods of restraint applied by the regulation are requirements (1) that a substantial down payment, usually one-third, shall be obtained on instalment sales of specified consumers' durables, such as automobiles and household appliances, and (2) that the length of instalment contracts, whether arising from instalment sales or instalment loans, shall not exceed a certain number of months, such as 12 or 15 or 18 months. Under this regulation, the typical maximum maturity permissible throughout most of the year 1946 was 15 months. For certain loans 18 months was permissible during the first two-thirds of the year, and for instalment sales, except in the case of automobiles, the permissible maturity was 12 months until this was changed to 15 toward the end of the year.

Effective December 1, 1946, for peacetime administrative reasons, the Board made an extensive revision of Regulation W. This was the first general revision since May 6, 1942, when the regulation had been expanded to cover noninstalment forms of consumer credit—charge accounts and single-payment loans—and to prescribe terms for a much longer list of consumers' goods, including many minor durables and semidurables. By the 1946 revision the regulation was again confined to instalment financing, the list of consumers' goods was cut down to major durables, including automobiles, household appliances, and a few other items, and numerous simplifying changes were made in the supporting rules. After the general revision, the regulation no longer covered the whole field of consumer credit but it continued to apply to that large part of the field which is subject to the widest range of expansion and contraction and is accordingly of most consequence as a strategic factor of business stability or instability.

In announcing this revision, the Board stated that the basic terms of the regulation would need to be modified in accordance with the course of economic events, and repeated the earlier recommendation that Congress consider legislation for the permanent regulation of consumer credit.

STOCK MARKET CREDIT

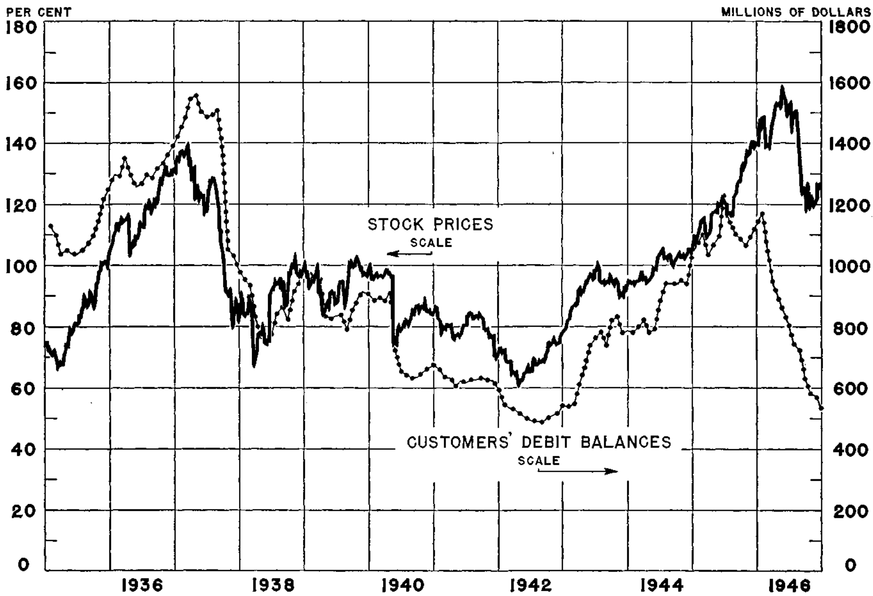
In January 1946 the Board's regulations governing margin requirements were tightened to require full cash payment for listed stocks, following an increase in margin requirements to 75 per cent of market value in July 1945. Owing in part to the influence of these restrictions, and to a tapering off and recession in stock prices, stock market credit declined sharply during 1946 by 600 million dollars. As shown by the chart, the amount owed by customers to members of the New York Stock Exchange at the end of the year was at about the lowest level reached in many years.

The rise in stock prices, which had continued without marked interruption since the spring of 1942, tapered off in the summer of 1946 and was followed by a decline of about 25 per cent from peak levels. Average prices fluctuated within a narrow range during the last three months of the year and at the end were about 10 per cent lower than at the beginning of the year.

The high margin requirements no doubt prevented an increase in the use of stock market credit, which has ordinarily in the past accompanied rising prices. They thus helped to limit the extent of the price rise early in the year and also to remove the pressure of forced liquidation in the decline, thereby contributing to greater long-run stability in the stock market and the general economy. The decline in credit offset to some extent the inflationary pressures present in other fields.

In view of the fact that stock market conditions, as well as general economic prospects, had altered materially by early 1947, the Board on January 17 amended its regulations on margin requirements, effective February 1, to permit credit on the basis of 75 per cent margins. This action, which made the requirements slightly less restrictive than they had been in 1946, was taken in recognition of the apparent abatement of many of the inflationary forces that had operated during that year.

STOCK MARKET



Since the end of the war, stock market credit has declined to a level lower in relation to stock prices than at any time for which data are available. Such a change in this relationship is consistent with the new and unprecedented economic situation which has developed out of the war, particularly the large amount of liquid assets held by people who engage in stock market operations.

SLACKENED GROWTH IN LIQUID ASSETS

Growth in liquid asset holdings was considerably retarded in 1946 compared with the rapid wartime rate of expansion. This retardation reflected the diminished margin between incomes of individuals and their current expenditures, the growth in capital expenditures, and the sharp reduction in the Federal Government deficit. Total liquid assets—bank deposits, currency, and United States Government securities—amounted to an estimated 225 billion dollars as of December 31, 1946, as compared with 221 billion a year earlier. Bank deposits, both demand and time, continued to increase although at a reduced rate, particularly time deposits. Currency holdings increased only slightly, compared with an average annual growth of somewhat more than 4 billion dollars during the war years. Although most of the public debt retirement came from holdings of banks, a part of it was from business and individual holdings, and businesses also used a part of their savings notes to meet tax liabilities.

Changes in deposits. Deposits held by individuals and businesses at all banks increased by about 13 billion dollars in 1946. This growth was almost as large as the average for the war period and added substantially to the inflationary pressures. During 1945 and other war years, the expansion in liquid assets had resulted from financing the war in substantial part through the sale of Government securities to banks, and the large and relatively inactive deposit balances many businesses and individuals accumulated. In contrast, during 1946 the retirement of Government securities held by nonbank investors and a revival in private demand for bank credit were the dominant factors in sustaining expansion of the public's deposits. These changes are shown in the table below.

FACTORS IN POSTWAR EXPANSION OF DEPOSITS AND CURRENCY HOLDINGS OF INDIVIDUALS AND BUSINESSES

[Figures partly estimated, in billions of dollars]

	1946	1945
Expansive factors:		
Decrease in U. S. Government deposits	21.5	....
Increase in bank holdings of U. S. Government securities	....	20.8
Increase in bank holdings of other securities	0.9	1.0
Increase in bank loans	5.3	4.3
Net of other factors	0.8	....
Total factors increasing deposits	**28.5**	**26.1**
Contractive factors:		
Increase in U. S. Government deposits	....	3.8
Decrease in bank holdings of U. S. Government securities	15.6	....
Net of other factors	....	2.3
Total factors contracting deposits	**15.6**	**6.1**
Increase in deposits and currency—total	**12.9**	**20.0**
Demand deposits adjusted	7.5	8.9
Time deposits	5.2	8.1
Currency outside banks	0.2	3.0

NOTE: Figures cover all commercial banks, mutual savings banks, and Federal Reserve Banks; interbank items are excluded.

In 1946 the growth of demand deposits of individuals and businesses was almost as large as the average for the last two war years. The growth of time deposits, which were used widely in late war years as media for individual savings, slackened considerably in the latter half of 1946, especially in the last quarter.

During the first half of 1946 the increase in demand deposits of individuals and businesses was distributed broadly among the balances of all major groups of holders. This is in contrast both with late war years, when virtually all of the demand deposit growth occurred in accounts of individuals and trade and service concerns, and with the reconversion period in the last half of 1945 when balances of manufacturers fell off sharply.

In 1946 all regions showed increases in deposits of individuals and businesses close to the average for the country as a whole, whereas during the war deposits had expanded more rapidly in the South and West than in other areas. The wartime shift of funds resulted largely because in these two areas the Government was spending much more money than it was raising from taxes and the sale of securities. This development reflected the concentration of special military camps and depots and the relatively greater expansion of industrial facilities in these areas, together with the very substantial rise in prices of farm products. In 1946 two of these factors became less important. Government expenditures declined, and shifts in funds out of the money centers resulting from current Treasury budget operations may have been offset in part by some return of funds as a consequence of Treasury debt retirement. The further rise in agricultural prices toward the end of the year, however, appears to have moderated considerably any tendency in recent months for funds to shift to the North and East as a consequence of the increasing production and sale of manufactured goods.

Currency. Currency in circulation, which had expanded rapidly throughout the war period, increased only slightly in 1946. After a substantial post-Christmas decline its volume changed little until the latter part of May. In the summer and fall, however, expansion was somewhat more than the usual seasonal amount and at the end of 1946 circulation was about 500 million greater than at the end of the previous year. An increase of this amount is not large in view of the sharp rise in the volume of private transactions during the year. The increase occurred in bills of $20, $50, and $100 denominations, while bills of small and of very large denominations declined. These shifts reflect in part the effect of higher prices and income and perhaps in part the use of moderately large denomination currency to hold idle funds or for tax evasion and other illegal transactions. The shift from very large denominations reflects the influence of increased vigilance in reporting and investigating large currency transactions.

Printing of Federal Reserve notes in denominations of $500 and over was discontinued during 1946, but notes of these denominations will continue to be paid out by the Federal Reserve Banks to member banks as long as present stocks last.

Ownership and uses of liquid assets. A survey of liquid asset holdings of individuals conducted for the Board in January 1946 showed that a relatively small portion of the owners held a relatively large portion of the assets, but that in all probability the distribution was much broader than had characterized the prewar period. This result was apparently to be accounted for by the rapid growth of income among low-income groups during wartime. Liquid asset holdings were widely distributed among the various income groups, consumers with annual incomes below $5,000 holding nearly two-thirds of all liquid assets, other than currency, held by individuals. The survey also showed that most consumers regarded their liquid assets as permanent or rainy-day reserves, not to be disposed of in capricious or improvident spending. At the same time the amounts they intended to spend in 1946, although a small portion of total holdings, were significant additions to other demands for the limited supplies of goods available.

In addition to these primary findings, the survey provided a number of items of information foreshadowing developments of the year. For example:

(1) Expenditures, including those for durable goods, would be at such a level in relation to income for most groups that the volume of current saving would decline.

(2) The use of instalment and mortgage credit during the year would be substantial, and would add to funds available from income for expenditures on durable goods and housing.

(3) Use of liquid assets for down payments on durable goods and houses would add significantly to available funds from income for spending.

(4) Transfers of liquid assets to other forms of investment would exert some inflationary pressure in investment and realty markets.

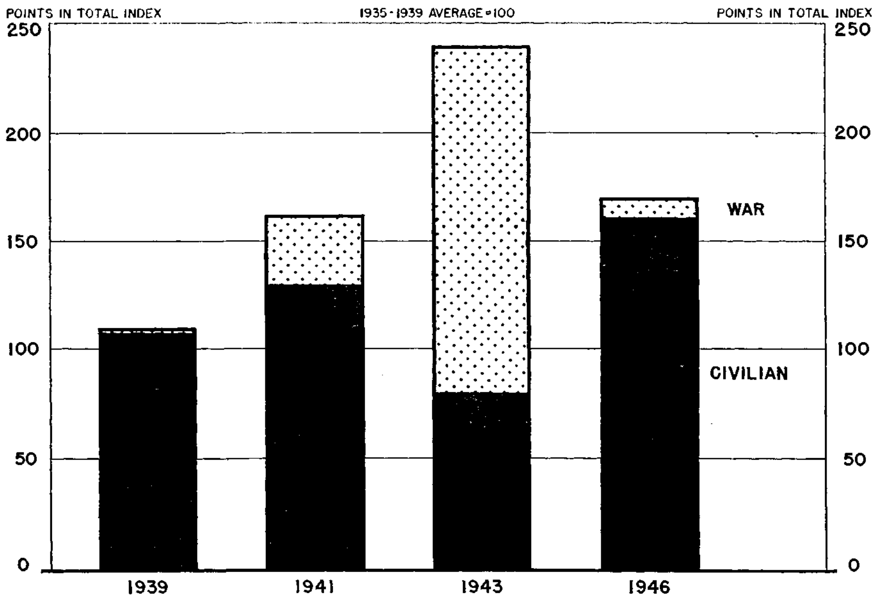
All in all, the picture presented by the survey as of the first quarter of 1946 was one of strong inflationary developments in consumer goods and investment markets over the months then ahead. The composite of plans and expectations of various consumer groups as assembled in the survey was substantially borne out by consumer income, expenditure, saving, and debt developments in 1946.

DEMAND, PRODUCTION, AND PRICES

During all of 1946 demand from both domestic and foreign sources continued strong and widespread shortages persisted despite a sharp curtailment in purchases for military purposes, a substantial increase in the working force as veterans returned to civilian life, and a large expansion in production for peacetime purposes. As a result of continued shortages of goods, and often of manpower, and of drastic and irregular alterations in the stabilization program, prices increased sharply. The greatest increases occurred in the summer during the lapse of price controls and late in the autumn when controls were largely abandoned, but in the early part of 1947 there were further general price increases. With prices up sharply over the year, with some prices apparently very high in relation to other prices and to costs, and with inventories considerably increased, there was some question at the beginning of 1947 concerning the continuance of prevailing prices and of the high levels of demand, activity, and employment that had characterized 1946. There were many elements of strength in the situation, including large backlogs of deferred requirements and purchasing power, and as the year 1946 ended production and employment were still increasing. It was yet to be determined whether inflationary influences had spent their force or whether they might lead to still further price advances, and what the nature, extent, and timing of subsequent readjustments might be.

Increased production and continued shortages. Industrial production, once again consisting almost entirely of production of goods for civilian use, was about 55 per cent larger in 1946 than in 1939; agricultural output was about 25 per cent larger; and activity was substantially above prewar levels in the transportation, trade, and service industries. In comparison with the war years, industrial production for civilian purposes was up about 100 per cent, as shown on the chart, although total industrial production was down about one-third. Drastic reduction of output for war purposes was reflected in these changes. War production—including munitions and supplies for the armed forces of the United States, industrial equipment essential for war production, and all such goods provided to Allied nations under lend-lease—in 1943 and 1944 had been roughly two-thirds of all output in industry while in the economy as a whole war activities had represented something over two-fifths of the total.

INDUSTRIAL PRODUCTION
FOR WAR AND CIVILIAN PURPOSES



Shortages of finished goods persisted in 1946, partly because some of the increased output went to build up depleted business inventories of materials, goods in process, and finished products. In certain instances, also, products were accumulated and temporarily withheld from the market in anticipation of higher prices. The volume of output, while large as compared with prewar output, fell short of postwar capacity, especially during the early part of 1946, owing to lack of balanced supplies of materials and component parts and to prolonged labor-management disputes in important industries, including those producing steel, automobiles, electrical equipment, and coal. And, even at capacity, production would not have been sufficient to meet all demands quickly, chiefly because many demands had been accumulated over a period of several years. Such deferred demands were particularly large for new housing, for some types of industrial and commercial facilities, and for durable consumers' goods, especially automobiles and major electrical appliances. But in this initial period there were also important deferred demands for semi-durable goods, such as men's clothing and textile housefurnishings.

Strong demand, especially for nondurable goods and services, reflected in part a disposition on the part of buyers to spend freely to meet their requirements. This disposition was evident in markets for both consumers' and producers' goods and could be attributed in part to the unusually strong financial positions prevailing at the beginning of the year. Funds had been accumulated in large volume when goods were not available for purchase and when prices in general were being effectively controlled. As pointed out elsewhere in this report, these accumulated funds not only provided a backlog of purchasing power for immediate use but also encouraged the spending of current incomes, which were more than double those of prewar years. In the war period net current savings of individuals, representing the difference between new savings and drafts on past savings, had risen to over 30 per cent of income after personal taxes. In the latter part of 1945 they began to decline and by the end of 1946 they were down to only about 11 per cent of current income. This was only slightly above the level prevailing before the war when incomes were not so high and all sorts of goods were available for purchase. In the case of foreign buyers, needs for food and for equipment for rehabilitation were urgent in many countries and sufficient funds were available, on either a relief or a commercial basis, to finance purchase of more goods than could be obtained here under prevailing conditions.

Modification of stabilization program. With shortages continuing in many lines and with no important surpluses in evidence, the problem of preventing inflationary price increases continued to be of great significance for the economy. The necessity of stabilization as a wartime measure, however, no longer provided over-riding support for the various types of direct and indirect controls designed to curb inflationary developments in prices and costs—controls which had never extended to prices of existing properties such as urban and farm real estate. Consequently, in a series of administrative and legislative actions, beginning immediately after the end of the war with Japan in August 1945, the stabilization program was modified, and finally, in October and November of 1946, largely abandoned.

Modification of the stabilization program proceeded at an uneven pace and at times controls previously set aside were reinstituted. Thus, controls over activity in the building field, largely withdrawn in the autumn of 1945, were reinstated and extended in the early part of 1946 in an attempt to stimulate construction of housing for veterans. Also, action was taken in the spring to restrict wheat consumption in order to provide aid to people in countries where starvation threatened. And in the commodity price field, after a brief period of experimentation with free markets in July, controls were reimposed in modified form.

In general, however, there was growing opposition to restrictive measures. This opposition was based partly on doubt about the effectiveness of selected control measures. There was skepticism of their efficacy in preventing price increases, providing a reasonable balance between costs and prices, promoting production of peacetime essentials, and attracting to this country a proper share of the materials available abroad. In some lines supplies were withheld from the market in protest against continued price controls. In these circumstances, formulation and enforcement of a stabilization program appropriate to the times became increasingly difficult and in the end controls were removed while shortages still constituted a real threat of further inflationary price advances.

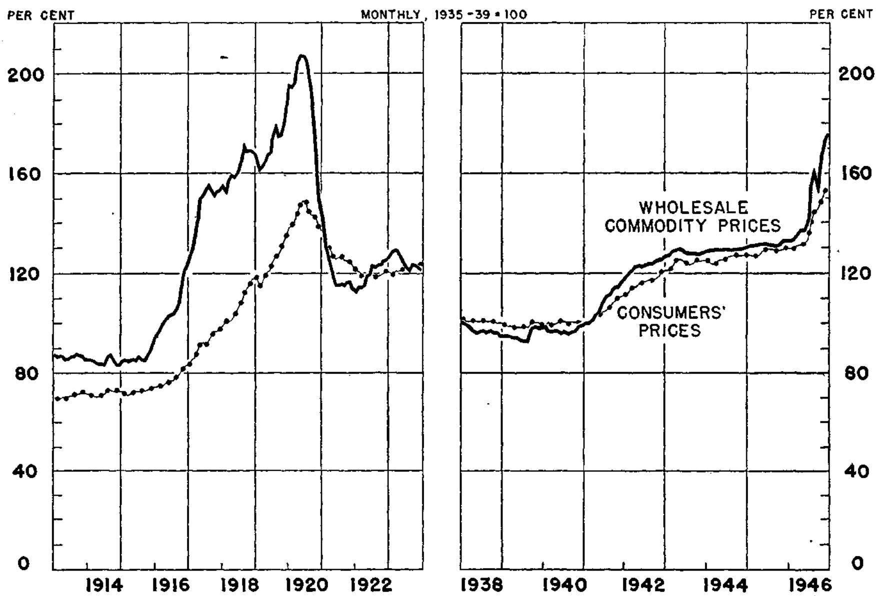
Higher prices. The continued shortages of goods and services and the weakening of the stabilization program contributed largely to widespread increases in commodity prices, wage rates, and property values during 1946. These increases were to a degree interdependent and cumulative, and they all affected the nature of the stabilization program. Increases in prices reflected the strong sellers' market as well as higher costs, and returns to business and agriculture increased sharply during the year.

The increases in wage rates came in greater part during the early months of the year when new contracts were negotiated in a number of leading industries following strikes. As increases spread to other lines, however, the general course of rates continued upward throughout the year. In manufacturing, with average hours of work per week practically unchanged, average hourly earnings rose from $1.00 in December 1945 to $1.15 in December 1946. In nonmanufacturing industries, also, wage rates rose throughout the year.

Commodity prices generally moved upward in the first half of 1946, especially in wholesale markets, although most of the year's large advance came later. The official index showed a rise of 5 per cent in wholesale prices in the first half-year and the actual rise appears to have been somewhat greater, reflecting in part the transaction of an increasing volume of business at above ceiling prices, as, for example, in the building materials field. During the lapse of price control in July, prices of agricultural products and their manufactures increased sharply. In the autumn, when most remaining controls were abolished, there were further increases in the prices of these products and sharp advances in the prices of other commodities, such as metals and metal products. At the end of the year wholesale prices of commodities were about one-third higher than at the beginning of the year and consumer prices, including rents, which showed little change, were up 18 per cent.

The rise during the year of one-third in wholesale prices as a group reflected advances of nearly 50 per cent for foods, due in part to withdrawal of subsidies; about the same percentage for hides and leather products; about 30 per cent for farm products, textile products, chemicals, metal products, and building materials; and less marked increases for other groups of products. The level reached by wholesale prices, as shown in the chart, was three-fourths above the 1935-39 average, with by far the greatest increase shown by agricultural products.

PRICES



NOTE: Bureau of Labor Statistics indexes. Index of wholesale prices converted to 1935-39 base by Federal Reserve.

Consumer prices reached a level one-half above the prewar average despite stability in rents. In general, except for agricultural products and their manufactures, the increases in prices over prewar levels were not so large as those shown for the First World War period. The changes in consumers' prices and in wholesale prices shown in the accompanying chart are overstated somewhat, since the indexes contained fewer quotations for the more slowly moving finished products in the earlier period than they have in recent years.

In markets for real property, price advances were marked in 1946, with sharp increases in urban values through the summer and with continued increases in farm values of a more gradual sort, amounting to about 14 per cent for the year as a whole. Urban residential property values in many instances reached levels more than double those prevailing before the war and on the average were probably three-fourths above the prewar level. Farm real estate values in November were 83 per cent above the 1935-39 average, with increases ranging from about 40 per cent in the Boston Reserve District to around 100 per cent in the Cleveland, Richmond, Atlanta, St. Louis, and San Francisco Districts.

Increased incomes. Higher prices, higher wage rates, and higher profit rates, together with increased production and employment for civilian purposes, raised the dollar volume of gross national product steadily throughout 1946, despite further curtailment of military activities. In the fourth quarter, at an annual rate of nearly 205 billion dollars, the gross product was close to the wartime peak of 208 billion dollars reached in the second quarter of 1945 and about 20 billion dollars above the level of the fourth quarter of 1945.

The decline in military activities during 1946 was reflected in a reduction of 10 billion dollars in the annual rate of payments to the armed forces (from 14 billion dollars in the last quarter of 1945 to 4 billion in the last quarter of 1946) as their number was reduced sharply from 10 million to 2 million. In the same period there was a sharp decline in Federal outlays for goods, chiefly for military purposes.

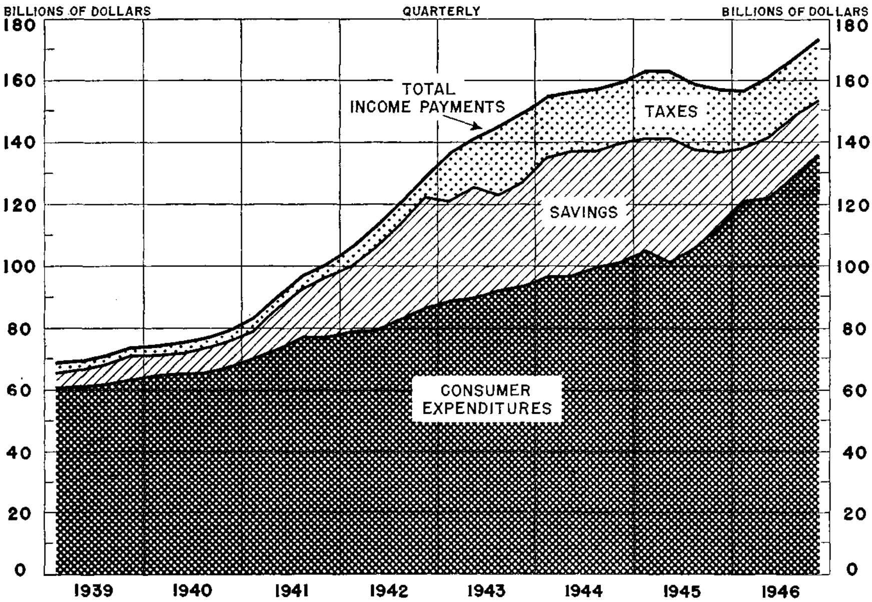
Meanwhile employment in the production of goods and services for civilian purposes increased sharply and the total number of persons employed, excluding those in the armed forces, rose from 51.4 million in the fourth quarter of 1945 to 56.8 million in the fourth quarter of 1946. This rise in employment, with average hours of work per week showing little decline and with wage rates rising, was reflected in an increase of 17 billion dollars or nearly one-fourth in the annual rate of private wage and salary payments. This increase more than offset the decline of 10 billion dollars in payments to the armed forces. The sharpest percentage increase was in the construction industry but there were substantial increases in trade, manufacturing, and mining and less marked increases in other lines.

From the last quarter of 1945 to the corresponding period in 1946, the estimated annual rate of corporate profits after taxes rose from about 7 billion dollars to fully twice that amount, and the rise for farm and other entrepreneurial income, excluding net rents and royalties, was from 26 billion dollars to 35 billion, reflecting increases both for farmers and for small businesses, chiefly in trade and service activities. The sharp rise in corporate earnings reflected not only the transaction of a larger volume of business at higher prices, but also elimination of the excess profits tax, a reduction in corporate income tax rates, and a considerable increase in inventory profits.

In agriculture price advances were of special importance and, although the volume of marketings showed little rise from the fourth quarter of 1945 to the fourth quarter of 1946, net income of farm operators increased by about one-half. For the year as a whole the rise, as estimated by the Department of Agriculture, was 14 per cent, from 13 billion dollars to 15 billion. Cash receipts from marketings showed a rise of 15 per cent, with the greatest increases in cotton (60 per cent) and in feed grains (40 per cent). Cash returns from marketings of meat animals and dairy products were up about 18 per cent. Returns from most crops other than cotton and food grains showed less increase.

INDIVIDUAL INCOMES, EXPENDITURES, AND TAXES

SEASONALLY ADJUSTED, ANNUAL BASIS



NOTE: Department of Commerce estimates. Amounts indicated as "Savings" represent excess of individual incomes over consumer expenditures and taxes.

Income payments to individuals, as shown on the chart, rose to a new peak rate of 173 billion dollars in the fourth quarter of 1946, notwithstanding continued reductions in payments to the armed forces. This rate was about 16 billion dollars or 10 per cent higher than that in the fourth quarter of 1945 and nearly two and a half times the 1939 rate of 71 billion dollars.

Rise in consumer expenditures. Consumers were in a position to buy additional supplies of goods as they became available even though prices were considerably higher. Incomes were higher, Federal personal tax rates had been lowered somewhat at the beginning of 1946, holdings of liquid assets were substantial, and credit was readily available. In particular instances consumers showed an unwillingness to pay the advanced prices, but in general they spent rather freely. Consequently the rapid rise in consumer expenditures which had begun soon after the surrender of Japan continued through 1946. Such outlays in the fourth quarter of 1946 were about 20 per cent larger than in the fourth quarter of 1945 and nearly 35 per cent larger than in the second quarter of 1945.

In the initial stages of the transition period during the latter part of 1945, the rise in consumer expenditures was mostly in outlays for food, clothing and other nondurable or semidurable goods, as shown in the table. This rise was due primarily to the increased availability of such goods for civilian consumption and to the increase in the civilian population as veterans returned. In the first half of 1946 supplies of furniture, electrical appliances, and various other durable consumers' goods increased and for this group as a whole the rise in outlays from the fourth quarter level was about as large as it was for nondurable goods, although supplies of new passenger automobiles and some other durable consumers' goods continued to be very restricted. In this period there was an increase also in expenditures for services, as manpower and supplies became more readily available.

In the second half of 1946 price advances accounted for the major share of the further rise in outlays. The physical volume of nondurable goods sold to consumers apparently did not increase after the middle of the year and in some lines declined. Supplies of durable goods generally increased and for the first time in the postwar period deliveries of new passenger cars were in substantial volume.

CONSUMER EXPENDITURES, 1945 AND 1946

[Seasonally adjusted annual rates, in billions of dollars]

Year and quarter	Total	Durable goods	Nondurable goods	Services
1945—First	105.0	7.4	65.0	32.6
Second	101.8	7.1	61.5	33.2
Third	106.0	7.4	65.1	33.5
Fourth	113.0	9.0	70.6	33.3
1946—First	121.0	11.7	75.1	34.2
Second	122.1	13.1	74.0	35.0
Third	129.6	15.0	78.3	36.3
Fourth	136.0	16.7	81.8	37.5

SOURCE: Department of Commerce.

Rise in business outlays. Throughout the year business outlays for nearly all purposes were large and growing. Producers and distributors were increasing their inventories, which quite generally had been depleted, and were improving their plant and other operating facilities either through repair and modernization or through expansion. In the early part of the year business enterprises were able to increase their inventories at an annual rate of only about 4 billion dollars. Demands for finished products continued to be insistent and supplies of materials continued short. In the second half of the year business holdings of inventories increased at an estimated annual rate of around 9 billion dollars, not counting upward revaluation of inventories as prices advanced. At this exceptionally high rate, inventory accumulation accounted for an important part of current production.

Outlays for capital improvements increased considerably during 1946, continuing the advance begun in the early part of 1945. Business expenditures for durable goods rose from an annual rate of 8 billion dollars in the fourth quarter of 1945 to a rate of nearly 16 billion in the fourth quarter of 1946. Substantial amounts of machine tools were being acquired from the surplus supplies of the Federal Government. Outlays for new plant facilities also rose during this period, although they were restricted somewhat by shortages of materials and by Federal action aimed to channel a substantial share of lumber and other scarce building materials and supplies into new housing for veterans.

The value of private residential building, which had already increased considerably in the latter part of 1945, rose sharply through the summer of 1946, reflecting increasing supplies of materials, strong demand conditions, and increasing costs. Later there was a marked decline in the number of new houses started and some reduction in the amount of work under way, but the level at the end of the year was considerably more than double that of a year earlier. Expenditures for private residential building during the year totaled 3.3 billion dollars, as compared with 0.7 billion in 1945 and 2.8 billion in 1941, when building costs were not so high by a considerable margin.

Costs of building rose rapidly in 1946 partly as a result of ceiling price adjustments made in the early part of the year, but mainly because of increasing black-market operations, growing disruptions resulting from uneven flow of materials, and, in the latter part of the year, the removal of controls over prices of materials.

During the year as a whole, with special efforts to stimulate production of materials and to allocate them to residential building for veterans, approximately 670,000 privately financed permanent nonfarm dwelling units were started. About half of these were completed during the year along with 125,000 units started in 1945. These new units, together with 45,000 units in converted structures, made a total of about a half million units added to the existing supply of 31.5 million. In addition, accommodations of a temporary sort were provided for 200,000 families and many single persons. Roughly 350,000 permanent units were carried over unfinished into 1947.

Further decline in Government outlays. Government expenditures for goods and services declined further during 1946, especially during the first three quarters, as continued sharp decreases in Federal war outlays were offset only in small part by increases in Federal nonwar outlays and in State and local government expenditures. The annual rate of expenditures for goods and services by all governmental units in the fourth quarter was about

30 billion dollars, divided evenly among Federal war outlays, Federal nonwar outlays, and State and local outlays taken together. These figures do not include various other governmental expenditures such as payments to veterans and social security benefits.

The course of consumer expenditures, private outlays for capital formation, and Government expenditures for goods and services is shown in the accompanying table for the years 1945 and 1946. The figures for private capital formation, it may be noted, include figures representing the excess of exports over imports of goods and services, as well as the various business outlays discussed above. Foreign trade is discussed in another section of this report.

EXPENDITURES FOR GOODS AND SERVICES, 1945 AND 1946

[Seasonally adjusted annual rates, in billions of dollars]

Year and quarter	Total expenditures (Gross national product)	Government expenditures for goods and services	Private gross capital formation	Consumer expenditures for goods and services
1939	88.6	16.0	10.9	61.7
1940	97.1	16.7	14.8	65.7
1941	120.2	26.5	19.1	74.6
1942	152.3	62.7	7.6	82.0
1943	187.4	93.5	2.5	91.3
1944	197.6	97.1	2.0	98.5
1945	199.2	83.6	9.1	106.4
1946	194.0	34.7	32.1	127.2
1945—First	205.1	96.5	3.6	105.0
Second	208.2	99.8	6.6	101.8
Third	198.2	81.0	11.2	106.0
Fourth	185.2	57.2	15.0	113.0
1946—First	183.7	39.6	23.1	121.0
Second	190.2	36.7	31.4	122.1
Third	196.6	31.3	35.7	129.6
Fourth	204.7	30.8	37.9	136.0

SOURCE: Department of Commerce.

General situation at end of 1946. The general situation throughout the year 1946, then, was one of strong demand for goods and services, of high incomes, and of little unemployment. In many quarters, however, doubt was being expressed in the latter part of the year concerning the maintenance of these conditions, in view of various unstable elements in the situation. Price advances had been large, in some cases very large, and increases in income uneven. In consequence, the real incomes of many people in terms of command over goods and services were reduced. Moreover, many new price relationships had developed, as, for example, between agricultural and nonagricultural commodities, and they appeared unstable from a longer-range point of view. Similarly, many of the adjustments of production to meet the unusual demand situation of the immediate postwar period seemed likely to prove of a temporary nature. Production for inventory had become an important part of the total and one which clearly could not be sustained. It may be expected that backlogs of demand will eventually be exploited, business inventory requirements will be met and exceeded, and unusual limitations on supplies of commodities, both domestic and imported, will disappear.

In the latter part of the year inflationary developments in a few lines were being followed by reactions. Such reactions as occurred, however, were limited to reductions in buying, as by department stores following a leveling off in their sales, and to reductions in prices of some basic commodities such as cotton and corn and certain finished luxury goods such as fur coats and sport clothes. Prices in futures markets, particularly for grains, were below spot prices, reflecting the prospect of future increases in supply. The quality of products was generally improving and the terms of sale in many instances were being readjusted to peacetime standards, as in cases where escalator clauses in contracts were being eliminated. On the other hand, prices were still advancing for some types of commodities, particularly metals and metal products and building materials, in which there were continued shortages. Export demand was increasing further. Production and incomes generally were continuing to expand. Thus the year 1947 was beginning with economic activity and prices at levels much higher than a year earlier but much less certain to be maintained throughout the year.

INTERNATIONAL TRADE AND FINANCE

Since the end of the war a substantial part of the productive power of the United States has been devoted to meeting the urgent requirements of foreign countries, especially the devastated areas of Europe and Asia. Gross United States exports of goods and services during 1946 amounted to 7 per cent of our gross national product. By providing this flow of supplies, accompanied by substantial measures of financial assistance, the United States made a large contribution to relief and reconstruction abroad, without which world recovery would have been seriously retarded, if not made impossible.

The value of recorded exports from the United States for the year 1946, amounting to 9.7 billion dollars, was about the same as in the previous year. Though well below the wartime level, when vast shipments of munitions were made under the lend-lease program, the value of exports last year was more than three times that of the immediate prewar years, while the volume was about twice as great. Total sales of United States merchandise during the year, including surplus property located abroad and civilian supplies furnished to occupied areas (neither of which is shown in the recorded trade data), are estimated by the Department of Commerce at 12.2 billion dollars, and total services rendered by this country at 3.1 billion dollars.

Many of the devastated areasof Europe and Asia, while dependent upon the United States for a large share of their relief and reconstruction requirements, were incapable of supplying even their normal volume of exports to this country. The dollars earned by foreign countries as suppliers of merchandise to the United States, amounting to 5.2 billion dollars, and

United States payments of 1.9 billion dollars to foreign countries on service account, covered less than half of United States exports of goods and services during the year. The balance was financed mainly through grants and credits extended by the United States Government, but there were also substantial drafts upon foreign holdings of gold and dollar resources. A broad summary of the balance of payments for the year, based mainly upon figures compiled by the Department of Commerce, is shown in the accompanying table.

INTERNATIONAL TRANSACTIONS OF THE UNITED STATES, 1946
[In billions of dollars]

Item	Credits	Debits	Net credits (+) or debits (−)
Goods and services:			
Recorded exports and imports	9.7	4.9	+4.8
Other transfers of goods	2.5	0.3	+2.2
Services	3.1	1.9	+1.2
Total goods and services	15.3	7.1	+8.2
Donations ("unilateral transfers") by the United States:			
United Nations Relief and Rehabilitation Administration			−1.5
Supplies to occupied areas			−0.6
Lend-lease			−0.1
Other Government aid (net)			−0.2
Private donations (net)			−0.7
Total			−3.1
Transfers on U. S. Government credits:			
Export-Import Bank disbursements			−1.0
British credit			−0.6
Lend-lease pipeline credits			−0.5
Surplus property credits			−0.9
Total			−3.0
Use of foreign gold and dollar resources (net)[1]			−2.0
Miscellaneous (net)			−0.1

[1] Excluding reduction of foreign claims on United States Government.

Distribution by areas. These global figures conceal marked differences in the economic and financial relations of the United States with different geographic areas. It is not feasible on the basis of existing information to present a full balance of payments of the United States with particular foreign areas, but the following table shows the recorded export and import transactions of the United States by country groups. The table has been designed to group the more significant deficit balances in accordance with the methods by which they were financed. The bilateral balances shown bear a reasonably close relation to the dollar requirements of the countries concerned even though they exclude an important volume of service transactions. The bilateral approach to the financing problem necessarily ignores the existence of multilateral settlements, but these were of relatively minor importance during 1946.

UNITED STATES FOREIGN TRADE IN 1946

[In millions of dollars]

Region and country	Exports including re-exports	General imports	Export or import (−) balance
Europe	**4,098**	**796**	**3,302**
United Kingdom	856	156	700
Western Europe (France, Belgium, Luxembourg, and Netherlands)	1,213	163	1,050
Northern Europe (Denmark, Norway, and Sweden)	323	65	258
Eastern and Southern Europe (U.S.S.R., Poland, Czechoslovakia, Austria, Yugoslavia, Albania, Italy, and Greece)	1,339	215	1,124
All other	367	197	170
Asia	**1,343**	**908**	**435**
China	466	93	373
Philippine Islands	297	40	257
All other	580	675	−195
North America	**2,544**	**1,647**	**897**
Canada	1,442	882	560
Mexico	505	233	272
All other	597	532	65
South America	**1,152**	**1,095**	**57**
Australia and Oceania	**117**	**183**	**−66**
Africa	**488**	**306**	**182**
Total	**9,742**	**4,935**	**4,807**

In the case of the United Kingdom, for example, the 700 million dollar deficit in its recorded trade with the United States was closely matched by its drafts upon credits provided by this country. The sum of 600 million dollars was drawn during the year upon the 3,750 million dollar British credit from the United States Treasury approved in July, and a further 100 million dollars in goods was shipped during the year under the general British war settlement credit.

In the case of Western Europe (France, Belgium-Luxembourg, and the Netherlands), the 1,050 million dollar merchandise import balance with the United States also corresponded closely with drafts upon United States credits by the countries in that area. During 1946 the Export-Import Bank disbursed 819 million dollars to these countries (626 million dollars to France alone), while 250 million dollars of United States exports to these countries represented deliveries under lend-lease "pipeline" credits (covering lend-lease goods on order at the end of the war).

Northern Europe (Denmark, Norway, and Sweden), on the other hand, was able to finance the bulk of its net imports from the United States out of existing dollar resources and out of earnings on service account (especially from shipping). The Swedish central bank reported a loss in its gold reserves of 100 million dollars during the year, and much of this decline may be attributed to settlement of accounts with the United States. Export-Import Bank disbursements of about 7 million dollars were made to Denmark during the year.

The needs of Eastern and Southern Europe were covered mainly through UNRRA shipments for relief and rehabilitation. Nearly 0.9 billion dollars out of the 1.1 billion dollars of UNRRA exports from the United States during 1946 was sent to the countries grouped under this heading in the accompanying table, and these deliveries covered four-fifths of the merchandise trade deficit of these countries with the United States. Much of the remaining gap was closed by United States credits, in particular 150 million dollars of deliveries to the U.S.S.R. under a lend-lease "pipeline" credit and 38 million dollars of disbursements by the Export-Import Bank on loans to Poland, Czechoslovakia, Italy, and Greece.

In the case of the Far East, a considerable contribution to the financing of the Chinese deficit was made through UNRRA deliveries amounting to perhaps 150 million dollars during the year, while the Philippine situation was met in large part by United States Government expenditures in that country. Credits to this area played a minor role during the year, and both China and the Philippines found it necessary to draw extensively upon their existing dollar resources. A number of other Asiatic countries, on the other hand (notably India and British Malaya), had a substantial export surplus to the United States.

Canada and Mexico both showed large deficits in their bilateral merchandise trade with the United States during 1946, much of which had to be met by liquidation of their existing dollar resources. Both countries, however, realized net earnings on service account, mainly as a result of tourist trade. The case of Canada is of special interest because that country, despite its deficit with the United States, had an over-all merchandise export surplus of some 400 million dollars during the year. Exports to countries other than the United States, however, were financed to a large extent by Canadian loans and relief grants so that they produced little free exchange for use by Canada in meeting payments to the United States.

The approximate balance in merchandise trade between this country and South America, taken as a whole, conceals certain import and export surpluses which are of substantial importance to the South American countries concerned, but of secondary importance in the general foreign trade of the United States. It is significant that the total gold and dollar holdings of South American countries, which increased from 1.0 billion dollars at the end of 1941 to about 2.8 billion at the end of 1945, remained practically unchanged during 1946. Although these holdings are not equally distributed among the countries on the Continent, to a considerable extent they represent funds readily available for meeting future trade requirements.

Trade with the remaining areas of the world (Africa, Australia, and Oceania) produced a small net balance in favor of the United States. On the other hand, there were substantial imports of South African gold.

In addition to recorded exports, the United States transferred merchandise valued at some 2.5 billion dollars to foreign countries during the year, the major portion of which consisted of surplus property sales and provision of civilian supplies to occupied areas. Surplus property disposals amounted to about 1.6 billion dollars. Approximately 250 million dollars of these sales were made against the cancellation of dollar claims upon the United States by China, the Philippines, and India, while 100 million represented a free grant to the Philippines. Most of the remainder was made against payment on deferred terms, at a moderate interest rate and with amortization over an extended period. By the end of 1946 sales had been negotiated for nearly 85 per cent of the surplus property located abroad and declared as of that date.

The transfers of civilian supplies to occupied areas have been estimated at 550 million dollars and were financed from War Department appropriations under its authority to provide minimum supplies to prevent "starvation, disease, or unrest" in areas under occupation by United States armed forces. The transfers give rise to general claims against the recipient countries, but the status of these claims is not well defined and deliveries under this program have been tentatively classified by the Department of Commerce as "unilateral transfers." These supplies, although shipped for the most part from the United States, do not appear in recorded merchandise exports.

Foreign gold and dollar resources. Despite the large amount of foreign grants and credits made available by the United States during 1946, foreign contries as a whole found it necessary to make substantial drafts upon their holdings of gold and dollar resources.

The net gold inflow to the United States from abroad (including net releases from earmark in this country) amounted to about 775 million dollars during the year. This movement represented a marked change from the war period, during which the United States lost gold on a substantial scale. The monetary gold stock of the United States, which reached a peak of 22.8 billion dollars shortly before Pearl Harbor, had fallen by the end of 1945 to about 20.0 billion, largely as a result of sales of gold by the United States to foreign countries supplying this market. By the end of 1946, however, it had again reached more than 20.5 billion.

The net gold inflow during the year was only slightly in excess of the amount of new gold mined in foreign countries other than the U.S.S.R. Soviet production, though not reported for many years, was undoubtedly substantial, but an even larger amount of gold was probably absorbed in private hoards throughout the world. On the whole, therefore, it is likely that aggregate holdings of gold by foreign monetary authorities declined somewhat during the year. By the end of 1946, however, these authorities probably still held nearly 16 billion dollars in gold, or 43 per cent of the world's total monetary gold reserves, whereas at the end of 1941 they held only about 10.5 billion dollars or 31 per cent of a substantially smaller total. The United States share, therefore, declined from 69 to 57 per cent during this period.

In view of the fact that such important holders of gold as the U.S.S.R., the United Kingdom, and Canada do not publish their current gold reserve positions, it is difficult to trace shifts in gold holdings among particular countries. On the basis of published figures, however, it would appear that France was the principal loser of gold during 1946. Whereas total French gold holdings exceeded 1,500 million dollars at the end of 1945, by the end of 1946 reported holdings of the Bank of France (excluding such gold as may have been held by the French Stabilization Fund on that date) amounted to only 800 million dollars. Sweden and Mexico each reported losses of about 100 million dollars in gold during the year, while scattered gains were reported by a number of other countries. It would appear that larger gains must have been realized by some of the major nonreporting countries.

Dollar balances held in the United States by foreign countries supplied a net amount of some 875 million dollars toward meeting foreign requirements during 1946. The dollar balances of foreign central banks and governments were drawn upon to the extent of over 1,100 million dollars net, mainly as a result of heavy drafts upon the British, Canadian, Philippine, and French accounts. This decline in official funds was compensated in part, however, by a widely distributed expansion of balances held for private foreign account. Both categories of foreign funds remain far above prewar levels. At the end of 1946, official balances still amounted to 3.0 billion dollars as compared with only 0.5 billion at the end of 1938 and private balances came to 3.0 billion dollars as compared with 1.7 billion in 1938.

Foreign countries also made net sales to the United States of marketable domestic securities (both stocks and bonds, including United States Government bonds) amounting to 335 million dollars during 1946. This reflected mainly liquidation of Chinese, British, and Netherlands holdings; several Latin American countries, on the other hand, were small net purchasers of securities in this country.

Prospects for 1947. With increasing supplies of goods available in the United States and with substantially higher prices on exported commodities, especially foodstuffs, the value of merchandise exports from this country during the early months of 1947 has reached record figures, far surpassing the 1946 level. The world food shortage continues to be critical, and there are immense requirements for other American products in connection with recovery and reconstruction abroad. Even in countries which escaped serious war damage and disruption, there exists a very large demand for imports arising from high levels of current domestic income and accumulated liquid funds, combined with large deferred demands for both consumers' and producers' goods which could not be satisfied under wartime conditions. United States exports may soon come to be limited mainly by the volume of available purchasing power in foreign hands. Some of this purchasing power must also be used to meet net payments to the United States on service transactions, which may again be as large as in 1946 in view of the very high level of earnings by United States shipping; small additional amounts may still be required for purchases of United States surplus property located abroad.

Foreign purchasing power for United States exports is derived from United States imports, from United States grants and credits to foreign countries, and from liquidation of foreign gold and dollar assets. It appears that the latter source may be relied upon much more heavily in 1947 than in the previous year. United States merchandise imports were far smaller in 1946 than might have been anticipated in view of the high level of domestic production and income. As supplies become more readily available in foreign areas, shipments to this country should expand considerably; merchandise imports of over 6 billion dollars may be expected for 1947.

Unilateral transfers, including the civilian supply program for occupied countries, public relief grants, and private relief and remittances will probably provide some 2.5 billion dollars. The civilian supply program is likely to be no smaller in 1947 than during the past year. UNRRA deliveries to Europe will continue through the first quarter of 1947 and shipments to the Far East some three months longer. In addition, the Congress has authorized 350 million dollars to provide supplementary relief for the period following cessation of UNRRA operations, as well as 400 million dollars for special assistance to Greece and Turkey; however, these sums will not all be delivered in 1947.

Dollar credits from various sources may provide as much as 4 billion dollars. The United Kingdom may need to draw up to 2 billion dollars upon its line of credit during 1947, both to finance its own purchases in the United States and to provide freely convertible currency for other net suppliers of the British market after the middle of the year. Export-Import Bank disbursements in 1947 have been estimated by that agency at a minimum of one billion dollars. Various other United States lending agencies, plus some private long-term American investment in foreign countries, may supply half a billion dollars, and a further half billion is likely to be forthcoming during 1947 from the International Fund and Bank, which had not yet commenced active financial operations by the end of 1946.

If grants and credits become available in this volume during 1947, foreign countries may be able, after meeting other current demands upon their supply of dollars, to finance purchases of at least 11.5 billion dollars of United States merchandise exports without drawing upon their gold and dollar assets. However, in view of urgent foreign requirements, it appears likely that foreign countries will in fact be prepared to make large further inroads upon their holdings of such assets if they can find the goods available in the United States to meet their needs. Over one billion dollars of these assets were actually liquidated in the first quarter of the year. Total exports, recorded and unrecorded, may therefore be substantially greater than the figure named above, and foreign gold and dollar reserves may suffer substantial depletion during the coming year. Such depletion of reserves, together with the rapid consumption of available grants and credits, promises to create a serious dollar financing problem for foreign countries by the end of the year.

CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

Consumer credit. Regulation W, relating to consumer credit, was amended on three occasions during 1946. The first amendment, effective July 5, 1946, made the regulation applicable to sales of listed articles in a principal amount of $1,500 or less (there had previously been no dollar limit with respect to sales); it eliminated attic ventilating fans and automobile tires, batteries and accessories from the list of articles, and made certain technical changes. The second amendment, effective September 3, 1946, changed the regulation in two respects: The regulation was made applicable to all consumer credits up to $2,000 instead of only those up to $1,500; and the maximum maturity for instalment loans not connected with the purchase of listed articles was reduced from 18 months to 15 months.

The regulation was extensively revised effective December 1, 1946. The principal changes made by the revision were to confine it to instalment credit (by eliminating the provisions relating to charge accounts and single-payment loans) and to center it on purchases of major durable goods (by eliminating many of the articles, including all articles priced at less than $50, which had previously been listed in the regulation). In addition, the revision simplified the regulation in many respects, making it administratively more workable. The changes made by this revision and the reasons therefor are discussed more fully elsewhere in this Report.

Margin requirements for purchasing securities. As stated in the previous *Annual Report,* the Board's Regulation T, entitled "Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges" and Regulation U, entitled "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange" were amended effective January 21, 1946 to increase margin requirements to 100 per cent both for purchases of registered securities and for short sales. Effective February 1, 1947, these requirements were reduced to 75 per cent, which was the level prevailing from July 5, 1945 to January 21, 1946.

Effective December 1, 1946, both regulations were amended so as to permit stockholders of any corporation who receive rights to subscribe to new issues to obtain credit for the purpose of exercising these rights. Securities pledged for this purpose were given a loan value of 50 per cent by the amendment. The new provision applies also to cases in which a public utility holding company, when simplifying its structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies.

Acceptances by member banks. Regulation C, relating to the acceptance by member banks of drafts or bills of exchange drawn against domestic or foreign shipments of goods or secured by warehouse receipts covering readily marketable staples and the acceptance of drafts or bills drawn for the purpose of creating dollar exchange, was revised effective August 31, 1946. The revision made no major changes of substance in the regulation, but made certain changes designed to simplify and clarify its provisions in the light of experience over a number of years.

Administrative procedure rules. Pursuant to the Administrative Procedure Act and other relevant provisions of law, the Board, effective September 11, 1946, adopted Rules of Organization and Rules of Procedure. As specified in the Administrative Procedure Act, the Rules of Organization describe the Board's central and field organization, including delegations of final authority and the places and methods by which the public may secure information or make submittals or requests, and the Rules of Procedure describe the method by which the Board's functions are carried out, its procedures and its forms.

Rules on Organization and Information and Rules on Procedure were likewise adopted effective the same date by the Federal Open Market Committee.

LITIGATION

Injunction under Regulation W. A decree restraining Motor City Credit Jewelry Co., Inc., Van Dyke, Michigan, it officers and employees from violating the Board's Regulation W was entered on February 14, 1946, in the United States District Court in Detroit. The Company was charged with numerous and repeated violations of the regulation, including failure to obtain the down payment required and falsification of its records for the purpose of concealing the failure to obtain the down payments. The effect of the decree, to which the defendants consented, is to render them liable to punishment for contempt in the event they are found in the future to have violated the regulation in any of the respects described in the decree. The text of the decree appears in the Appendix at page 105.

In addition, the Board after a full hearing suspended the license of the Company for 60 days, which had the effect of prohibiting the Company from making credit sales during the period of suspension. The Board's Order, and the Findings and Opinion upon which it was based, appear in the Appendix at pages 106-08.

Conviction for violating injunction. The United States District Court in Detroit on June 14, 1946, found that Consumers Home Equipment Company and its President had violated an injunction previously issued by that Court restricting them from violating the Board's Regulation W (see Board's *Annual Report* for 1945), and adjudged them guilty of contempt, for which it fined the Company $2,500 and sentenced its president to one year in prison. The case has been appealed to the Circuit Court of Appeals. The text of the oral Opinion of the District Court appears in the Appendix at pages 109-10.

Suit regarding condition of membership. On June 3, 1946, the suit of the Peoples Bank, Lakewood Village, California, against the individual members of the Board (which was instituted following the dismissal of a somewhat similar suit in California, as described in the Board's previous *Annual*

Report) was decided in favor of the defendants by the United States District Court for the District of Columbia. The complaint alleged that a condition of membership which had been prescribed when the bank became a member of the Federal Reserve System was unauthorized by law and asked for a declaratory judgment and for an injunction restraining the defendants from enforcing the condition. The court granted the defendants' motion for a summary judgment. The plaintiff has appealed to the Circuit Court of Appeals. The opinion of the District Court appears in the Appendix at pages 111-13.

Suit regarding removal of bank directors. On January 6, 1947, the Supreme Court of the United States sustained an order of the Board of Governors removing from office two directors of a national bank in Paterson, New Jersey. The case had reached the Supreme Court on certiorari to the United States Court of Appeals for the District of Columbia, which had reversed the decision of the District Court sustaining the Board's order (as described in the Board's previous *Annual Report*).

The Board's removal order, issued under Section 30 of the Banking Act of 1933, was predicted upon a finding that the directors had violated Section 32 of the Banking Act of 1933, which prohibits any officer, director or employee of a firm primarily engaged in the business of underwriting or distributing securities from serving at the same time as an officer, director or employee of a member bank of the Federal Reserve System. The suit was based upon the contention that the Board had transcended its authority by applying Section 32 to a situation where underwriting was not actually first in volume as compared with other businesses of the firm but was merely one of its primary activities.

The Court was unanimous in holding that the Board had not transcended its authority. On the question of jurisdiction, a majority of the Court was of the opinion that the determination of the extent of the authority granted to the Board to issue removal orders under Section 30 is subject to judicial review; but in a concurring opinion, two Justices were of the view that the question presented on the merits should be reviewable only for abuse of discretion. The opinions in the Supreme Court appear in the Appendix at pages 114-18.

LEGISLATION

Purchase of Government obligations by Federal Reserve Banks. The Second War Powers Act, enacted March 27, 1942, amended Section 14(b) of the Federal Reserve Act so as to authorize the purchase or sale by Federal Reserve Banks, directly from or to the United States, of bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed as to principal and interest, but limited the aggregate amount acquired directly from the United States and held at any one time by the twelve Federal Reserve Banks to not exceed 5 billion dollars. Another provision of the Second War Powers Act provided that such authority should terminate on December 31, 1944, or at such earlier time as Congress, by concurrent resolution, or the President, might designate. This time limit, which had been extended from time to time, was further extended until March 31, 1947, by an Act approved June 29, 1946.

Limitation on claims connected with Government checks. An Act approved March 6, 1946, gives relief to banks, merchants, and others who handle Government checks which turn out to have had forged or unauthorized endorsements. The relief given is a six-year statute of limitations on claims by the United States in such cases.

Farm tenant loans. Section 24 of the Federal Reserve Act contains limitations and restrictions upon real estate loans by national banks. By an Act approved August 14, 1946, the section was amended so as to make these limitations and restrictions inapplicable to loans for the purpose of enabling farm tenants to acquire farms when such loans are insured under the Bankhead-Jones Farm Tenant Act.

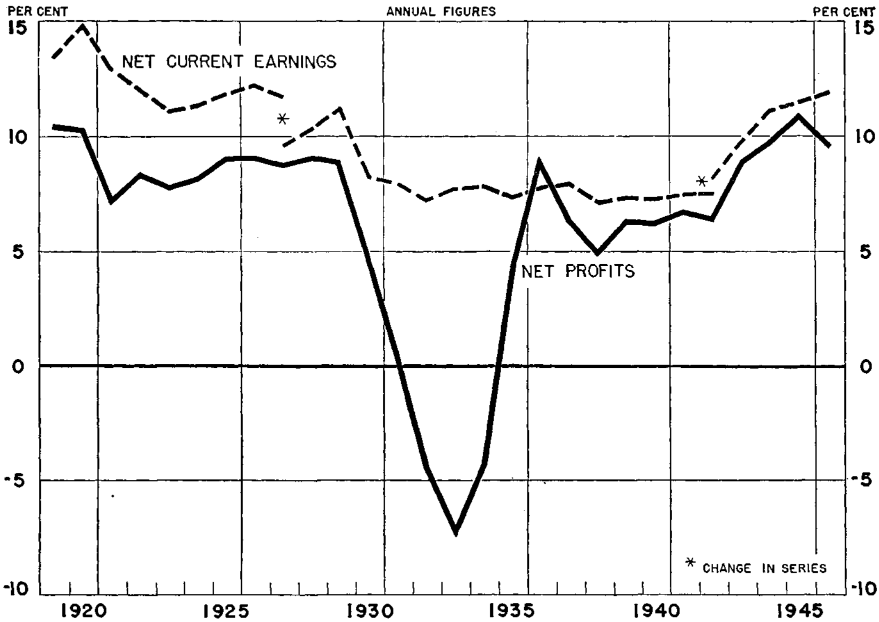
Cessation of hostilities. Although not technically legislation, reference should also be made here to the Proclamation of the President of the United States issued on December 31, 1946, terminating the period of hostilities of World War II, effective as of noon on that date. The Proclamation does not have the effect of terminating the war or of terminating the emergencies declared by the President on September 8, 1939 and May 27, 1941. Accordingly, the only statutory provisions directly concerning the Federal Reserve System which are affected by the Proclamation are those of Section 12B (h)(1) and the last paragraph of Section 19 of the Federal Reserve Act, as amended by the Act of April 13, 1943, exempting war loan accounts of the United States from deposit insurance assessments and from reserve requirements of member banks, both of which will expire six months from the date of the Proclamation.

BANKING OPERATIONS AND STRUCTURE

Bank earnings and earning assets. Member bank net profits after taxes were 758 million dollars in 1946, compared with the peak of 788 million earned in 1945. All major items of current earnings were larger, but expenses and charge-offs also were larger and profits on securities sold were considerably smaller than in the previous year. About one-third of net profits was paid out as dividends and the remainder was added to capital accounts.

Net profits of member banks in 1946 were 9.6 per cent of total capital accounts as compared with nearly 11 per cent in 1945. The decline was due in part to an increase in capital accounts. As shown in the accompanying chart, profits in 1945 as a percentage of capital accounts were at a higher level than had been previously reached. Net current earnings before income taxes continued the upward trend of recent years and were nearly 12 per cent of total capital accounts in 1946; this compared with a level of about 8 per cent during the 1930's. The ratio of net profits to capital at country banks was higher in 1946 than in 1945, while ratios for the central reserve and reserve city banks declined.

MEMBER BANK EARNINGS AND PROFITS
AS PERCENTAGES OF CAPITAL ACCOUNTS



NOTE: Net current earnings are total earnings from current operations less current operating expenses. Net profits are net current earnings plus recoveries, profits on securities, etc., less losses and charge-offs and taxes on net income. Capital accounts consist of all forms of capital, including capital notes and debentures, surplus, undivided profits, reserves for contingencies, and other miscellaneous capital accounts. Prior to 1927 profits on securities were included in current earnings; beginning in 1942 taxes on net income were excluded, while recurring depreciation was included, as a current operating expense deduction from earnings.

Earning assets of member banks amounted to 96 billion dollars at the close of 1946, a decrease of 11 billion during the year. A decline of over 15 billion dollars in holdings of United States Government obligations during the year was partly offset by an increase of over 4 billion in loans and other securities.

Two factors moderated the effect on bank earnings of the decline in holdings of Government securities. First, the decrease was entirely in short-term, low-yield Government securities, and as a result the average yield on holdings of United States Government securities increased from 1.39 per cent in 1945 to 1.48 per cent in 1946. Second, the increase in holdings of commercial and industrial, real estate, and consumer loans, with their higher yields, was an important factor in sustaining bank earnings in the face of sizable declines in low-yielding, short-term Government securities and loans for purchasing or carrying securities. Total loans of member banks, as well as commercial and industrial, real estate, and consumer loans, increased during the year and at the end of 1946 were larger than at any previous time. Changes in earning assets during the year are shown in the accompanying table.

MEMBER BANK LOANS AND INVESTMENTS
[In billions of dollars]

	Outstanding Dec. 31, 1946	Change during year	
		1946	1945
Loans and investments: total	**96.4**	**−10.8**	**+15.6**
Loans: total	**26.7**	**+3.9**	**+4.1**
Commercial and industrial loans	13.2	+4.2	+1.4
Agricultural loans	0.9	....	−0.3
Loans for purchasing or carrying securities	3.0	−3.5	+2.2
Real estate loans	5.4	+1.9	+0.2
Consumer loans	3.3	+1.4	+0.4
All other, including loans to banks	1.0	−0.1	+0.2
U. S. Goverment securities direct and guaranteed: total	**63.0**	**−15.3**	**+10.7**
Bills, certificates and notes	16.8	−16.7	+1.7
Bonds	46.2	+1.4	+9.0
State and local government securities	**3.5**	**+0.3**	**+0.4**
Other securities	**3.1**	**+0.3**	**+0.5**

Shifts in the volume and composition of bank earning assets during 1946 had their effect on earnings of the various classes of member banks. The Treasury's debt-retirement program affected the earning assets of large banks more than small ones. At central reserve city banks, the decline in holdings of Treasury certificates of indebtedness and notes and in loans on Government securities, only partly offset by increases in other loans and securities, reduced earning assets by more than 6.5 billion dollars, or 20 per cent. As a result, net current earnings of these banks were somewhat lower than in 1945. Net profits were 23 per cent lower.

At reserve city banks there was a decrease in earning assets of 4.8 billion dollars, or 12 per cent. Total loans held by these banks increased 2.3 billion dollars, although loans on securities declined about 1.0 billion. Net current earnings of these banks were higher than in 1945 and net profits were but little lower.

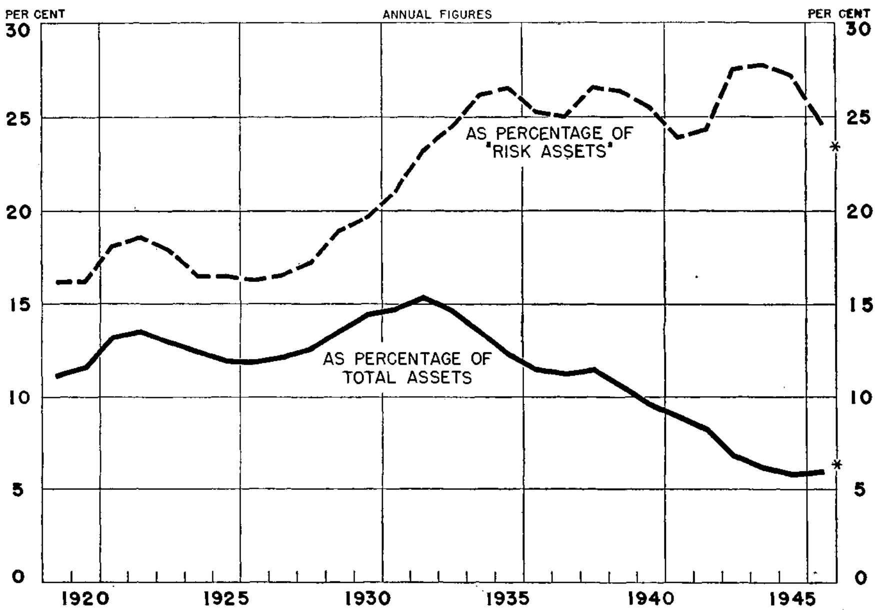
At country banks, instead of a decline in earning assets, there was an increase of 400 million dollars. A decrease of 2.4 billion dollars in holdings of Government securities was more than offset by increases in loans and other securities. The bulk of the increase in loans was in such high-yielding categories as real estate and consumer loans. Net current earnings of country banks were nearly one-third higher than in 1945 and net profits about 12 per cent higher.

Capital accounts. Capital accounts of member banks increased 510 million dollars in 1946, compared with 620 and 490 million in 1945 and 1944 respectively; most of the increase resulted from the retention of profits.

There were some sales of additional capital stock, and also some retirement of preferred stocks and capital notes held by the Reconstruction Finance Corporation. Dividend payments aggregated 267 million dollars, 21 million higher than in 1945.

As a result of the further increase in capital accounts and the decline in Government securities and deposits during the year, the ratio of member bank average capital accounts to average total assets increased slightly during the year. As shown in the accompanying chart, this was the first annual increase since 1938. While total assets of member banks have nearly tripled during the past 10 years, capital accounts have less than doubled.

MEMBER BANK CAPITAL ACCOUNTS
AS PERCENTAGE OF TOTAL ASSETS AND "RISK ASSETS"



NOTE: "Risk assets" represent total assets other than cash assets and U. S. Government securities. Capital and asset figures are based on averages of June and December call date figures 1919-40 and of three or four call date figures thereafter.
* Indicates Dec. 31, 1946, call date ratio.

The increased volume of assets during the period from 1939 to 1945 was largely represented by increased holdings of Government securities and cash assets. As a result, the percentage ratio of member bank capital accounts to total assets other than cash assets and Government securities, also shown on the chart, changed very little. In 1946, with the decline in holdings of Government securities and the increase in loans, this ratio declined somewhat. In contrast to the ratio of capital to total assets, the ratio of capital to what may be called the "risk assets" is at a much higher level than it was in the 1920's. Smaller banks generally have higher capital ratios, measured on either basis, than larger banks.

The increase in capital accounts in the aggregate kept pace with the growth of assets other than cash assets and Government securities, but the volume of bank premises, furniture and fixtures, and other real estate included in these assets has steadily declined. This has resulted from the sale of other real estate, regular depreciation charges, and substantial additional charge-offs of these assets. Real estate assets now amount to only 11 per cent of member bank capital accounts as compared with 23 per cent in 1940.

In view of the decline in holdings of Government securities and increase in loans since the end of the war, the capital accounts of some individual banks are now disproportionately low relative to their risk assets. It is important, therefore, that bank managements keep continuously under observation the composition of the assets of their institutions and, as the degree of risk in such assets increases, take such steps to strengthen the capital account by the retention of a larger share of earnings or the sale of additional stock or both as their individual situations may require.

Changes in number of banking offices. For the third successive year the number of banking offices in the United States, exclusive of offices at military reservations, has shown an increase, and the net growth in 1946 was twice that of the previous year. The net increases during the last three years were: 225 in 1946, 111 in 1945, and 12 in 1944. The gross increase in number of de novo banks and branches was considerably higher: 301 in 1946, 185 in 1945, and 108 in 1944. The gross increase in number of new banks (head offices) opened in the last three years was nearly as large as the number of new banks organized in the eight-year period 1936-43, while the number of new branches opened in 1946 was nearly as large as the total for the four preceding years. At the end of 1946 there were 18,644 banking offices, comprising 14,585 banks and 4,059 branches, besides 79 "banking facilities" at military reservations.

The number of banks (head offices) increased by 32 in 1946 following an increase of 18 in 1945. These were the first increases since 1934, when many banks were reopened after the banking holiday. During 1946, 144 new banks opened for business, of which 30 were member banks, 98 insured nonmember banks, and 16 noninsured banks. Two nonmember banks that had previously been placed in voluntary liquidation resumed business. However, through consolidations and liquidations, 112 head offices were discontinued, 54 of which became branches. These changes resulted in a total of 14,585 banks in operation at the end of 1946—14,044 commercial banks and 541 mutual savings banks.

During 1946 there was a net increase of 193 in the number of branches and additional offices, exclusive of facilities at military reservations. This was more than double the increase of 94 in 1945, and resulted in a year-end total of 4,059. The number of such offices has increased in every year since 1933, except in 1942 when it remained unchanged. There were about 350 banking facilities (not included in the foregoing figures) in operation at military reservations at the end of the war. This number had declined to 241 by the end of 1945 and to 79 by the end of 1946.

Increase in Federal Reserve membership. Membership in the Federal Reserve System continued to increase in 1946, registering a net gain of 16 banks for the year compared with a net gain of 70 banks during 1945. The number of national banks decreased by 10 while the number of State member banks increased by 26. Of the 65 State banks admitted to membership, 9 were newly organized and 56 were already in operation. All but 5 of the 56 had previously been admitted to membership in the Federal Deposit Insurance Corporation. Total deposits of these 56 banks were about 300 million dollars. About one-half of the State banks admitted to membership were located in three Federal Reserve Districts—Cleveland, Chicago, and Dallas.

The 6,900 member banks in operation at the end of 1946 accounted for 49 per cent of the number and 85 per cent of the volume of the deposits of all commercial banks in the country; these percentages were 49 and 86 respectively at the end of 1945. The State member banks accounted for 21 per cent of the number and 65 per cent of the volume of the deposits of all State commercial banks; corresponding percentages were 21 and 69 respectively the previous year.

Par and nonpar banks. At the end of 1946 there were 11,957 banks on the Federal Reserve Par List, a net increase of 88 during the year, and 2,086 banks not on the Par List, a net decrease of 47.[2] These changes represent a continuation of the trend of several years. The banks on the Par List constituted about 85 per cent of all banks on which checks are drawn and held about 98 per cent of the deposits of all commercial banks in the country. In addition, 3,576 or 92 per cent of the 3,902 branches of commercial banks in existence at the end of 1946 were remitting at par.

During 1946, 198 banks were added to the Par List, 8 withdrew from the Par List, and 103 par banks terminated existence. Of the 103 par banks that terminated existence, 85 were absorbed by other par banks, and 50 of the banks thus absorbed were converted into branches. Net increases of more than 10 par banks occurred during the year in the following five States: Illinois 19, Texas 15, South Carolina 13, and Florida and Virginia 11 each.

At the end of 1946 all banks in 25 States and the District of Columbia were on the Federal Reserve Par List. In each of 8 other States the number of nonpar banks was small: Montana 1, Illinois and Kansas 2 each, West Virginia 3, Washington 5, Nebraska 8, Oklahoma 10, and Virginia 11. The remaining 15 States had approximately 98 per cent of the banks not on the Par List and were: Minnesota 416, Georgia 283, Mississippi 165, Arkansas 130, North Carolina 119, Alabama 113, Wisconsin 112, North Dakota 106, Tennessee 103, Louisiana and South Dakota 102 each, South Carolina 95, Missouri 72, Florida 64, and Texas 62.

[2] The Federal Reserve Par List comprises all member banks, which are required under the law to remit at par for checks forwarded to them by the Reserve Banks for payment, and such nonmember banks as have agreed to remit at par.

Check routing symbols. Considerable progress was made during 1946 in the use of routing symbols on checks to facilitate their collection, pursuant to the program inaugurated by the American Bankers Association and the Federal Reserve System in June 1945. Of the 11,957 banks on the Federal Reserve Par List as of December 31, 1946, almost 85 per cent have had check routing symbols printed in the approved location on some of their checks, i.e. in the upper righthand corner of the checks. The routing symbol is written as if it were the denominator of a fraction, the numerator of which is the ABA transit number. About 50 per cent of the out-of-town branches of par banks to which individual ABA transit numbers have been assigned were using some checks with the routing symbol printed in the approved location.

On the basis of a survey made in December 1946, it was found that 25 per cent of all checks clearing through Federal Reserve Banks carried routing symbols in the approved location. The high percentage of par banks and their out-of-town branches using the routing symbol is not yet reflected in the volume of checks handled because of the large stocks of checks that were on hand at the inception of the program (destruction of these inventories was not advised), and because of personnel and material shortages in the check printing industry. With the gradual exhaustion of previously existing stocks of checks and the solution of printing difficulties, it is anticipated that the coming year will see a considerable increase in the volume of checks with routing symbols.

BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM

The volume of banking activity continued at a high level in 1946. The year was marked by increase in demand for commercial and consumer credit and the development of the expected shifting in character of bank assets incident to conversion to peacetime activity. By the end of the year total loans of all banks in the United States were larger than in any year since 1930, and member bank loans were at the highest level on record. Commercial and industrial loans of member banks increased during the year by 4.2 billion dollars or 47 per cent.

The great and increasing volume of loans brings a new phase of banking to many who have entered the banking and supervisory fields since 1932 and whose banking and credit experience has been largely during periods of recovery and the abnormal conditions of wartime. Bank management and the supervisory authorities have also been faced with problems incident to the development of new types of financing and the entry of commercial banks into new credit fields.

Examination of Federal Reserve Banks. The Board's Division of Examinations examined the twelve Federal Reserve Banks and their twenty-four branches during the year as required by law.

Examination of State member banks. State member banks are subject to examinations made by direction of the Board of Governors or of the Federal Reserve Banks by examiners selected or approved by the Board of Governors. The established policy is to have at least one regular examination of each State member bank, including its trust department, during each calendar year, by examiners for the Reserve Bank of the district in which the bank is situated, with additional examinations if considered desirable. The program for the examination of State member banks in 1946 was substantially completed. In order to avoid duplication and to minimize inconvenience to the banks examined, wherever practicable joint examinations are made in cooperation with the State banking authorities or alternate examinations are made by agreement with State authorities.

The practice of holding periodic conferences with representatives of the bank examination departments of the twelve Federal Reserve Banks, which was curtailed during the war years, was resumed in 1946. A conference was held in the Board's offices in Washington on September 11 through September 13, in which representatives of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Reconstruction Finance Corporation participated. Particular consideration was given to the broad problems incident to reconversion as well as to technical developments. The Secretary of the Treasury and representatives of the Federal Housing Administration and the Farm Credit Administration addressed the Conference.

Bank holding companies. During 1946 the Board acted upon applications for voting permits submitted by holding company affiliates of banks and authorized the issuance of three permits for general purposes and four permits for limited purposes.

The regular annual reports were obtained from holding company affiliates to provide information with respect to the organizations to which voting permits have been granted. As in previous years, a substantial number of the holding company affiliates were examined during the year by examiners for the Federal Reserve Banks in whose districts the principal offices of the holding companies are located.

The existing statutes do not provide adequate means for regulation of bank holding companies. Recommendations have heretofore been made by the Board with a view toward the strengthening of such regulation, and such recommendations are included elsewhere in this report.

Trust powers of national banks. During the year 1946, 18 national banks were granted authority by the Board to exercise one or more trust powers under the provisions of Section 11(k) of the Federal Reserve Act. This number includes the grant of additional powers to 3 banks which previously had been granted certain trust powers. Trust powers of 20 national banks were terminated, 12 by voluntary liquidation or consolidation and 8 by voluntary surrender. At the end of 1946, there were 1,783 national banks holding permits to exercise trust powers. A list of such banks, with indication of the power or powers each bank is authorized to exercise, will be supplied to those requesting it.

Acceptance powers of member banks. During the year the Board approved three applications made by member banks, pursuant to the provisions of Section 13 of the Federal Reserve Act, for increased acceptance powers. One member bank was granted permission to accept drafts or bills of exchange to an amount not exceeding at any one time, in the aggregate, 100 per cent of its paid-up and unimpaired capital stock and surplus, and the applications of two member banks for permission to accept drafts or bills drawn to furnish dollar exchange were also approved.

The Reserve Banks, during the year, reviewed the list of member banks in their districts holding increased acceptance powers to ascertain whether such powers were needed. The powers had been granted many years ago in most cases and, in view of changed conditions, up to the end of the year 33 member banks had voluntarily surrendered the power to accept up to 100 per cent of their capital stock and surplus and one member bank had voluntarily relinquished its power to accept drafts or bills drawn to furnish dollar exchange.

Foreign branches and banking corporations. During 1946 the Board approved two applications made by a member bank pursuant to the provisions of Section 25 of the Federal Reserve Act for permission to establish foreign branches. No new foreign branches of member banks were opened during the year but the Tokyo Branch of the National City Bank of New York, which had been closed at the outbreak of the war, resumed limited operations, and no branches were closed. The establishment of four foreign branches, authorized by the Board in previous years, was not consummated and the authorities granted with respect thereto lapsed during the year. Still in effect at the end of the year were authorizations granted in previous years for the establishment of three foreign branches which, however, had not been established as of that date.

At the end of 1946, seven member banks were operating a total of 73 branches in 21 foreign countries and possessions of the United States. Of the 73 branches, four national banks were operating 67, and three State member banks were operating 6. The foreign branches were distributed geographically as follows:

Latin America		42
Argentina	10	
Brazil	4	
Chile	2	
Colombia	3	
Cuba	16	
Mexico	1	
Panama	3	
Peru	1	
Uruguay	1	
Venezuela	1	
Continental Europe		2
Belgium	1	
France	1	
England		10
Far East		8
China	2	
Hong Kong	1	
India	2	
Japan	1	
Philippines	1	
Singapore	1	
U. S. Possessions		11
Canal Zone	4	
Puerto Rico	7	
Total		73

There was no change during the year in the list of the five corporations organized under State laws which operate under agreements entered into with the Board pursuant to Section 25 of the Federal Reserve Act relating to the investment by member banks in the stock of corporations engaged principally in international or foreign banking. These corporations are: First of Boston International Corporation, French American Banking Corporation, International Banking Corporation, Morgan & Cie., Incorporated, and Bankers Company of New York. Two of the five have no foreign branches, one operates a branch in England, one operates a branch in France, and one has an English fiduciary affiliate.

There is in operation one banking corporation, The Chase Bank, organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. The bank operates a branch in France, two branches in China, a branch in Hong Kong, and has a fiduciary affiliate in England. Its head office was examined during the year by the Board's Division of Examinations.

RESERVE BANK OPERATIONS

Volume of operations. During 1946 the operations of the Federal Reserve Banks as a whole declined, primarily because of the sharp decrease in volume of Government security issues and redemptions. Certain other fiscal agency operations also decreased, such as those pertaining to guaranteed loans under Regulation V, ration checks, and various loan, purchasing, and subsidy programs carried on by the Commodity Credit Corporation and the Reconstruction Finance Corporation. The volume of Government checks handled decreased substantially. On the other hand, the volume of other checks and of paper currency and coin handled continued to increase and reached new peaks.

The V loan program carried on by the Federal Reserve Banks under the general supervision of the Board of Governors for the War Department, the Navy Department, and the United States Maritime Commission has been rapidly drawing to a close, and liquidation of the loans made under the plan has been vigorously pursued. The amount of guaranteed loans outstanding declined from 510 million dollars at the first of the year to 19 million at the end of the year. In the same period the amount of credit available to borrowers, in addition to loans outstanding, decreased from 967 million to 29 million dollars. Only 14 guarantee agreements, for loans of about 5 million dollars in the aggregate, were authorized during 1946. The last authorization was in May 1946.

Reserve Bank holdings of discounts and advances in 1946 were below the level of 1945 for the System as a whole, some Reserve Banks having increases and some decreases. A considerable volume of bankers' acceptances was offered to the Reserve Banks for purchase at the established buying rate. These offerings were made within a short period—from March through July. Government securities held in the System Open Market Account, and

Treasury bills acquired from member banks and others under agreements to resell upon demand prior to maturity at the established buying rate, were larger in 1946 than in 1945. The amount of industrial loans made to provide working capital for industry under Section 13b of the Federal Reserve Act declined, but commitments to make industrial loans increased and at the end of the year were larger than in any other year since 1943.

Table 5 on page 77 shows the volume of operations in the principal departments of the Federal Reserve Banks for the past five years. Average holdings of loans and securities, and earnings thereon, are given in the table below:

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1943-46

[Dollar amounts in thousands]

Item and year	Total	Discounts and advances	Acceptances purchased	U. S. Government securities, direct and guaranteed	Industrial loans
Daily average holdings:					
1943	$ 7,761,651	$ 24,759	....	$ 7,724,488	$12,404
1944	14,917,596	135,459	....	14,772,201	9,936
1945	21,742,589	375,958	$ 22	21,363,244	3,365
1946	23,570,260	310,308	8,457	23,250,195	1,300
Earnings:					
1943	68,656	152	....	68,090	414
1944	103,837	724	....	102,810	303
1945	141,631	1,977	(1)	139,553	101
1946	149,703	2,497	43	147,125	38
Average rate of earnings (per cent):					
1943	0.88	0.61	....	0.88	3.34
1944	0.70	0.53	....	0.70	3.05
1945	0.65	0.53	0.50	0.65	2.99
1946	0.64	0.80	0.51	0.63	2.90

[1] Less than $500.

Earnings and expenses. Current earnings, current expenses, and the distribution of net earnings of the various Federal Reserve Banks are given in detail in Table 6 on page 78, and a condensed annual statement since 1913 for all the Reserve Banks combined is given on page 80. The table below shows a condensed summary for all of the Reserve Banks for the years 1945 and 1946. Current earnings were 150 million dollars in 1946 as compared

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1945 AND 1946

[In thousands of dollars]

Item	1946	1945
Current earnings	150,385	142,209
Current expenses	57,235	48,717
Current net earnings	93,150	93,492
Net deductions from current net earnings	626	830
Net earnings	92,524	92,662
Paid U. S. Treasury (Sec. 13b)	67	248
Dividends paid	10,962	10,182
Transferred to surplus (Sec. 13b)	28	262
Transferred to surplus (Sec. 7)	81,467	81,970
Total	92,524	92,662

with 142 million in 1945. Current expenses increased by about the same amount, 8 million dollars, so that net earnings were approximately equal to those in 1945. After payments totaling 11 million dollars for the dividend to member banks as provided in the Federal Reserve Act and payments to the United States Treasury under Section 13b of the Act relating to industrial loans, 81 million was added to the surplus of the Reserve Banks.

Foreign transactions. In the first full calendar year since V-J Day, considerable progress was made in the return of the System's foreign transactions to a peacetime basis. A number of foreign central bank accounts which had been closed or become dormant during the war were reopened, and conversely many of the foreign government accounts which had been set up as a wartime measure were closed. In addition to the reactivated accounts, five new foreign accounts were opened in 1946.

There was a further reduction in the total amount of assets held at the Federal Reserve Bank of New York for foreign central banks and governments, reflecting in part heavy postwar expenditures in this country, and in part repatriation of gold held under earmark. At the end of the year foreign-owned dollar deposits, earmarked gold, and securities held for all accounts, including accounts maintained by foreign depositors with the Federal Reserve Bank of New York acting as fiscal agent of the United States, amounted to 5,330 million dollars, as compared with 6,830 million at the end of 1945. There was, however, a noticeable increase in the total volume of foreign transactions handled by the Federal Reserve Bank of New York, despite a further curtailment in operations on behalf of United States departments and agencies. Investment transactions for foreign accounts during the year included not only substantial operations in United States Government securities, as in the past, but also (for the first time since 1939) some small purchases for a number of foreign central banks of prime endorsed bankers' acceptances.

Another operation in which there was a considerable increase in volume during the year was the granting of loans to foreign central banks by the Federal Reserve Banks against gold held under earmark at the Federal Reserve Bank of New York. Unlike long-term reconstruction loans of the type that has been made by the Export-Import Bank and is expected to be made by the International Bank for Reconstruction and Development, gold loans made by the Federal Reserve Banks are of a short-term nature and designed to meet temporary deficiencies in a foreign country's balance of international payments. Interest was charged on such loans at the rate of one per cent per annum.

The largest loan arrangement during the year was one with a European central bank, under which a series of short-term advances was made, the largest amount outstanding at any one time under this arrangement having been in excess of 100 million dollars. Three Latin American central banks and another European central bank also availed themselves of this facility in smaller amounts. At the end of the year a total of nearly 150 million dollars of gold-secured loans to foreign central banks was outstanding.

The Federal Reserve Bank of New York, as fiscal agent of the United States, continued to operate the United States Exchange Stabilization Fund under authorizations and instructions from the Treasury Department. All Federal Reserve Banks continued to act as agents for the Treasury in the administration of foreign funds control until February 1946, when the work was concentrated in the Federal Reserve Banks of New York, Chicago, and San Francisco. At the end of the year, all such operations were turned over to the New York Reserve Bank. In addition, the Federal Reserve Banks, acting under the Executive Order of January 15, 1934, and Treasury regulations, continued to collect and analyze reports from banks, security brokers and dealers, and others on international movements of capital.

Pursuant to the Bretton Woods Agreements Act, the Federal Reserve Bank of New York was appointed depositary of the International Monetary Fund and of the International Bank for Reconstruction and Development. In June 1946, the New York Reserve Bank was authorized by the Treasury to act as fiscal agent for the Export-Import Bank in connection with a 200 million dollar loan granted by the latter to The Netherlands Government and subsequently participated in by some 40 commercial banks in the amount of nearly 100 million dollars. Pursuant to this authorization, the New York Reserve Bank, and the other Reserve Banks through it, set up the necessary procedures for such participation.

Bank premises. With the decline during 1946 in the fiscal agency operations of the Federal Reserve Banks, it became possible at certain Banks and branches to relinquish some of the outside space being rented, thus reversing the trend throughout the war years. As stated in the *Annual Report* for 1945, it appears that most of the Federal Reserve Banks and branches will have to continue to rent outside space until such time as they can make additions to their present inadequate quarters or, in some cases, erect new buildings. The policy of making only necessary repairs and alterations to buildings and deferring construction of additions or of new buildings remained in effect because of the continued shortage of manpower and materials. The Board advised the Federal Reserve Banks, however, that there was no objection to employing architects to make preliminary plans for future building construction. A site for a building to house the Portland Branch, which now occupies rented quarters, was acquired during the year.

RESERVE BANK PERSONNEL

Chairmen and Deputy Chairmen. One of the three Class C directors appointed by the Board of Governors for each Federal Reserve Bank is designated annually to serve as Chairman of the Board of Directors and as Federal Reserve Agent, and another Class C director is appointed annually as Deputy Chairman. A list of the Chairmen and Deputy Chairmen is shown on page 121.

The Chairmen and Deputy Chairmen at the Federal Reserve Banks were redesignated to serve as such for the year 1946, except for the following changes:

Henry I. Harriman, Director and Vice Chairman of the New England Power Association, Boston, Massachusetts, who had been a Class C director of the Federal Reserve Bank of Boston since March 12, 1938, was appointed Deputy Chairman for the year 1946.

Russell L. Dearmont, Chief Counsel for Trustee of the Missouri-Pacific Lines, St. Louis, Missouri, who was appointed a Class C director of the Federal Reserve Bank of St. Louis on December 7, 1945, was designated Chairman and Federal Reserve Agent for the year 1946.

Roger B. Shepard of Newport, Minnesota, who had been a Class C director of the Federal Reserve Bank of Minneapolis since December 28, 1939, and Deputy Chairman since March 11, 1940, was designated Chairman and Federal Reserve Agent for the year 1946.

W. D. Cochran of the W. D. Cochran Freight Lines, Iron Mountain, Michigan, who had been a Class C director of the Federal Reserve Bank of Minneapolis since January 28, 1939, was appointed Deputy Chairman for the year 1946.

J. R. Parten, President of the Woodley Petroleum Company, Houston, Texas, who had been a Class C director of the Federal Reserve Bank of Dallas and Deputy Chairman since January 1, 1944, was designated Chairman and Federal Reserve Agent for the year 1946.

R. B. Anderson, General Manager of the Waggoner Estate, Vernon, Texas, was appointed a Class C director of the Federal Reserve Bank of Dallas for the term beginning January 1, 1946, and Deputy Chairman for the year 1946.

Directors. A list of the directors of the Federal Reserve Banks and branches as of the close of the year is shown on pages 122-29.

The Board made the following appointments of new directors either for terms beginning January 1, 1946, or to fill vacancies during the year:

Class C Directors. Donald K. David, Dean of the Graduate School of Business Administration of Harvard University, Cambridge, Massachusetts, was appointed a Class C director of the Federal Reserve Bank of Boston for the term beginning January 1, 1946.

J. P. Redman of Cairo, Illinois, was appointed a Class C director of the Federal Reserve Bank of St. Louis on September 20. Mr. Redman is engaged in farming.

Paul E. Miller, Director of the Agricultural Extension Division of the University of Minnesota, Minneapolis, Minnesota, was appointed a Class C director of the Federal Reserve Bank of Minneapolis for the term beginning January 1, 1946.

Branch Directors. Carl G. Wooster of Union Hill, New York, was appointed a director of the Buffalo Branch of the Federal Reserve Bank of New York for the term beginning January 1, 1946. Mr. Wooster is engaged in farming.

Albert H. Burchfield, Jr., Vice President of the Joseph Horne Company, Pittsburgh, Pennsylvania, was appointed a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland for the term beginning January 1, 1946.

J. M. Koch, Vice President and Director of the Quaker State Oil Refining Corporation, Oil City, Pennsylvania, was appointed a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland on November 18.

James E. Hooper, Vice President of William E. Hooper and Sons Company, Baltimore, Maryland, was appointed a director of the Baltimore Branch of the Federal Reserve Bank of Richmond for the term beginning January 1, 1946.

R. Flake Shaw, Executive Secretary of the North Carolina Farm Bureau Federation, Greensboro, North Carolina, was appointed a director of the Charlotte Branch of the Federal Reserve Bank of Richmond for the term beginning January 1, 1946.

John C. Curry, Administrative Assistant to Algernon Blair, Contractor, Montgomery, Alabama, was appointed a director of the Birmingham Branch of the Federal Reserve Bank of Atlanta on August 2.

H. C. Meacham of Franklin, Tennessee, was appointed a director of the Nashville Branch of the Federal Reserve Bank of Atlanta on February 14. Mr. Meacham is engaged in farming.

H. G. Chalkley, Jr., President of The Sweet Lake Land and Oil Company, Inc., Lake Charles, Louisiana, was appointed a director of the New Orleans Branch of the Federal Reserve Bank of Atlanta on January 3. Mr. Chalkley was serving as a director of the New Orleans Branch in 1941, when he was called to active duty as an officer in the Navy.

D. P. Cameron, President, The Merchants Company, Hattiesburg, Mississippi, was appointed a director of the New Orleans Branch of the Federal Reserve Bank of Atlanta on August 6.

Prentiss M. Brown, Chairman of the Detroit Edison Company, Detroit, Michigan, was appointed a director of the Detroit Branch of the Federal Reserve Bank of Chicago for the term beginning January 1, 1946.

Cecil C. Cox of Stuttgart, Arkansas, was appointed a director of the Little Rock Branch of the Federal Reserve Bank of St. Louis for the term beginning January 1, 1946. Mr. Cox is engaged in farming.

Leslie M. Stratton, Jr., Executive Vice President of the Stratton-Warren Hardware Company, Memphis, Tennessee, was appointed a director of the Memphis Branch of the Federal Reserve Bank of St. Louis for the term beginning January 1, 1946.

Fred S. Wallace of Gibbon, Nebraska, was appointed a director of the Omaha Branch of the Federal Reserve Bank of Kansas City on November 1. Mr. Wallace is engaged in farming.

Dorrance D. Roderick, President of the Newspaper Printing Corporation, El Paso, Texas, was appointed a director of the El Paso Branch of the Federal Reserve Bank of Dallas for the term beginning January 1, 1946.

Ross Stewart, General Manager of C. Jim Stewart and Stevenson, Houston, Texas, was appointed a director of the Houston Branch of the Federal Reserve Bank of Dallas on January 29.

H. P. Drought, an attorney of San Antonio, Texas, was appointed a director of the San Antonio Branch of the Federal Reserve Bank of Dallas on November 6.

Fred G. Sherrill, Vice President of the J. G. Boswell Company, Los Angeles, California, was appointed a director of the Los Angeles Branch of the Federal Reserve Bank of San Francisco on April 4.

Aaron M. Frank, President of the Meier and Frank Company, Inc., Portland, Oregon, was appointed a director of the Portland Branch of the Federal Reserve Bank of San Francisco on April 5.

John T. Tenneson, President, Superior Packing Company, Seattle, Washington, was appointed a director of the Seattle Branch of the Federal Reserve Bank of San Francisco on March 7.

Changes in Presidents and First Vice Presidents. Ralph E. Flanders, who had reached retirement age under the retirement plan, resigned as President of the Federal Reserve Bank of Boston and was succeeded by Laurence F. Whittemore, effective March 1, 1946. Mr. Whittemore was formerly Assistant to President of the Boston and Maine Railroad and a Class B director of the Federal Reserve Bank of Boston.

Ira Clerk, who had been an officer of the Federal Reserve Bank of San Francisco since its organization in November 1914, and President since January 1, 1946, died on September 28, 1946. Mr. Clerk was succeeded as President by C. E. Earhart. Mr. Earhart has been with the Bank since 1917, has served as an officer since 1920, and as First Vice President since January 1, 1946.

Frank J. Drinnen, who had been associated with the Federal Reserve System since 1919, and had served as First Vice President of the Federal Reserve Bank of Philadelphia since 1936, resigned effective February 28, 1946. Mr. Drinnen was succeeded by W. J. Davis as First Vice President. Mr. Davis has been an officer of the Bank since 1917.

Malcolm H. Bryan, who had been First Vice President of the Federal Reserve Bank of Atlanta since May 15, 1941, resigned effective October 18, 1946, to become associated with the Trust Company of Georgia. Mr. Bryan was succeeded as First Vice President by L. M. Clark. Mr. Clark has been a member of the Bank's staff since 1918, and has served as an officer since 1930.

Staff. At the end of 1946 the total number of officers and employees of the twelve Federal Reserve Banks and their twenty-four branches was 21,430, representing a decline of 2,092 since the end of 1945. This was the third successive year of decline following several successive years of increase due to the great expansion in the volume of operations during the war years. The total number of officers and employees of the Reserve Banks and branches at the end of each year beginning with 1939 was as follows:

1939	11,355	1943	24,741
1940	11,640	1944	24,442
1941	14,083	1945	23,522
1942	19,972	1946	21,430

BOARD OF GOVERNORS—STAFF AND EXPENDITURES

Appointment of Board Member. The appointment of Commodore James K. Vardaman, Jr., as a member of the Board of Governors for the term ending January 31, 1960, was approved by the Senate on April 3, 1946, and he assumed his duties as a member of the Board on April 4. Commodore Vardaman succeeded Mr. John K. McKee, whose term expired January 31, 1946, but who under the law continued to serve until April 2, 1946.

Staff. On December 31, 1946, the Board's staff, exclusive of those on military leave or leave without pay, numbered 480, as compared with 455 at the end of 1945.

During the year 25 of the Board's permanent employees who had been on military leave rejoined the staff: 19 elected not to return after their discharge from military service, and only 4 employees who had entered military service were still on leave at the end of the year.

Howard S. Ellis resigned as Assistant Director of the Division of Research and Statistics, effective January 20, 1946, to return to his position as Professor of Economics at the University of California. Mr. Ellis had been on leave of absence from the University since he joined the Board's staff in September 1943, as an Economic Specialist. He was appointed Assistant Director of the Division of Research and Statistics, effective February 1, 1945.

Ralph A. Young was appointed an Assistant Director of the Division of Research and Statistics and assumed his new duties on March 20, 1946. Mr. Young had for some time been serving on the staff of the National Bureau of Economic Research in connection with its financial research program and also as Professor of Economics at the University of Pennsylvania.

J. Burke Knapp was appointed an Assistant Director of the Division of Research and Statistics effective June 1, 1946. Mr. Knapp was associated with the Board's Division of Research and Statistics from February 1940 to August 1944, when he resigned to accept a position with the Department of State. He returned to the Board in October 1945, and was serving in the capacity of Special Assistant to the Chairman on International Finance at the time of his appointment as Assistant Director of the Division of Research and Statistics.

Walter Wyatt, who had been a member of the Board's staff since 1917, and its General Counsel since 1922, resigned effective February 28, 1946 to accept the position of Reporter of Decisions for the Supreme Court of the United States, effective March 1, 1946.

The designation of George B. Vest was changed from General Attorney to General Counsel, and that of J. Leonard Townsend from Assistant General Attorney to Assistant General Counsel, effective March 1, 1946.

David M. Kennedy was appointed Special Assistant to the Chairman effective June 1, 1946. Mr. Kennedy was originally employed in the Board's Division of Bank Operations in April 1930, and became associated with the Board's Division of Research and Statistics in May 1941. Immediately prior to his appointment as Special Assistant to the Chairman he was serving in the capacity of Assistant Chief of the Government Securities Section. Mr. Kennedy resigned in October to become associated with the Continental Illinois National Bank and Trust Company of Chicago.

Leo H. Paulger, who had been Director of the Division of Examinations since January 16, 1932, was appointed Special Adviser to the Board of Governors, effective August 1, 1946.

Robert F. Leonard, who had been Director of the Division of Personnel Administration, was appointed Director of the Division of Examinations, effective August 1, 1946.

C. E. Cagle, who had joined the Board's staff as a Federal Reserve Examiner on February 1, 1933 and who had been an Assistant Director of the Division of Examinations since May 1, 1935, resigned effective October 31, to return to private enterprise.

Edwin R. Millard and George S. Sloan were appointed Assistant Directors of the Division of Examinations, effective November 1. Mr. Millard had been a Federal Reserve Examiner since 1932, and the Examiner in charge of the field force since 1941. Mr. Sloan had been a Federal Reserve Examiner since June 1934.

Fred A. Nelson, who had been Assistant Director of the Division of Administrative Services, was appointed Director of the Division of Personnel Administration, effective August 1, 1946.

Gardner L. Boothe, II, who had been Assistant Administrator for War Loans, was appointed Assistant Director of the Division of Administrative Services, effective August 9, 1946.

Merritt Sherman was appointed an Assistant Secretary of the Board, effective October 1, 1946. Mr. Sherman had been with the Federal Reserve Bank of San Francisco since September 1926, and had been an officer of the Bank since May 1, 1941.

Change in Board's organization. Effective August 20, 1946, the Board of Governors abolished its Office of Administrator for War Loans, and transferred the functions and duties remaining in that office to the Division of Bank Operations.

Expenditures. The current expenses of the Board for the year 1946 aggregated $2,405,676. Two assessments were levied on the Federal Reserve Banks, representing about four-tenths of one per cent of their average paid-in capital and surplus for the year, to cover the general expenses of the Board. Details are shown in the following table:

RECEIPTS AND DISBURSEMENTS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE YEAR 1946

General fund account:				
Balance January 1, 1946:				
For general expenses of the Board			$602,973.57	
For expenses chargeable to Federal Reserve Banks			266,242.24	
For purchase of United States Savings Bonds for employees under Board's Voluntary Pay Roll Savings Plan			10,428.75	
For income tax withholdings due Collector of Internal Revenue			60,525.10	$940,169.66
RECEIPTS				
For general expenses of the Board:				
Assessments on Federal Reserve Banks for estimated general expenses of the Board		$2,259,783.78		
Subscriptions to the Federal Reserve Bulletin		11,157.84		
Other publications, sales		9,551.50		
Reimbursements for leased wire service		47,226.99		
Cafeteria operations		55,305.92		
Miscellaneous receipts, refunds, and reimbursements		13,316.85	2,396,342.88	
For expenses chargeable to Federal Reserve Banks:				
Assessments on Federal Reserve Banks for:				
Cost of printing Federal Reserve notes		2,871,193.55		
Expenses of leased wire system (telegraph)		58,915.12		
Expenses of leased telephone lines		9,212.44		
Expenses of Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)		60,656.93		
Miscellaneous expenses		2,931.68	3,002,909.72	
Employees' pay roll allotments for purchase of United States Savings Bonds			149,692.50	
Income tax withheld from salaries			243,175.08	
Total receipts				5,792,120.18
Total available for disbursement				6,732,289.84
DISBURSEMENTS				
For expenses of the Board:				
Current expenses of 1946 (per detailed statement)	$2,405,675.68			
Less accounts unpaid December 31, 1946	144,870.89	2,260,804.79		
Expenses of prior years paid in 1946		143,195.68		
Expenses of leased wire service, reimbursable		47,127.64		
Retirement System (salary computation adjustment)		13,104.00		
Cafeteria operations		50,915.96		
Miscellaneous disbursements, refunds and items reimbursable		18,764.42	2,533,912.49	
For expenses chargeable to Federal Reserve Banks:				
Cost of printing Federal Reserve notes		2,987,772.25		
Expenses of leased wire system (telegraph)		57,440.74		
Expenses of leased telephone lines		10,519.94		
Expenses of Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)		60,656.93		
Miscellaneous expenses		5,271.09	3,121,660.95	
Purchase of United States Savings Bonds and refunds under Board's pay roll plan			153,728.50	
Collector of Internal Revenue—income tax withheld from salaries			243,205.54	
Total disbursements				6,052,507.48
Balance in general fund account December 31, 1946:				
For general expenses of the Board			465,403.96	
For expenses chargeable to Federal Reserve Banks			147,491.01	
For purchase of United States Savings Bonds for employees under Board's Voluntary Pay Roll Savings Plan			6,392.75	
For income tax withholdings due Collector of Internal Revenue			60,494.64	
				$ 679,782.36

RECEIPTS AND DISBURSEMENTS—*Continued*

CURRENT EXPENSES

Personal services:		
Salaries		$1,777,629.12
Retirement contributions		152,917.85
Total personal services		$1,930,546.97
Nonpersonal services:		
Traveling expenses		124,508.27
Postage and expressage		18,362.30
Telephone and telegraph		47,995.60
Printing and binding		95,884.78
Stationery and supplies		15,541.81
Furniture and equipment		16,536.89
Books and subscriptions		7,758.72
Heat, light and power		26,398.58
Repairs and alterations (building and grounds)		15,552.02
Repairs and maintenance (furniture and equipment)		3,619.73
Medical service and supplies		1,003.20
Insurance		6,001.97
Miscellaneous:		
Cafeteria operations	$25,726.52	
Liquid assets survey	52,500.00	
All other	17,738.32	95,964.84
Total nonpersonal services		$475,128.71
GRAND TOTAL		$2,405,675.68

Under an arrangement with the Federal Reserve Bank of New York, the accounts of the Board for the year 1946 were audited by the Auditor of the Bank, who certified them to be correct.

RESEARCH AND ADVISORY SERVICES

Changes in the Board's research activities during 1946 were designed to facilitate current analysis of immediate postwar developments and to permit more extended study of basic economic conditions, which were altered in many important respects during the war. Current developments in the field of Treasury financing, bank credit, the labor and commodity markets, and international finance continued to receive close attention. The data for current analyses in the field of business finance and the procedures for making projections of the gross national product and related factors were further developed. Some of the regular statistical series were revised, including those on department store stocks. Progress was also made in revising certain of the component series in the Federal Reserve index of industrial production. In addition, a number of special investigations were initiated, primarily for the purpose of improving information concerning wartime changes in the conditions affecting the availability and use of money and credit.

In order to provide information concerning contemporary lending activities of banks, the Board of Governors and the Reserve Banks conducted a sample survey of member bank loans to commercial and industrial concerns outstanding as of November 20, 1946. The survey provided comprehensive information on the characteristics of outstanding bank loans to business borrowers and on the structure of the business credit market. The facts when analyzed and presented in 1947 will be useful to the Reserve System in considering credit policies that will contribute to the maintenance of high levels of economic activity. In addition, the information should be helpful to banks in reviewing their loan policies, with long-run objectives in mind, as well as to others interested in the availability of bank credit for business purposes. A similar survey of agricultural loans by commercial banks, to be conducted in cooperation with the Federal Deposit Insurance Corporation, has also been projected for 1947.

Another special feature of the Board's research program during the year was a national survey of liquid asset holdings, savings, incomes, and expectations of individual consumer units, carried out under special arrangement by the Division of Program Surveys of the Bureau of Agricultural Economics, Department of Agriculture. The results of this survey, which were presented in the *Federal Reserve Bulletin* and are summarized briefly elsewhere in this report, aroused widespread interest and comment and were particularly relevant to current problems of bank credit and monetary policy. Because of the value of the 1946 survey, not only to the Board and various Government agencies, but also to others in illuminating matters of broad public interest, the Board authorized a second nation-wide survey of consumer finances, to be made by the Survey Research Center of the University of Michigan. The 1947 survey, which was planned in cooperation with interested Government agencies, is being conducted in the same manner as in 1946, but coverage includes some data on nonliquid assets in addition to information similar to that obtained in 1946. Studies of this type are still in an experimental stage of development, and one important contribution of a second survey will be to provide a test of some of the major findings of the first survey.

Studies in the field of business finance on the basis of data from financial statements of manufacturing and trade concerns, obtained in part through a cooperative survey with the Robert Morris Associates, were continued.

Over the past two years the Board's staff has cooperated in the planning and conduct of an exploratory study to trace the flow of money payments through major sectors of the economy. The study has been conducted by the National Bureau of Economic Research at the suggestion of, and under a grant of funds from, the Committee for Economic Development. Preliminary results of the exploratory work covering a selected historical period have demonstrated the feasibility of the undertaking, and the Board has authorized a special project to construct money flow measurements on a current basis. This activity will build upon the statistical work begun under the National Bureau's auspices and will also undertake to extend the scope of the investigation of the flow of money.

In the international field extensive demands were made upon the Board's staff, especially in connection with the work of the National Advisory Council on International Monetary and Financial Problems, of which the Chairman of the Board is a member. The Staff Committee of the Council assures coordination of research work in the various member agencies on current international financial problems. Members of the Board's staff also served as technical advisers to the United States Governor of the International Fund and Bank during the two meetings of the Boards of Governors of those institutions which took place during the year. Library and other research facilities and assistance were made available to the newly organized research departments of the Fund and the Bank following their establishment in Washington, and two members of the Board's staff were lent temporarily to the International Bank to assist in developing a system of accounting control.

Representatives of the Federal Reserve System participated in a conference on economic and statistical methods held in Mexico City in August, to which the Bank of Mexico invited representatives from all central banks of the Western Hemisphere. This conference afforded the participants an opportunity to become better acquainted with general economic conditions in other countries of the Western Hemisphere and to exchange views on the monetary and banking problems of their respective countries and of the Hemisphere as a whole.

Members of the Board's staff continued collaboration on new monetary and banking legislation in several Latin American countries undertaken at the request of those countries and of the State Department. These advisory services were made available to the Dominican Republic and Guatemala. The services of members of the staff were also made available to the Military Government authorities in Germany and Korea.

The Board had numerous visitors from foreign central banks and governments, some of whom were making extended tours in the United States for consultation with Government officials and observation of American administrative, supervisory, and research methods. The Board made facilities for study available to students from foreign central banks and governments who were pursuing studies in the United States.

PUBLICATIONS AND RELEASES

During the year 1946 there was a growing demand for material issued by the Board. Increased enrollments in schools and colleges resulted in greater use of the Board's publications for classroom purposes; and the resumption of more normal foreign mail service brought about additional requests for both current publications and those issued during the war period. The publications listed below were issued during the year and several periodic releases were initiated.

FEDERAL RESERVE BULLETIN. Issued monthly.

MEMBER BANK CALL REPORT. Three issues, one each in April, October, and December.

PAR LIST, and list of STATE BANK MEMBERS OF THE FEDERAL RESERVE SYSTEM AND NONMEMBER BANKS THAT MAINTAIN CLEARING ACCOUNTS

WITH FEDERAL RESERVE BANKS. Complete lists released in October and January, respectively, with supplements in other months.

LIST OF STOCKS REGISTERED ON NATIONAL SECURITIES EXCHANGES. Published in February with quarterly supplements in May, August, and November.

FEDERAL RESERVE CHARTS ON BANK CREDIT, MONEY RATES, AND BUSINESS. Revised edition published in March.

PRICES, WAGES, AND EMPLOYMENT (Postwar Economic Studies No. 4). Published in July.

PRIVATE CAPITAL REQUIREMENTS (Postwar Economic Studies No. 5). Published in October.

HOUSING, SOCIAL SECURITY, AND PUBLIC WORKS (Postwar Economic Studies No. 6). Published in August.

RETAIL CREDIT SURVEY—1945. Published in August.

MONETARY AND BANKING REFORM IN PARAGUAY. Published in August.

RULES OF ORGANIZATION AND RULES OF PROCEDURE (Board of Governors). Published in September.

FEDERAL RESERVE ACT AS AMENDED TO NOVEMBER 1, 1946. Published in November.

FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met in Washington on February 28, March 1, June 10, and October 3, 1946, and the executive committee of the full Committee met from time to time during the year. Under the provisions of Section 12A of the Federal Reserve Act, the Federal Open Market Committee has responsibility for determining the policies under which the open market operations of the Reserve Banks will be carried out. A record of the actions taken by the Committee on questions of policy will be found on pages 101-04 of this report.

A Conference of the Chairmen of the Federal Reserve Banks was held on December 5 and 6, 1946, and was attended by members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on February 25-26, June 7-8, and October 1-2, 1946, and the Board of Governors met with the Presidents on February 28, June 11, and October 4.

Meetings of the Federal Advisory Council were held on February 17-18, May 19-20, October 6-7, and December 1-3, 1946, and the executive committee of the Council met on April 24, June 26, and November 6. The Board of Governors met with the Council or its executive committee on each of these occasions. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve

Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

During the year several conferences, attended by representatives of the Federal Reserve Banks and the Board of Governors, were held to discuss questions relating to international monetary and credit matters, research and credit problems and policy, examinations, fiscal agency functions, Federal Reserve Bank collection systems, functional expense reports, bank and public relations, the personnel of the Federal Reserve Banks, and the Board's consumer credit regulations.

TABLES

NO. 1—STATEMENT OF CONDITION OF THE FEDERAL RESERVE BANKS (IN DETAIL) DECEMBER 31, 1946[1]

ASSETS

[Amounts in boldface type are those shown in the Board's weekly statement. In thousands of dollars.

Interdistrict settlement fund	5,523,733		
Gold certificates on hand	1,010,444		
Gold certificates with Federal Reserve Agent	11,053,000		
Gold certificates on hand and due from U. S. Treasury		**17,587,177**	
Redemption fund for Federal Reserve notes		**794,116**	
Total gold certificate reserves			**18,381,293**
Other cash:			
United States notes		27,228	
Silver certificates		207,338	
Standard silver dollars		2,539	
National and Federal Reserve Bank notes		6,572	
Subsidiary silver, nickels, and cents		24,213	
Total other cash			**267,890**
Discounts and advances secured by U. S. Government securities:			
Discounted for member banks	15,739		
Discounted for individuals, etc.	40	15,779	
Other discounts and advances:			
Discounted for member banks	....		
Foreign loans on gold	147,300	147,300	
Total discounts and advances		**163,079**	
Industrial loans		**550**	
U. S. Government securities in System open market account:			
Bills	9,839,366		
Certificates	**7,496,012**		
Notes	**355,300**		
Bonds	**753,390**		
U. S. securities—repurchase option (Treasury bills)	4,905,617		
Total U. S. Government securities		**23,349,685**	
Total loans and securities			**23,513,314**
Due from foreign banks			**102**
Federal Reserve notes of other Federal Reserve Banks			**163,385**
Uncollected items:			
Transit items		2,309,786	
Exchanges for clearing house		184,629	
Other cash items		105,159	
Total uncollected items			**2,599,574**
Bank premises:			
Land		12,796	
Buildings (including vaults)		44,388	
Fixed machinery and equipment		17,069	
Total bank premises		74,253	
Less depreciation		41,821	
Bank premises, net			**32,432**
Other assets:			
Industrial loans past due	4		
Miscellaneous assets acquired account industrial loans	246		
Miscellaneous assets acquired account closed banks	46		
Total	296		
Less valuation allowances	270		
Net		26	
Federal Deposit Insurance Corporation stock[2]		....	
Fiscal Agency and other expenses, reimbursable		5,572	
Interest accrued		27,353	
Premium on securities		9,920	
Deferred charges		1,147	
Sundry items receivable		1,420	
Real estate acquired for banking house purposes		2,450	
Suspense account		604	
All other		78	
Total other assets			**48,570**
Total assets			**45,006,560**

[1] Before closing books at end of year. [2] Charged off. See footnote 4, Table 7.

NO. 1—STATEMENT OF CONDITION OF THE FEDERAL RESERVE BANKS (IN DETAIL) —*Continued*

LIABILITIES

Federal Reserve notes outstanding (issued to Federal Reserve Banks)		25,741,606	
Less: Held by issuing Federal Reserve Banks	741,169		
Forwarded for redemption	55,133	796,302	
Federal Reserve notes, net (includes notes held by Treasury and by Federal Reserve Banks other than issuing Bank)			**24,945,304**
Deposits:			
Member bank—reserve account		**16,137,996**	
U. S. Treasurer—general account		**392,804**	
Foreign		**508,016**	
Other deposits:			
Nonmember bank—clearing accounts	147,231		
Officers' and certified checks	6,128		
Federal Reserve exchange drafts	614		
All other	159,665		
Total other deposits		**313,638**	
Total deposits			**17,352,454**
Deferred availability items			**2,019,896**
Other liabilities:			
Accrued dividends unpaid		882	
Unearned discount		60	
Discount on securities		6,708	
Sundry items payable		2,523	
Suspense account		96	
All other liabilities		26	
Total other liabilities			**10,295**
Total liabilities			**44,327,949**

CAPITAL ACCOUNTS

Capital paid in			**186,830**
Surplus (Sec. 7)			**358,355**
Surplus (Sec. 13b)			**27,428**
Other capital accounts:			
Reserves for contingencies:			
Reserve for registered mail losses		6,180	
All other		18,000	
Earnings and expenses:			
Current earnings	150,385		
Current expenses	57,235		
Current net earnings	93,150		
Add—profit and loss	—370		
Deduct—dividends accrued since January 1	10,962		
Net earnings available for charge-offs, reserves, and surplus		81,818	
Total other capital accounts			**105,998**
Total liabilities and capital accounts			**45,006,560**

NO. 2—STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK AT END OF 1946 AND 1945

[In thousands of dollars]

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1946	1945	1946	1945	1946	1945	1946	1945	1946	1945	1946	1945
ASSETS												
Gold certificates	17,587,177	17,062,565	726,779	747,953	5,061,375	4,908,821	858,145	878,051	1,124,166	1,070,132	1,103,170	1,042,110
Redemption fund for Federal Reserve notes	794,116	800,359	55,555	59,189	124,008	124,283	61,009	61,134	77,620	78,031	59,914	60,083
Total gold certificate reserves	18,381,293	17,862,924	782,334	807,142	5,185,383	5,033,104	919,154	939,185	1,201,786	1,148,163	1,163,084	1,102,193
Other cash	267,890	236,315	20,586	18,536	44,537	36,867	19,235	15,577	21,706	15,768	25,076	18,487
Discounts and advances:												
Secured by U. S. Govt. securities	15,779	201,905	1,285	1,060	2,680	197,330	4,217	250	2,316	450	901	775
Other	147,300	47,000	8,736	3,149	56,255	17,014	11,330	4,136	12,694	4,089	6,415	1,974
Total discounts and advances	163,079	248,905	10,021	4,209	58,935	214,344	15,547	4,386	15,010	4,539	7,316	2,749
Industrial loans	550	1,941	27	110	....	....	523	1,763	....	....	....	53
U. S. Government securities:												
Bills	14,744,983	12,831,245	825,149	718,776	3,630,224	3,052,191	1,026,460	760,805	1,452,547	1,129,195	799,397	675,894
Certificates	7,496,012	8,364,461	554,672	583,354	1,890,027	2,098,442	538,956	621,726	632,265	802,373	448,280	513,908
Notes	355,300	2,119,650	26,291	147,829	89,585	531,769	25,546	157,554	29,968	203,332	21,248	130,229
Bonds	753,390	946,892	55,748	66,038	189,958	237,552	54,168	70,383	63,546	90,833	45,054	58,176
Total U. S. Govt. securities	23,349,685	24,262,248	1,461,860	1,515,997	5,799,794	5,919,954	1,645,130	1,610,468	2,178,326	2,225,733	1,313,979	1,378,207
Total loans and securities	23,513,314	24,513,094	1,471,908	1,520,316	5,858,729	6,134,298	1,661,200	1,616,617	2,193,336	2,230,272	1,321,295	1,381,009
Due from foreign banks	102	110	7	7	[1]34	[1]40	8	10	9	10	5	5
Federal Reserve notes of other Federal Reserve Banks	163,385	153,226	5,897	4,463	19,882	17,675	8,181	7,298	10,825	10,569	37,399	29,092
Uncollected items	2,599,574	2,197,932	193,426	160,798	576,280	420,234	157,813	139,850	227,369	217,034	227,699	192,767
Bank premises	32,406	33,382	1,297	1,352	8,459	8,674	3,170	3,313	3,850	3,989	2,686	2,769
Other assets	48,449	65,915	3,399	4,650	11,182	15,382	2,912	4,353	4,320	6,349	2,746	3,955
Total assets	45,006,413	45,062,898	2,478,854	2,517,264	11,704,486	11,666,274	2,771,673	2,726,203	3,663,201	3,632,154	2,779,990	2,730,277

[1] After deducting $68,000 participations of other Federal Reserve Banks on Dec. 31, 1946, and $70,000 on Dec. 31, 1945.

LIABILITIES												
Federal Reserve notes	24,945,304	24,649,132	1,491,783	1,478,972	5,714,364	5,407,924	1,699,277	1,635,243	2,124,731	2,096,342	1,781,923	1,738,344
Deposits:												
Member bank—reserve account	16,138,878	15,914,950	715,408	709,430	4,903,039	4,855,437	818,125	799,634	1,199,768	1,156,889	733,111	727,247
U. S. Treasurer—general account	392,869	976,668	29,866	89,027	94,716	293,764	34,511	59,678	32,896	84,773	13,889	42,299
Foreign	508,016	862,320	30,769	56,168	[1]189,873	[1]337,584	39,555	72,195	44,320	71,375	22,398	34,457
Other	313,638	445,572	5,027	4,379	224,947	343,765	2,424	4,308	10,896	9,671	2,317	3,758
Total deposits	17,353,401	18,199,510	781,070	859,004	5,412,575	5,830,550	894,615	935,815	1,287,880	1,322,708	771,715	807,761
Deferred availability items	2,019,896	1,619,770	161,770	140,710	362,569	236,189	122,081	106,130	187,075	157,950	192,135	155,713
Other liabilities including accrued dividends	9,392	7,661	448	406	2,811	1,413	528	500	824	790	385	338
Total liabilities	44,327,993	44,476,073	2,435,071	2,479,092	11,492,319	11,476,076	2,716,501	2,677,688	3,600,510	3,577,790	2,746,158	2,702,156
CAPITAL ACCOUNTS												
Capital paid in	186,830	177,095	11,095	10,635	65,801	63,630	13,926	13,064	18,304	17,654	7,771	7,177
Surplus (Sec. 7)	439,823	358,355	27,557	22,439	136,549	116,860	34,720	28,946	41,394	33,745	20,676	15,593
Surplus (Sec. 13b)	27,455	27,428	3,012	3,012	7,253	7,205	4,489	4,501	1,007	1,007	3,325	3,326
Other capital accounts	24,312	23,947	2,119	2,086	2,564	2,503	2,037	2,004	1,986	1,958	2,060	2,025
Total liabilities and capital accounts	45,006,413	45,062,898	2,478,854	2,517,264	11,704,486	11,666,274	2,771,673	2,726,203	3,663,201	3,632,154	2,779,990	2,730,277
Contingent liability on bills purchased for foreign correspondents	6,547	....	419	....	[2]2,181	....	543	....	609	....	308	....
Commitments to make industrial loans	8,309	1,644	....	164	....	....	1,281	703	1,596	300	37	200
FEDERAL RESERVE NOTE STATEMENT												
Federal Reserve notes:												
Issued to Federal Reserve Bank by Federal Reserve Agent	25,741,606	25,633,380	1,537,175	1,539,012	5,876,605	5,555,137	1,747,079	1,699,231	2,191,393	2,183,181	1,835,075	1,799,845
Held by Federal Reserve Bank	796,302	984,248	45,392	60,040	162,241	147,213	47,802	63,988	66,662	86,839	53,152	61,501
Federal Reserve notes, net[3]	24,945,304	24,649,132	1,491,783	1,478,972	5,714,364	5,407,924	1,699,277	1,635,243	2,124,731	2,096,342	1,781,923	1,738,344
Collateral held by Federal Reserve Agent for notes issued to Bank:												
Gold certificates	11,053,000	10,523,000	455,000	460,000	3,470,000	3,120,000	550,000	500,000	645,000	635,000	760,000	670,000
Eligible paper	12,812	201,455	1,285	1,060	2,680	197,330	4,217	250	....	....	800	775
U. S. Government securities	15,226,565	15,403,201	1,100,000	1,100,000	2,500,000	2,400,000	1,200,000	1,200,000	1,550,000	1,550,000	1,100,000	1,175,000
Total collateral held	26,292,377	26,127,656	1,556,285	1,561,060	5,972,680	5,717,330	1,754,217	1,700,250	2,195,000	2,185,000	1,860,800	1,845,775

[1] After deducting $317,868,000 participations of other Federal Reserve Banks on Dec. 31, 1946, and $523,414,000 on Dec. 31, 1945.
[2] After deducting $4,366,000 participations of other Federal Reserve Banks.
[3] Includes Federal Reserve notes held by the U. S. Treasury and by Federal Reserve Banks other than the issuing Bank.

NO. 2—STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK AT END OF 1946 AND 1945—*Continued*

[In thousands of dollars]

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1946	1945	1946	1945	1946	1945	1946	1945	1946	1945	1946	1945	1946	1945
ASSETS														
Gold certificates	1,024,326	1,022,330	3,369,273	3,027,003	596,006	588,990	357,057	331,936	586,156	584,231	466,064	465,459	2,314,660	2,395,549
Redemption fund for Federal Reserve notes	46,254	45,950	136,644	135,309	46,456	42,997	21,360	20,145	34,018	35,246	25,003	26,155	106,275	111,837
Total gold certificate reserves	1,070,580	1,068,280	3,505,917	3,162,312	642,462	631,987	378,417	352,081	620,174	619,477	491,067	491,614	2,420,935	2,507,386
Other cash	20,753	25,352	31,560	28,148	15,515	15,293	5,734	7,685	18,520	15,130	12,396	11,800	32,272	27,672
Discounts and advances:														
Secured by U. S. Government securities	550	....	....	....	280	1,790	....	....	3,450	250	....	....	100	....
Other	5,187	1,645	18,291	6,110	4,641	1,410	3,413	1,081	4,504	1,410	4,368	1,410	11,466	3,572
Total discounts and advances	5,737	1,645	18,291	6,110	4,921	3,200	3,413	1,081	7,954	1,660	4,368	1,410	11,566	3,572
Industrial loans	....	....	....	....	....	....	....	....	....	15	....	....	....	....
U. S. Government securities:														
Bills	702,577	634,373	2,362,852	2,299,424	631,259	493,510	374,253	312,354	648,399	531,497	487,959	444,765	1,803,907	1,778,461
Certificates	381,352	420,812	951,778	1,095,666	412,831	427,625	228,144	232,112	372,398	417,570	374,852	364,886	710,457	785,987
Notes	18,075	106,637	45,113	277,655	19,567	108,365	10,814	58,818	17,651	105,817	17,767	92,466	33,675	199,179
Bonds	38,328	47,637	95,659	124,034	41,492	48,409	22,929	26,275	37,428	47,271	37,675	41,306	71,405	88,978
Total U. S. Govt. securities	1,140,332	1,209,459	3,455,402	3,796,779	1,105,149	1,077,909	636,140	629,559	1,075,876	1,102,155	918,253	943,423	2,619,444	2,852,605
Total loans and securities	1,146,069	1,211,104	3,473,693	3,802,889	1,110,070	1,081,109	639,553	630,640	1,083,830	1,103,830	922,621	944,833	2,631,010	2,856,177
Due from foreign banks	4	4	14	14	3	3	3	3	3	3	3	3	9	8
Federal Reserve notes of other Federal Reserve Banks	14,290	12,545	22,944	16,558	9,669	9,042	4,338	6,713	7,583	9,287	4,815	5,812	17,562	24,172
Uncollected items	168,736	150,104	387,336	341,424	148,065	103,677	62,219	54,099	136,969	115,564	100,078	83,162	213,584	219,219
Bank premises	1,526	1,568	3,057	3,106	2,011	2,059	1,240	1,263	2,527	2,597	795	829	1,788	1,863
Other assets	2,641	3,699	6,938	9,410	3,199	3,966	1,475	1,799	2,308	3,134	2,355	2,912	4,974	6,306
Total assets	2,424,599	2,472,656	7,431,459	7,363,861	1,930,994	1,847,136	1,092,979	1,054,283	1,871,914	1,869,022	1,534,130	1,540,965	5,322,134	5,642,803

LIABILITIES														
Federal Reserve notes	1,449,774	1,483,961	4,573,144	4,444,533	1,120,120	1,063,366	592,688	551,859	922,170	910,750	604,311	618,639	2,871,019	3,219,199
Deposits:														
Member bank—reserve account	748,101	762,425	2,366,137	2,347,115	607,336	599,150	398,589	385,403	772,506	774,851	783,090	764,670	2,093,668	2,032,699
U.S. Treasurer—general account	21,855	53,726	65,227	139,437	21,768	37,877	20,505	38,287	19,010	42,323	19,791	36,544	18,835	58,933
Foreign	18,109	28,714	63,860	106,652	16,203	24,612	11,914	18,869	15,727	24,612	15,250	24,612	40,038	62,470
Other	1,814	4,087	4,303	4,907	9,338	16,301	2,527	2,425	635	1,281	869	1,360	48,541	49,330
Total deposits	789,879	848,952	2,499,527	2,598,111	654,645	677,940	433,535	444,984	807,878	843,067	819,000	827,186	2,201,082	2,203,432
Deferred availability items	156,051	115,889	265,651	241,594	130,928	84,735	48,689	41,673	116,746	94,418	86,868	75,172	189,333	169,597
Other liabilities including accrued dividends	365	322	1,886	1,825	364	299	285	332	332	289	241	239	923	908
Total liabilities	2,396,069	2,449,124	7,340,208	7,286,063	1,906,057	1,826,340	1,075,197	1,038,848	1,847,126	1,848,524	1,510,420	1,521,236	5,262,357	5,593,136
CAPITAL ACCOUNTS														
Capital paid in	7,109	6,354	22,435	21,074	6,103	5,611	4,071	3,861	6,167	5,731	6,865	6,007	17,183	16,297
Surplus (Sec. 7)	18,663	14,450	65,078	53,029	16,577	12,939	10,997	8,869	15,729	11,891	13,777	10,670	38,106	28,924
Surplus (Sec. 13b)	762	762	1,429	1,429	521	527	1,073	1,073	1,137	1,137	1,307	1,307	2,140	2,142
Other capital accounts	1,996	1,966	2,309	2,266	1,736	1,719	1,641	1,632	1,755	1,739	1,761	1,745	2,348	2,304
Total liabilities and capital accounts	2,424,599	2,472,656	7,431,459	7,363,861	1,930,994	1,847,136	1,092,979	1,054,283	1,871,914	1,869,022	1,534,130	1,540,965	5,322,134	5,642,803
Contingent liability on bills purchased for foreign correspondents	249	....	877	....	222	....	164	....	216	....	209	....	550	....
Commitments to make industrial loans	....	....	382	....	4,225	....	....	....	450	....	155	185	183	92
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes:														
Issued to Federal Reserve Bank by Federal Reserve Agent	1,503,304	1,566,911	4,694,621	4,570,154	1,160,309	1,119,753	608,201	569,076	949,614	948,173	641,294	663,464	2,996,936	3,419,443
Held by Federal Reserve Bank	53,530	82,950	121,477	125,621	40,189	56,387	15,513	17,217	27,444	37,423	36,983	44,825	125,917	200,244
Federal Reserve notes, net[1]	1,449,774	1,483,961	4,573,144	4,444,533	1,120,120	1,063,366	592,688	551,859	922,170	910,750	604,311	618,639	2,871,019	3,219,199
Collateral held by Federal Reserve Agent for notes issued to Bank:														
Gold certificates	615,000	680,000	2,020,000	1,890,000	300,000	300,000	189,000	170,000	280,000	280,000	169,000	169,000	1,600,000	1,649,000
Eligible paper	....	....	....	....	280	1,790	....	....	3,450	250	....	....	100	....
U. S. Government securities	900,000	900,000	2,700,000	2,700,000	951,565	878,201	425,000	400,000	700,000	700,000	500,000	500,000	1,600,000	1,900,000
Total collateral held	1,515,000	1,580,000	4,720,000	4,590,000	1,251,845	1,179,991	614,000	570,000	983,450	980,250	669,000	669,000	3,200,100	3,549,000

[1] Includes Federal Reserve notes held by the U. S. Treasury and by Federal Reserve Banks other than the issuing Bank.

NO. 3—HOLDINGS OF UNITED STATES GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS, END OF DECEMBER 1944, 1945, AND 1946

[In thousands of dollars]

Type of issue	Rate of interest (Per cent)	Dec. 31, 1944	Dec. 31, 1945	Dec. 31, 1946	Change during 1945	Change during 1946
Treasury bonds:						
1945–47	2¾	135,250	....	....	−135,250	....
1945	2½	17,800	....	....	−17,800	....
1946–56	3¾	43,950	43,950	....	....	−43,950
1946–48	3	99,700	99,700	....	....	−99,700
1946–49	3⅛	47,952	47,952	....	....	−47,952
1947–52	4¼	12,000	12,000	12,000	....	....
1948–50*	2	39,600	39,600	39,600	....	....
1948–51	2¾	100,500	100,500	100,500	....	....
1948*	1¾	25,000	25,000	25,000	....	....
1949–51*, June	2	7,750	7,750	7,750	....	....
1949–51*, Sept.	2	3,000	500	500	−2,500	....
1949–52	3⅛	31,500	31,500	31,500	....	....
1949–53	2½	74,100	74,100	74,100	....	....
1950–52*, Sept.	2	38,300	36,800	36,800	−1,500	....
1950–52	2½	70,000	70,000	70,000	....	....
1951–54	2¾	81,300	81,800	81,800	+ 500	....
1951–55	3	16,000	16,000	16,000	....	....
1951–53*	2	22,800	21,150	21,150	−1,650	....
1951–53	2¼	31,500	31,500	31,500	....	....
1952–55*	2¼	31,600	31,600	31,600	....	....
1952–54*, Dec.	2	60,930	....	....	−60,930	....
1953–55	2	13,700	13,700	13,700	....	....
1955–60	2⅞	14,500	14,500	14,500	....	....
1956–58*	2½	7,790	6,940	6,940	− 850	....
1956–59	2¾	5,000	5,000	5,000	....	....
1958–63	2¾	40,900	40,900	40,900	....	....
1960–65	2¾	37,250	37,250	37,250	....	....
1963–68*	2½	2,595	....	....	−2,595	....
1964–69*, June	2½	15,699	....	....	−15,699	....
1964–69*, Dec.	2½	20,800	....	....	−20,800	....
1967–72*, Sept.	2½	94,660	57,200	55,300	−37,460	−1,900
Total Treasury bonds	....	1,243,426	946,892	753,390	−296,534	−193,502
Treasury notes:						
Mar. 1, 1945*	.90	320,400	....	....	−320,400	....
Mar. 15, 1945	¾	20,600	....	....	−20,600	....
Mar. 15, 1945*	1¼	152,371	....	....	−152,371	....
Jan. 1, 1946*	.90	417,250	576,550	....	+159,300	−576,550
Mar. 15, 1946*	1	74,400	74,400	....	....	−74,400
July 1, 1946*	.90	....	899,500	....	+899,500	−899,500
Dec. 15, 1946*	1½	268,800	273,800	....	+5,000	−273,800
Mar. 15, 1947*	1¼	....	....	3,500	....	+3,500
Sept. 15, 1947*	1¼	....	....	10,000	....	+10,000
Sept. 15, 1947*	1½	....	....	46,400	....	+46,400
Sept. 15, 1948*	1½	311,900	295,400	295,400	−16,500	....
Total Treasury notes	....	1,565,721	2,119,650	355,300	+553,929	−1,764,350
Certificates of indebtedness*	⅞	4,886,640	8,364,461	7,496,012	+3,477,821	−868,449
Treasury bills:						
Bought under repurchase option*	....	3,983,771	4,851,923	4,905,617	+868,152	+53,694
Other*	....	7,164,147	7,979,322	9,839,366	+815,175	+1,860,044
Total Treasury bills	....	11,147,918	12,831,245	14,744,983	+1,683,327	+1,913,738
Guaranteed securities:						
CCC Feb. 15, 1945*	1⅛	2,500	....	....	−2,500	....
Total holdings	....	18,846,205	24,262,248	23,349,685	+5,416,043	−912,563

* Taxable issues.

NO. 4—HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES BY THE FEDERAL RESERVE BANKS, 1942-46 [1]

[In millions of dollars]

Date	Amount	Date	Amount	Date	Amount
1942—June 16	58	1943—Mar. 6	543	1943—June 15	805
19	70	8	591	16	659
20	47	9	648	17	350
22	34	10	632	18	256
23	94	11	790	19	212
Sept. 15	324	12	940	Sept. 8	11
16	189	13	1,043	9	126
17	286	15	1,302	10	243
18	76	16	1,250	11	246
19	53	17	981	13	214
Nov. 27	139	18	836	14	179
28	329	19	778	15	424
30	422	20	768	16	258
Dec. 1	98	22	603	1945—Mar. 15	4
10	16	23	700	Dec. 4	107
15	145	24	512	5	318
1943—Jan. 29	115	25	432	6	374
30	202	26	384	7	484
Mar. 2	3	27	304	8	484
4	174	29	104	10	202
5	354	30	40		

[1] There were no issues during the years 1944 and 1946. Interest rate ¼ per cent throughout.

NO. 5—VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1942-46

[Number in thousands; amounts in thousands of dollars]

	1942	1943	1944	1945	1946
NUMBER OF PIECES HANDLED[1]					
Discounts and advances:					
Applications	1	2	5	8	8
Notes discounted and advances made	1	2	5	8	8
Industrial loans:					
Loans made	1	.8	.6	(2)	(2)
Commitments to make industrial loans	.2	.1	(2)	(2)	(2)
Currency received and counted	2,678,801	2,874,099	3,006,898	3,016,719	3,423,547
Coin received and counted	3,761,445	3,810,300	4,167,265	4,562,709	5,743,862
Checks handled:					
U. S. Government checks	130,895	266,686	426,460	510,608	380,634
All other	1,204,648	1,246,384	1,288,465	1,341,342	1,597,377
Collection items handled:					
U. S. Government coupons paid[3]	14,990	16,527	17,054	18,292	20,192
All other	5,833	5,072	4,622	4,483	4,551
Issues, redemptions, and exchanges by fiscal agency department:					
U. S. Government direct obligations	117,425	[4]270,358	[4]356,845	[4]381,593	[4]245,593
All other	473	250	937	474	311
Transfer of funds	842	865	906	939	1,059
AMOUNTS HANDLED					
Discounts and advances	193,278	2,840,341	14,922,128	34,778,804	20,133,819
Industrial loans:					
Loans made	68,032	60,265	20,381	14,043	3,445
Commitments to make industrial loans	22,207	10,221	4,769	2,350	8,845
Currency received and counted	13,010,185	15,599,680	17,157,034	18,307,687	20,945,847
Coin received and counted	355,581	381,254	417,014	445,892	519,892
Checks handled:					
U. S. Government checks	67,834,790	113,791,554	127,931,710	124,610,917	80,419,096
All other	409,273,478	509,640,311	532,755,045	563,498,349	651,457,054
Collection items handled:					
U. S. Government coupons paid[3]	1,082,321	1,481,520	1,840,647	2,348,172	2,817,311
All other	6,167,564	7,882,053	7,962,994	9,295,666	9,312,790
Issues, redemptions, and exchanges by fiscal agency department:					
U. S. Government direct obligations	90,338,225	[4]209,762,970	[4]261,297,489	[4]299,624,101	[4]276,436,077
All other	3,260,660	1,986,425	2,840,687	2,729,452	1,986,608
Transfer of funds	140,444,452	203,510,209	215,006,532	223,490,280	252,991,164

[1] Two or more checks, coupons, etc., handled as a single item are counted as one "piece."
[2] Less than 500.
[3] Includes coupons from obligations guaranteed by the United States.
[4] Except Treasury savings certificates and war savings stamps received for redemption.

NO. 6—EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1946

Item	System	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Discounted bills	$2,497,339	$136,277	$858,542	$148,391	$237,266	$133,717	$95,400	$404,338	$133,926	$88,389	$109,270	$43,739	$108,084
Purchased bills	42,872	...	42,872	...	...	...	...	...	...	...	...	...	...
Industrial loans	37,676	3,233	...	33,435	134	864	...	...	...	...	10	...	...
Commitments to make industrial loans	15,298	150	...	82	3,456	1,527	...	282	7,702	...	...	1,013	1,086
U. S. Government securities	147,124,827	9,508,955	36,485,676	10,599,887	13,510,504	9,107,158	7,597,185	20,683,338	7,115,299	4,084,184	6,968,717	5,991,157	15,472,767
All other	667,021	10,782	56,441	10,040	122,219	12,483	26,133	147,233	62,140	6,786	160,276	8,115	44,373
Total current earnings	150,385,033	9,659,397	37,443,531	10,791,835	13,873,579	9,255,749	7,718,718	21,235,191	7,319,067	4,179,359	7,238,273	6,044,024	15,626,310
CURRENT EXPENSES													
Operating expenses:													
Salaries:													
Officers	3,134,646	156,311	650,772	165,658	258,577	216,857	209,879	400,078	211,024	171,409	207,265	184,288	302,528
Employees	48,666,323	2,848,299	11,460,819	3,071,662	4,195,236	2,865,285	2,553,083	7,704,157	2,851,796	1,409,876	2,463,712	2,379,042	4,863,356
Retirement System contributions	4,932,727	293,458	1,206,588	313,148	428,687	289,706	282,323	727,427	289,880	138,302	258,887	246,644	457,677
Legal fees	15,957	...	37	8,568	5,046	...	788	−506	17	...	433	1,521	53
Directors' fees and expenses	136,212	8,298	11,430	7,760	9,018	8,392	15,103	8,389	9,843	13,118	17,735	10,201	16,925
Federal Advisory Council, fees and expenses	16,903	1,550	937	642	1,157	996	848	1,429	1,350	1,560	1,949	1,135	3,350
Traveling expenses (other than of directors and members of Federal Advisory Council)	579,042	32,336	73,645	26,225	52,342	50,501	46,903	78,047	53,146	35,592	40,112	37,084	53,109
Postage and expressage	6,696,927	652,791	1,023,192	469,628	582,575	587,427	504,887	809,111	328,059	233,461	380,673	340,515	784,608
Telephone and telegraph	507,411	22,458	90,876	32,168	46,527	25,512	43,757	38,540	40,751	22,471	40,828	34,675	68,848
Printing, stationery, and supplies	3,179,437	251,258	652,945	217,192	201,910	175,016	228,228	494,275	199,799	79,600	182,049	157,801	339,364
Insurance	459,167	27,242	111,782	23,813	39,111	34,301	20,356	72,645	32,780	9,457	20,216	29,097	38,367
Taxes on real estate	1,615,314	150,293	438,362	91,436	144,256	85,397	69,460	225,737	67,910	80,990	101,656	38,311	121,506
Depreciation (building)	999,910	55,832	221,060	143,275	115,376	85,552	42,548	71,148	50,833	29,086	70,312	36,584	78,304
Light, heat, power, and water	585,756	40,057	121,894	35,804	71,840	39,471	37,345	68,034	39,265	22,576	38,139	35,613	35,718
Repairs and alterations	424,912	11,411	37,798	60,932	34,639	15,713	32,437	49,476	46,187	24,220	71,975	16,449	23,675
Rent	900,066	22,222	19,451	84,888	130,032	21,699	88,338	276,772	19,192	17,565	33,903	19,487	166,517
Furniture and equipment, including rental	2,518,688	120,685	398,091	162,958	217,521	133,146	232,226	465,207	197,801	72,047	136,458	134,031	248,517
All other	979,653	65,906	177,494	66,953	98,562	38,310	55,627	141,918	78,480	64,204	60,106	47,853	84,240
Inter-Bank expenses	...	19,813	−206,486	25,695	28,790	14,550	11,764	41,483	10,526	7,739	10,216	9,906	26,004
Total operating expenses	76,349,051	4,780,220	16,490,687	5,008,405	6,661,202	4,687,831	4,475,900	11,673,367	4,528,639	2,433,273	4,136,624	3,760,237	7,712,666

Less reimbursement for certain fiscal agency and other expenses....	25,855,805	1,332,002	4,592,072	1,304,222	2,116,357	1,499,256	1,833,860	4,820,022	1,636,178	840,128	1,361,123	1,468,281	3,052,304
Net operating expenses..	50,493,246	3,448,218	11,898,615	3,704,183	4,544,845	3,188,575	2,642,040	6,853,345	2,892,461	1,593,145	2,775,501	2,291,956	4,660,362
Assessment for expenses of Board of Governors.......	2,259,784	144,443	750,764	186,602	210,659	105,239	87,185	303,484	76,771	55,330	75,547	73,305	190,455
Federal Reserve currency:													
Original cost...........	3,891,470	227,762	1,002,412	342,092	173,491	315,577	267,025	534,368	260,483	92,857	113,755	105,067	456,581
Cost of redemption.....	590,607	35,568	88,242	30,741	53,578	44,421	56,593	98,147	34,589	13,205	28,859	32,022	74,642
Total current expenses..	57,235,107	3,855,991	13,740,033	4,263,618	4,982,573	3,653,812	3,052,843	7,789,344	3,264,304	1,754,537	2,993,662	2,502,350	5,382,040
PROFIT AND LOSS													
Current net earnings........	93,149,926	5,803,406	23,703,498	6,528,217	8,891,006	5,601,937	4,665,875	13,445,847	4,054,763	2,424,822	4,244,611	3,541,674	10,244,270
Additions to current net earnings:													
Profits on sales of U. S. Government securities.	1,807,989	129,579	433,503	138,165	180,206	114,920	94,994	231,046	86,925	51,048	88,083	77,998	181,522
Recoveries of, and withdrawals from allowances for, losses on industrial loans (net)..	94,956	565	116,186	....	[1]97	699	....	....	[1]22,897	500	....	....	....
All other..............	143,380	1,381	15,559	89,140	4,864	3,153	5,660	12,090	3,294	841	7,200	97	101
Total additions.....	2,046,325	131,525	565,248	227,305	184,973	118,772	100,654	243,136	67,322	52,389	95,283	78,095	181,623
Deductions from current net earnings:													
Charge-offs on Bank premises............	53,678	....	....	....	26,364	....	....	....	....	27,314	....	....	....
Retirement System (salary computation adjustment)...........	2,086,896	126,378	531,195	143,304	179,676	120,162	99,309	281,169	116,949	72,807	125,622	101,493	188,832
Reserves for contingencies.................	376,200	33,735	63,914	33,026	28,616	35,848	31,380	45,982	16,805	10,171	15,406	15,839	45,478
All other..............	155,542	4,259	8,031	2,487	97,714	24,260	12,147	1,064	2,212	1,089	354	575	1,350
Total deductions...	2,672,316	164,372	603,140	178,817	332,370	180,270	142,836	328,215	135,966	111,381	141,382	117,907	235,660
Net deductions............	625,991	32,847	37,892	+48,488	147,397	61,498	42,182	85,079	68,644	58,992	46,099	39,812	54,037
Net earnings..............	92,523,935	5,770,559	23,665,606	6,576,705	8,743,609	5,540,439	4,623,693	13,360,768	3,986,119	2,365,830	4,198,512	3,501,862	10,190,233
Paid to U. S. Treasury (Sec. 13b).................	67,054	2,150	63,166	....	872	....	....	....	....	....	....	866	....
Dividends paid............	10,962,160	649,743	3,865,093	814,440	1,094,157	457,887	411,467	1,311,792	353,160	238,372	361,190	393,903	1,010,956
Transferred to surplus (Sec. 13b)..................	27,708	....	48,026	−11,840	....	−427	....	....	−5,297	....	−286	....	−2,468
Transferred to surplus (Sec. 7)	81,467,013	5,118,666	19,689,321	5,774,105	7,648,580	5,082,979	4,212,226	12,048,976	3,638,256	2,127,458	3,837,608	3,107,093	9,181,745
Surplus (Sec. 7), January 1..	358,355,245	22,438,554	116,859,805	28,945,785	33,745,117	15,593,072	14,450,586	53,028,930	12,938,821	8,869,500	11,891,485	10,669,643	28,923,947
Additions, as above........	81,467,013	5,118,666	19,689,321	5,774,105	7,648,580	5,082,979	4,212,226	12,048,976	3,638,256	2,127,458	3,837,608	3,107,093	9,181,745
Surplus (Sec. 7), December 31.	439,822,258	27,557,220	136,549,126	34,719,890	41,393,697	20,676,051	18,662,812	65,077,906	16,577,077	10,996,958	15,729,093	13,776,736	38,105,692

[1] Net losses.

NO. 7—CURRENT EARNINGS, CURRENT EXPENSES, AND NET EARNINGS OF FEDERAL RESERVE BANKS AND DISPOSITION OF NET EARNINGS, 1914-46

Bank and period	Earnings and expenses			Disposition of net earnings				
	Current earnings	Current expenses	Net earnings[1]	Dividends paid	Franchise tax paid to U. S. Treasury[2]	Paid to U. S. Treasury (Sec. 13b)	Transferred to surplus (Sec. 13b)	Transferred to surplus (Sec. 7)
All Federal Reserve Banks by years:								
1914–15	$ 2,173,252	$ 2,320,586	$ −141,459	$ 217,463				
1916	5,217,998	2,273,999	2,750,998	1,742,774				
1917	16,128,339	5,159,727	9,582,067	6,804,186	$ 1,134,234			$ 1,134,234
1918	67,584,417	10,959,533	52,716,310	5,540,684				48,334,341
1919	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894			70,651,778
1920	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742			82,916,014
1921	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466			15,993,086
1922	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605			−659,904
1923	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056			2,545,513
1924	38,340,449	28,431,126	3,718,180	6,682,496	113,646			−3,077,962
1925	41,800,706	27,528,163	9,449,066	6,915,958	59,300			2,473,808
1926	47,599,595	27,350,182	16,611,745	7,329,169	818,150			8,464,426
1927	43,024,484	27,518,443	13,048,249	7,754,539	249,591			5,044,119
1928	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659			21,078,899
1929	70,955,496	29,691,113	36,402,741	9,583,913	4,283,231			22,535,597
1930	36,424,044	28,342,726	7,988,182	10,268,598	17,308			−2,297,724
1931	29,701,279	27,040,664	2,972,066	10,029,760				−7,057,694
1932	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418			11,020,582
1933	49,487,318	29,222,837	7,957,407	8,874,262				−916,855
1934	48,902,813	29,241,396	15,231,409	8,781,661			$ −60,323	6,510,071
1935	42,751,959	31,577,443	9,437,758	8,504,974		$ 297,667	27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581		227,448	102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966		176,625	67,304	2,616,352
1938	36,261,428	28,911,608	9,581,954	8,019,137		119,524	−419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462		24,579	−425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971		82,152	−54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936		141,465	−4,333	570,513
1942	52,662,704	38,624,044	12,470,451	8,669,076		197,672	49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342		244,726	135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126		326,717	201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851		247,659	262,133	81,969,625
1946	150,385,033	57,235,107	92,523,935	10,962,160		67,054	27,708	81,467,013
Total—1914-46	1,919,682,845	916,898,493	962,878,989	243,187,027	149,138,300	2,153,288	[3] −90,430	[4] 568,490,804

Aggregate for each Federal Reserve Bank 1914–46:								
Boston	129,154,242	65,534,865	62,510,902	17,194,581	7,111,395	280,843	+136,626	37,787,457
New York	546,298,853	221,198,458	324,449,135	83,225,261	68,006,262	344,307	−498,979	173,372,284
Philadelphia	147,701,569	69,763,679	78,205,139	22,299,457	5,558,901	715,347	+290,661	49,340,773
Cleveland	174,387,818	85,037,622	84,128,073	24,593,558	4,842,447	82,930	−8,446	54,617,584
Richmond	98,701,326	52,926,379	42,999,931	10,240,295	6,200,189	170,501	−95,397	26,484,343
Atlanta	90,773,616	43,918,238	41,647,131	8,677,059	8,950,561	79,177	+5,491	23,934,843
Chicago	263,304,185	120,515,270	134,179,235	28,285,067	25,313,526	150,618	+11,681	80,418,343
St. Louis	84,833,129	47,296,393	32,904,190	8,497,822	2,755,629	7,063	−26,514	21,670,190
Minneapolis	59,188,009	31,587,806	26,174,272	5,912,337	5,202,900	55,115	+64,875	14,939,045
Kansas City	91,830,774	53,885,463	35,027,526	8,172,528	6,939,100	64,201	−8,674	19,860,371
Dallas	70,369,618	40,697,495	26,670,260	7,843,325	560,049	102,000	+55,336	18,109,550
San Francisco	163,139,706	84,536,825	73,983,195	18,245,737	7,697,341	101,186	−17,090	47,956,021

[1] Current earnings less current expenses, plus other additions and less other deductions.

[2] The Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring payment of a franchise tax.

[3] On Dec. 31, 1946, surplus (Sec. 13b)—relating to funds received from the Secretary of the Treasury under Section 13b of the Federal Reserve Act for the purpose of making loans to industry—amounted to $27,455,881 ($27,546,311 received from the Secretary of the Treasury minus the $90,430 net debits shown here).

[4] On Dec. 31, 1946, surplus (Sec. 7)—accumulated pursuant to Section 7 of the Federal Reserve Act—amounted to $439,822,258 ($568,490,804 retained net earnings, shown here, minus $139,299,557, charge-off cost of Federal Deposit Insurance Corporation stock, and $500,000, charge-off on bank premises, plus $11,131,011 transferred from reserves or contingencies).

NO. 8—BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES DECEMBER 31, 1946

Federal Reserve Bank or Branch	Cost				Net book value
	Land	Building (including vaults)	Fixed machinery and equipment	Total	
Boston	$ 1,246,726	$ 3,542,603	$ 662,157	$ 5,451,486	$ 1,296,612
New York	5,215,656	12,183,528	4,823,123	22,222,307	7,178,342
Annex	592,679	1,451,570	215,418	2,259,667	894,598
Buffalo	255,000	465,707	....	720,707	386,100
Philadelphia	1,884,357	4,413,792	857,882	7,156,031	3,169,956
Cleveland	1,295,490	6,464,253	1,624,302	9,384,045	2,555,278
Pittsburgh	781,364	1,049,451	352,411	2,183,226	1,294,725
Richmond	271,924	2,101,178	663,667	3,036,769	1,138,773
Annex	80,333	482,482	109,132	671,947	160,727
Baltimore	250,487	1,247,262	331,970	1,829,719	960,761
Charlotte	105,701	291,175	115,569	512,445	425,763
Atlanta	283,000	1,423,762	287,941	1,994,703	722,939
Birmingham	124,137	330,680	65,491	520,308	145,925
Jacksonville	45,842	238,231	39,669	323,742	94,101
Nashville	48,000	211,616	35,091	294,707	105,050
New Orleans	201,250	762,455	212,281	1,175,986	457,815
Chicago	2,963,548	6,241,150	1,434,332	10,639,030	2,139,311
Detroit	996,930	1,048,815	156,350	2,202,095	917,427
St. Louis	1,355,374	2,111,809	1,296,893	4,764,076	1,369,520
Little Rock	85,007	233,079	151,092	469,178	188,962
Louisville	131,177	226,259	72,463	429,899	174,177
Memphis	128,542	287,469	102,270	518,281	277,899
Minneapolis	600,521	2,316,746	664,969	3,582,236	1,119,159
Helena	15,710	126,401	44,142	186,253	120,686
Kansas City	495,300	3,391,101	931,949	4,818,350	1,638,710
Denver	101,512	449,876	79,268	630,656	290,275
Oklahoma City	65,021	409,890	95,480	570,391	235,786
Omaha	176,427	397,938	91,455	665,820	361,745
Dallas	189,831	1,350,945	451,242	1,992,018	480,272
El Paso	39,003	114,644	29,858	183,505	47,889
Houston	78,812	313,335	103,278	495,425	165,672
San Antonio	75,002	159,743	23,480	258,225	101,144
San Francisco	412,996	3,144,407	784,102	4,341,505	1,024,418
Los Angeles	443,488	988,109	323,195	1,754,792	525,901
Salt Lake City	114,075	341,449	84,814	540,338	237,697
Total	21,150,222	60,312,910	17,316,736	98,779,868	32,404,115

OTHER REAL ESTATE ACQUIRED FOR BANKING HOUSE PURPOSES

Boston	$ 364,188	$ 78,773	....	$ 442,961	$ 282,921
New York	45,000	125,864	....	170,864	65,900
Cincinnati[1]	380,744	270,994	$89,241	740,979	200,000
Pittsburgh	[2]316,537	....	....	316,537	220,000
Richmond	85,334	1,099	....	86,433	51,000
Charlotte	10,868	....	....	10,868	10,868
Atlanta	35,000	....	....	35,000	35,000
Jacksonville	[3]155,617	....	....	155,617	155,617
New Orleans	[2]75,200	....	....	75,200	75,200
St. Louis	[3]751,040	....	....	751,040	751,040
San Francisco	60,000	....	....	60,000	60,000
Los Angeles	35,000	....	....	35,000	35,000
Portland[1]	160,000	....	....	160,000	160,000
Seattle[1]	[2]250,000	....	....	250,000	250,000
Total	2,724,528	476,730	89,241	3,290,499	2,352,546

[1] The Cincinnati, Portland, and Seattle Branches occupy rented quarters. The Cincinnati Branch quarters are in a building erected on a site owned by the Federal Reserve Bank of Cleveland. Amounts shown for building and fixed machinery and equipment represent cost of vaults and other improvements.
[2] Includes building on site.
[3] Includes building on site and some expense of repairs and alterations.

NO. 9—NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS

[December 31, 1946]

Federal Reserve Bank (Including branches)	President	Other officers		Employees, except those whose salaries are reimbursed to bank		Employees whose salaries are reimbursed to bank		Total	
	Annual Salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston	$ 25,000	14	$ 141,500	968	$ 2,050,075	386	$ 764,981	1,369	$ 2,981,556
New York	50,000	50	627,260	3,132	8,473,178	1,231	3,269,484	4,414	12,419,922
Philadelphia	25,000	13	145,350	951	2,332,088	300	676,983	1,265	3,179,421
Cleveland	25,000	30	248,700	1,357	2,876,110	528	1,061,238	1,916	4,211,048
Richmond	25,000	24	200,100	929	1,798,673	457	839,109	1,411	2,862,882
Atlanta	25,000	26	184,500	773	1,549,905	520	991,334	1,320	2,750,739
Chicago	35,000	35	348,950	1,797	4,447,308	1,323	2,977,756	3,156	7,809,014
St. Louis	25,000	24	190,790	884	1,853,010	450	942,074	1,359	3,010,874
Minneapolis	25,000	18	147,500	445	982,309	235	489,202	699	1,644,011
Kansas City	25,000	23	179,900	746	1,470,488	453	866,834	1,223	2,542,222
Dallas	25,000	22	166,900	694	1,478,709	380	805,408	1,097	2,476,017
San Francisco	25,000	35	282,900	1,388	3,062,473	777	1,696,239	2,201	5,066,612
Total	$335,000	[1]314	[1]$2,864,350	14,064	$32,374,326	7,040	$15,380,642	21,430	$50,954,318

[1] Includes $456,323 reimbursed to the Banks on account of salaries of 61 officers.

NO. 10—FEDERAL RESERVE BANK DISCOUNT, INTEREST, AND COMMITMENT RATES, AND BUYING RATES ON BILLS

[Per cent per annum]

In effect December 31, 1946

Type of transaction	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
Discounts for and advances to member banks under Secs. 13 and 13a of the Federal Reserve Act	1	1	1	1	1	1	1	1	1	1	1	1
Advances to member banks under Sec. 10(b) of the Federal Reserve Act	1½	1½	1½	1½	1½	1½	1½	1½	1½	1½	1½	1½
Advances to individuals, partnerships, or corporations other than member banks secured by direct obligations of the United States (last paragraph of Sec. 13 of the Federal Reserve Act)	2	2½	2	2	2½	2	2	2	2	2	2	2½
Loans to industrial or commercial businesses under Sec. 13b of the Federal Reserve Act, direct or in participation with financing institutions	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5	2½–5
Discounts for and purchases from financing institutions under Sec. 13b of the Federal Reserve Act:												
On portion for which institution is obligated	(1)	(1)	(2) 2	(1)	(1)	(1)	2½–5	1–1½	(1)	(1)	(1)	(1)
On remaining portion	(3)	(3)	(3)	(3)	(3)	(3)	2½–5	(3)	(3)	(3)	(3)	(3)
Commitments to make loans under Sec. 13b of the Federal Reserve Act:												
To industrial or commercial businesses	½–1	½–1¼	½–1¼	½–1¼	½–1¼	½–1¼	¼–1¼	½–1¼	½–1¼	½–1¼	½–1¼	½–1¼
To financing institutions	½–1	½–1¼	½–1¼	(4) ½–1¼	½–1¼	(4) ½–1¼	¼–1¼	¼–1¼	½–1¼	½–1¼	(4) ½–1¼	(4) ½–1¼
Minimum buying rates on prime bankers' acceptances payable in dollars	(5)	......	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
1–90 days	......	1	......	......	......	......	......	......	......	......	......	......
91–120 days	......	1	......	......	......	......	......	......	......	......	......	......
121–180 days	......	1	......	......	......	......	......	......	......	......	......	......
Buying rate on Treasury bills[6]	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜

[1] Rate charged borrower by financing institution less commitment rate.
[2] May charge same rate as charged borrower by financing institution, if lower.
[3] Rate charged borrower.
[4] Financing institution is charged ¼ per cent on undisbursed portion of loan.
[5] The same minimum rates in effect at the Federal Reserve Bank of New York apply to any purchases made by other Federal Reserve Banks.
[6] Established rate at which Federal Reserve Banks stand ready to buy all Treasury bills offered. Purchases of such bills, if desired by the seller, are made on condition that the Reserve Bank, upon request before maturity, will sell back bills of like amount and maturity at the same rate of discount.

NOTE: Maximum maturities for discounts and advances to member banks are: 15 days for advances secured by obligations of the Federal Farm Mortgage Corporation or the Home Owners Loan Corporation guaranteed as to principal and interest by the United States, or by obligations of Federal Intermediate Credit Banks maturing within 6 months; 90 days for other advances and discounts made under Sections 13 and 13a of the Federal Reserve Act (except that discounts of certain bankers' acceptances and of agricultural paper may have maturities not exceeding 6 months and 9 months respectively); and 4 months for advances under Section 10(b). The maximum maturity for advances to individuals, partnerships, or corporations made under the last paragraph of Section 13 is 90 days. Industrial loans and commitments made under Section 13b of the Federal Reserve Act may have maturities not exceeding 5 years.

NO. 11—MEMBER BANK RESERVE REQUIREMENTS

[Per cent of deposits]

Period in effect	Net demand deposits[1]			Time deposits (all member banks)
	Central reserve city banks	Reserve city banks	Country banks	
June 21, 1917–Aug. 15, 1936	13	10	7	3
Aug. 16, 1936–Feb. 28, 1937	19½	15	10½	4½
Mar. 1, 1937–Apr. 30, 1937	22¾	17½	12¼	5¼
May 1, 1937–Apr. 15, 1938	26	20	14	6
Apr. 16, 1938–Oct. 31, 1941	22¾	17½	12	5
Nov. 1, 1941–Aug. 19, 1942	26	20	14	6
Aug. 20, 1942–Sept. 13, 1942	24	20	14	6
Sept. 14, 1942–Oct. 2, 1942	22	20	14	6
Oct. 3, 1942 and after	20	20	14	6

[1] Demand deposits subject to reserve requirements; i.e., total demand deposits minus (1) cash items in process of collection, (2) demand balances due from domestic banks, and (3) war loan and Series E bond accounts, during the period April 13, 1943 to June 30, 1947, both inclusive.

NO. 12—MAXIMUM RATES ON TIME DEPOSITS

Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q

[Per cent per annum]

Type of deposit	Nov. 1, 1933, to Jan. 31, 1935	Feb. 1, 1935, to Dec. 31, 1935	In effect beginning Jan. 1, 1936
Savings deposits	3	2½	2½
Postal Savings deposits	3	2½	2½
Other time deposits payable:			
In 6 months or more	3	2½	2½
In 90 days to 6 months	3	2½	2
In less than 90 days	3	2½	1

NOTE: Maximum rates that may be paid by insured nonmember banks as established by the Federal Deposit Insurance Corporation, effective Feb. 1, 1936, are the same as those in effect for member banks. Under Regulation Q the rate payable by a member bank may not in any event exceed the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located.

NO. 13—MARGIN REQUIREMENTS[1]

Prescribed by Board of Governors of the Federal Reserve System in accordance with Securities Exchange Act of 1934

[Per cent of market value]

	Nov. 1, 1937–Feb. 4, 1945	Feb. 5, 1945–July 4, 1945	July 5, 1945–Jan. 20, 1946	Jan. 21, 1946–Jan. 31, 1947	Effective Feb. 1, 1947
Regulation T:					
For extensions of credit by brokers and dealers on listed securities	40	50	75	100	75
For short sales	50	50	75	100	75
Regulation U:					
For loans by banks on stocks	40	50	75	100	75

[1] Regulations T and U limit the amount of credit that may be extended on a security by prescribing a maximum loan value, which is a specified percentage of its market value at the time of the extension; the "margin requirements" shown in this table are the difference between the market value (100 per cent) and the maximum loan value.

NO. 14—MINIMUM DOWN PAYMENTS AND MAXIMUM MATURITIES ON CONSUMER CREDIT SUBJECT TO REGULATION W

Prescribed by Board of Governors of the Federal Reserve System in accordance with Executive Order No. 8843 dated August 9, 1941

Type of credit	As revised effective December 1, 1946	
	Down payment (%)[1]	Maximum maturity (months)
Instalment sales:		
Mechanical refrigerators	33⅓	15
Washing machines, dishwashers and ironers	33⅓	15
Cooking stoves and ranges	33⅓	15
Combination units incorporating foregoing	33⅓	15
Sewing machines and vacuum cleaners	33⅓	15
Radios and phonographs	33⅓	15
Room-unit air conditioners	33⅓	15
Furniture and soft-surface floor coverings	20	15
Automobiles	33⅓	15
Instalment loans:		
To purchase listed articles	(2)	(2)
Other	....	15
Renewals, revisions, and consolidations of instalment credit	(2)	15

[1] Down payments determined after deduction of any trade-in, except in case of automobiles.
[2] Where credit is to purchase listed articles, requirements same as on instalment sales of the respective articles.

NOTE: The above limitations are subject to various exceptions; for exceptions in detail, and for additional provisions not reflected in this table, the regulation should be consulted.

NO. 15—ANALYSIS OF CHANGES IN NUMBER OF BANKING OFFICES DURING 1946

	All banks	Commercial banks						Mutual savings banks	
		Total	Member banks		Nonmember banks[1]				
			National	State member	Insured	Noninsured		Insured	Noninsured
Number of banks, Dec. 31, 1945	**14,553**	**14,011**	**5,017**	**[2]1,867**	**6,416**	**714**		**[2]192**	**350**
Changes during 1946:									
New banks[3]	[4]+144	+144	+21	+9	+98	+16		......	......
Consolidations and absorptions:									
Banks converted into branches	−54	−54	−21	−12	−20	−1		......	......
Other	−41	−40	−19	−3	−16	−2		−1	......
Voluntary liquidations[5]	−17	−17	−3	−2	−8	−4		......	......
Inter-class changes:									
Conversions—									
National into State	......	......	−2	......	+2	......		......	......
State into national	......	......	+14	−11	−3	......		......	......
Federal Reserve membership:[6]									
Admissions of State banks	......	......	......	+56	−51	−5		......	......
Withdrawals of State banks	......	......	......	−11	+10	+1		......	......
Federal deposit insurance:[7]									
Admissions of State banks	......	......	......	......	+30	−30		......	......
Withdrawals of State banks	......	......	......	......	−1	+1		......	......
Net increase or decrease	+32	+33	−10	+26	+41	−24		−1	......
Number of banks, Dec. 31, 1946	**14,585**	**14,044**	**5,007**	**[2]1,893**	**6,457**	**690**		**[2]191**	**350**
Number of branches[8], Dec. 31, 1945	**3,866**	**3,723**	**1,641**	**1,061**	**964**	**57**		**101**	**42**
Changes during 1946:									
De novo branches	+157	+142	+51	+38	+49	+4		+14	+1
Banks converted into branches	+54	+54	+22	+23	+7	+2		......	......
Branches discontinued	−18	−17	−2	−4	−11	......		......	−1
Inter-class branch changes:									
National to State member	......	......	−1	+1	......	......		......	......
National to nonmember	......	......	−1	......	+1	......		......	......
State member to national	......	......	+11	−11	......	......		......	......
State member to nonmember	......	......	......	−1	+1	......		......	......
Nonmember to State member	......	......	......	+11	−10	−1		......	......
Net increase or decrease	+193	+179	+80	+57	+37	+5		+14	......
Number of branches[8], Dec. 31, 1946	**4,059**	**3,902**	**1,721**	**1,118**	**1,001**	**62**		**115**	**42**
Number of banking facilities at military reservations[9], Dec. 31, 1945	**224**	**224**	**170**	**37**	**17**	......		......	......
Changes during 1946:									
Established	+2	+2	+2	......	......	......		......	......
Reopened at veterans hospitals	+6	+6	+4	+1	+1	......		......	......
Discontinued	−153	−153	−117	−23	−13	......		......	......
Inter-class change	......	......	+1	−1	......	......		......	......
Net decrease	−145	−145	−110	−23	−12	......		......	......
Number of banking facilities at military reservations[9], Dec. 31, 1946	**79**	**79**	**60**	**14**	**5**	......		......	......

[1] Includes such unincorporated (private) banks as report to State banking departments.

[2] The State member bank figures and the insured mutual savings bank figures both include three member mutual savings banks. These banks are not included in the total for "commercial banks" and are included only once in "all banks."

[3] Exclusive of new banks organized to succeed operating banks.

[4] Includes two nonmember banks, one insured and one noninsured, which resumed business after having previously been placed in voluntary liquidation.

[5] Exclusive of liquidations incident to the succession, conversion, and absorption of banks.

[6] Exclusive of conversions of national banks into State member banks, or vice versa. Such changes do not affect Federal Reserve membership; they are included under "conversions."

[7] Exclusive of insured nonmember banks converted into national banks or admitted to Federal Reserve membership, or vice versa. Such changes do not affect Federal Deposit Insurance Corporation membership; they are included in the appropriate groups under "inter-class bank changes."

[8] Covers all branches and other additional offices at which deposits are received, checks paid, or money lent.

[9] "Banking facilities" are provided through arrangements made by the Treasury Department with banks designated as depositaries and financial agents of the Government. The figures shown do not include branches that have also been designated by the Treasury Department as "banking facilities."

NO. 16—NUMBER OF BANKING OFFICES ON FEDERAL RESERVE PAR LIST AND NOT ON PAR LIST, BY FEDERAL RESERVE DISTRICTS AND STATES, DECEMBER 31, 1946

Federal Reserve district or State	Total banks, branches, and offices on which checks are drawn[1]		On par list						Not on par list (Nonmember)[1]	
			Total		Member		Nonmember			
	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices
DISTRICT										
Boston	490	281	490	281	336	203	154	78	......	....
New York	936	810	936	810	801	743	135	67	......	....
Philadelphia	846	127	846	127	649	89	197	38	......	....
Cleveland	1,168	214	1,168	214	722	186	446	28	......	....
Richmond	1,013	406	785	281	475	185	310	96	228	125
Atlanta	1,144	159	516	124	331	109	185	15	628	35
Chicago	2,473	540	2,416	513	999	205	1,417	308	57	27
St. Louis	1,467	127	1,111	69	495	38	616	31	356	58
Minneapolis	1,272	110	592	36	470	26	122	10	680	74
Kansas City	1,750	7	1,731	7	753	5	978	2	19	....
Dallas	981	34	868	26	595	18	273	8	113	8
San Francisco	503	1,166	498	1,166	268	1,106	230	60	5	....
Total	**14,043**	**3,981**	**11,957**	**3,654**	**6,894**	**2,913**	**5,063**	**741**	**2,086**	**327**
STATE										
Alabama	219	23	106	23	85	23	21	....	113	....
Arizona	10	35	10	35	5	28	5	7	......	....
Arkansas	227	20	97	5	66	1	31	4	130	15
California	192	880	192	880	112	841	80	39	......	....
Colorado	141	1	141	1	92	1	49	....	......	....
Connecticut	114	20	114	20	63	9	51	11	......	....
Delaware	39	14	39	14	17	4	22	10	......	....
Dist. of Col.	20	35	20	35	16	33	4	2	......	....
Florida	174	3	110	3	70	2	40	1	64	....
Georgia	370	30	87	27	60	26	27	1	283	3
Idaho	47	42	47	42	25	40	22	2	......	....
Illinois	870	3	868	3	500	3	368	....	2	....
Indiana	488	83	488	83	238	28	250	55	......	....
Iowa	659	161	659	161	164	....	495	161	......	....
Kansas	612	1	610	1	213	1	397	....	2	....
Kentucky	386	34	386	34	114	24	272	10	......	....
Louisiana	155	62	53	39	43	34	10	5	102	23
Maine	63	68	63	68	38	35	25	33	......	....
Maryland	170	94	170	94	79	62	91	32	......	....
Massachusetts	186	144	186	144	149	133	37	11	......	....
Michigan	443	198	443	198	228	155	215	43	......	....
Minnesota	674	6	258	6	208	6	50	....	416	....
Mississippi	203	52	38	7	30	1	8	6	165	45
Missouri	593	....	521	....	181	....	340	....	72	....
Montana	110	....	109	....	77	....	32	....	1	....
Nebraska	409	2	401	2	145	2	256	....	8	....
Nevada	8	17	8	17	6	16	2	1	......	....
New Hampshire	64	2	64	2	52	1	12	1	......	....
New Jersey	343	133	343	133	294	117	49	16	......	....
New Mexico	44	6	44	6	31	....	13	6	......	....
New York	666	692	666	692	578	637	88	55	......	....
North Carolina	204	161	85	39	53	23	32	16	119	122
North Dakota	150	25	44	....	41	....	3	....	106	25
Ohio	674	176	674	176	426	154	248	22	......	....
Oklahoma	383	1	373	1	220	1	153	....	10	....
Oregon	68	75	68	75	33	70	35	5	......	....
Pennsylvania	1,009	125	1,009	125	769	100	240	25	......	....
Rhode Island	20	44	20	44	11	28	9	16	......	....
South Carolina	149	30	54	28	29	26	25	2	95	2
South Dakota	169	44	67	21	63	20	4	1	102	23
Tennessee	294	68	191	53	81	43	110	10	103	15
Texas	868	4	806	4	550	4	256	....	62	....
Utah	59	12	59	12	34	10	25	2	......	....
Vermont	71	9	71	9	40	2	31	7	......	....
Virginia	315	86	304	85	203	41	101	44	11	1
Washington	122	115	117	115	54	108	63	7	5	....
West Virginia	180	....	177	....	108	....	69	....	3	....
Wisconsin	554	145	442	92	163	20	279	72	112	53
Wyoming	55	....	55	....	37	....	18	....	......	....

[1] Does not include mutual savings banks, on a few of which some checks are drawn but does include 79 banking facilities (see footnote 9, Table 15). The difference of two between the number of nonmember commercial banks on Dec. 31, 1946 shown in this table and in Table 15 is due to the fact that this table excludes 109 banks and trust companies on which no checks are drawn, and includes 99 unincorporated banks and 12 other banks on which checks are drawn but which are not reporting to a State banking department.

Back figures.—See *Banking and Monetary Statistics*, Table 15, and previous *Annual Reports*.

APPENDIX

RECORD OF POLICY ACTIONS
BOARD OF GOVERNORS

January 17, 1946

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper.

Amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

By unanimous vote and effective January 21, 1946, Regulations T and U were amended to increase from 75 per cent to 100 per cent the margin requirements prescribed on registered securities (other than exempted securities) in a general account and on short sales under Regulation T, and on stocks under Regulation U. The increase related only to future purchases and sales of and loans on securities except that under provisions incorporated in the regulations in July, 1945, the amendments required that the proceeds of sales of securities in an undermargined account (or held as collateral for a loan) be used to the extent necessary to increase the margin on the remaining securities until they were on a 100 per cent basis.

In taking this action the Board was guided by the following considerations:

During the period of reconversion from a wartime to a peacetime economy, the country was being exposed to powerful inflationary pressures. They arose from the accumulated demands for many types of civilian goods, the temporary shortage of such goods, and the unprecedented volume of liquid assets in the hands of individuals and corporations. Following the end of hostilities this period had also been characterized by public pressure for premature removal of governmental wartime controls, with the consequent effect of promoting speculative activity. Restriction of the use of credit in the securities market would tend to discourage speculative activity which was both a characteristic and a feeder of inflation. In these circumstances, any expansion in the use of credit for the purpose of buying or trading in registered securities was, in the judgment of the Board, an excessive use of credit and consequently should be prevented under the legislative mandate to the Board. While the Board recognized that action in this field could have only a limited effect in combating general inflation, it believed that this action was not only in accordance with its legal obligation, but would help, though to a necessarily limited extent, to protect the national economy from the dangers of inflation.

During the past year the Board advanced margin requirements on two occasions by a total of 35 points from a 40 per cent level to a 75 per cent level, and also tightened the provisions in connection with the use of outstanding accounts. These measures were followed by a decrease in the use of credit for purchasing or carrying securities, which had been increasing rapidly in 1943 and 1944, and the volume of trading on credit, which was mainly speculative, decreased substantially. Nevertheless, this type of trading had continued in considerable volume amounting to several hundred thousand shares per day, the volume of stock market credit had begun to increase again, and the level of stock prices had advanced. Consequently, it was the judgment of the Board that further restraining action was in the public interest.

Under the new requirements, much the larger part of the trading in registered securities was expected to be on a cash basis. If further restraint should seem to be appropriate in the future, the Board would consider the desirability of making some of its margin rules more rigid or requiring some liquidation of outstanding credits used for carrying securities.

March 5, 1946

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Change in Rules for Uniform Application by Federal Reserve Banks in Waiving Penalties for Deficiencies in Reserves of Member Banks.

By unanimous vote, the rules prescribed by the Board of Governors under which the Federal Reserve Banks were authorized, in their discretion, to waive penalties for deficiencies in reserves of member banks were changed, effective immediately, to permit the waiver of penalties (1) of not to exceed $2.00 in any weekly or semimonthly reserve computation period, instead of in any calendar month, and (2) when, for the first time within two years, a member bank had a deficiency in its reserves of not to exceed 2 per cent of its required reserves. The revised rules did not contemplate that the penalties would be waived in all such cases but only when, in the judgment of the Federal Reserve Banks, such waiver was justified.

The first change was made to simplify the administration of reserve requirements by eliminating the necessity for a Federal Reserve Bank to maintain a cumulative record to determine whether the aggregate penalty for any bank in any calendar month was in excess of $2.00. Because of the large increase in deposits of member banks and in their required reserves, the change did not amount to a liberalization of what was contemplated when the rule was originally adopted in 1933.

The second change was for the purpose of permitting the Federal Reserve Banks somewhat wider scope in waiving minor penalties which did not occur frequently and which were the result of bona fide clerical errors or inexperienced help.

March 8, 1946

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Elimination of Rate on Advances to Nonmember Banks Secured by Direct Obligations of the United States.

By unanimous vote, approval was given to the elimination by the Federal Reserve Bank of Cleveland, effective March 9, 1946, of the rate of one per cent in effect at the Bank on advances to nonmember banks secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act, it being understood that the rate in effect at the Bank on advances to individuals, partnerships, and corporations other than banks, under the last paragraph of section 13, would thereafter apply to such advances to nonmember banks.

In accordance with the policy established by this action the Board subsequently, by unanimous votes of the members present, approved the elimination of the one per cent rate by other Federal Reserve Banks, effective as of the date shown below:

Boston	March 29, 1946
New York	April 6, 1946
Philadelphia	March 23, 1946
Richmond	March 16, 1946
Atlanta	March 16, 1946
Chicago	March 16, 1946
St. Louis	March 16, 1946
Minneapolis	March 23, 1946
Kansas City	April 13, 1946
Dallas	March 16, 1946
San Francisco	April 25, 1946

On September 1, 1939, the Board of Governors announced that the Federal Reserve Banks were prepared to make advances to member and nonmember banks on Government obligations at par at the rates prevailing for member banks. At that time war had broken out in Europe, with sharp repercussions on the money and securities markets of this country, and the policy was adopted as a further means of lending stability to the markets. Action was taken at this time to discontinue the privilege accorded to nonmember banks to borrow on Government securities at the same rate as member banks because the privilege had served its purpose and was no longer necessary.

April 23, 1946

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Elimination of the Preferential Rate of ½ Per Cent on Advances to Member Banks Secured by Direct Obligations of the United States.

By unanimous vote the Board approved the elimination by the Federal Reserve Banks of New York, Philadelphia, and San Francisco, effective April 25, 1946, of the preferential rate of ½ per cent per annum in effect at the Banks on advances to member banks secured by obligations of the United States having one year or less to run to call date or to maturity if no call date, it being understood that the rate of one per cent in effect at the Banks on advances to member banks would thereafter be applicable to all advances to member banks secured by such obligations irrespective of the date upon which they matured or were callable.

In accordance with the policy established by this action, the Board subsequently, by unanimous vote of the members present, approved the discontinuance of the preferential rate by the other Federal Reserve Banks, effective as of the dates shown below:

Boston	April 27, 1946
Cleveland	May 3, 1946
Richmond	May 10, 1946
Atlanta	May 10, 1946
Chicago	April 26, 1946
St. Louis	April 26, 1946
Minneapolis	April 26, 1946
Kansas City	April 27, 1946
Dallas	May 10, 1946

The reasons for the Board's action were set forth in the following statement which was given to the press for release in the morning papers of April 25, 1946:

"The boards of directors of the Federal Reserve Banks of Philadelphia, New York, and San Francisco have voted to discontinue the special wartime preferential discount rate of ½ of 1 per cent per annum on advances to member banks secured by Government obligations due or callable in not more than one year. Changes in rates, to become effective at the Reserve Banks, must be approved by the Board of Governors.

"The Board has approved discontinuance of the preferential rate because it has served the purpose of facilitating the war-financing program for which it was adopted in 1942. The Board does not favor a higher level of interest rates on U. S. securities than the Government is now paying. Discontinuance of the special rate will not involve any increase in the cost to the Government of carrying the public debt.

"The preferential rate encourages member banks to borrow at Federal Reserve Banks in order to hold or to purchase additional Government securities, or to lend to others at low rates for the purpose of holding or purchasing Government securities. While such encouragement was justified early in the war to induce the banks to utilize their reserves more fully in financing huge war expenditures, it has subsequently made for speculation in Government securities and has resulted in unnecessary expansion of the money supply through monetization of the public debt. The Government's program no longer calls for expansion of bank credit to help finance huge war expenditures. Instead, it calls for action that will stop additions to and bring about reductions in the country's monetary supply in order to reduce inflationary pressures. Discontinuance of the preferential rate, therefore, signifies an appropriate adjustment from wartime to postwar conditions in accordance with the Government's program of economic stabilization."

June 20, 1946

Members present: Mr. Eccles, Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Amendments to Regulation W, Consumer Credit.

By unanimous vote, Regulation W was amended, effective July 5, 1946, (1) to limit the application of the regulation to instalment sale credits of $1,500 or less instead of all such credits regardless of amount, (2) to provide that home improvement loans would be subject to the regulation to the extent that they covered listed articles and combination units which incorporated in one unit unlisted articles and one or more listed articles, (3) to discontinue as listed articles attic ventilating fans, automobile batteries and accessories, and passenger automobile tires and tubes, and (4) to provide that the certificate given by a borrower in connection with a loan for educational, medical, hospital, dental, and funeral expenses should include a statement (in addition to other statements previously required) that the proceeds of the loan (unless they were to be used exclusively for educational expenses) were to be paid in the amounts specified to persons whose names, addresses, and occupations were set forth in the statement.

The principal reason for the amendments was to simplify the administration of the regulation without liberalizing its terms or encouraging the growth of consumer credit to any material extent. The reasons for the changes specifically referred to were:

1. Under the regulation as previously in effect instalment loan credits in excess of $1,500 were exempted from the regulation and it was felt that the same exemption should be provided for instalment sale credits.

2. Combination units were appearing on the market in which were included such listed articles as refrigerators, ranges, etc., and it was the opinion of the Board that these articles should be covered by the regulation. Therefore, the amendment was adopted to make the regulation applicable to the extension of credits for the purpose of making repairs, alterations or improvements if they included any listed article or combination units which included a cooking stove or range, dish washer, ironer, refrigerator, or washing machine. Attic ventilating fans were discontinued as a listed article for the same reason as home alterations, repairs, and improvements generally were exempted from the terms of the regulation in December 1945.

3. Automobile batteries, accessories, tires and tubes were discontinued as listed articles as they were mainly in the nature of repairs and maintenance of existing equipment.

4. The change with respect to emergency loan credits was for the purpose of preventing abuse of the exemption of such credits by the use of vague general statements as to the use to which the proceeds of the credits were to be put.

June 26, 1946

Members present: Mr. Eccles, Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans; Mr. Vardaman.

Discontinuance of Further Printings of Federal Reserve Notes in the Higher Denominations.

By unanimous vote, approval was given to a letter to all of the Federal Reserve Banks in which it was stated that the Board had decided to direct that no further printings of Federal Reserve notes in denominations of $500 and above be requested, but that it would offer no objection to the Federal Reserve Banks' paying out Federal Reserve notes of such denominations as long as the existing stocks lasted.

This action was taken because notes in denominations of $500 and above were not needed for hand-to-hand circulation, large denomination currency lends itself readily to undesirable uses such as black market transactions and other illegal purposes including the evasion of income and other taxes, and any legitimate need for large denomination currency could be met by other means.

July 12, 1946

Members present: Mr. Eccles, Chairman; Mr. Szymczak; Mr. Evans.

Increase in Buying Rates on Bankers' Acceptances.

By unanimous vote approval was given to an increase from ½ to ¾ per cent per annum, effective July 12, 1946, in the minimum buying rate established by the Federal Reserve Bank of New York on bankers' acceptances, it being understood that the Bank would immediately establish the following schedule of effective minimum buying rates on such acceptances:

1 to 90 days	¾ per cent
91 to 120 days	⅞ per cent
121 to 180 days	1 per cent

In accordance with the above action the Board subsequently, by the unanimous votes of the members present, approved increases in the buying rates at other Federal Reserve Banks in accordance with the minimum buying rate approved for the Federal Reserve Bank of New York, effective as of the respective dates shown below:

Boston	July 19, 1946
Philadelphia	July 19, 1946
Cleveland	July 26, 1946
Richmond	August 10, 1946
Chicago	July 19, 1946
St. Louis	July 25, 1946
Minneapolis	July 17, 1946
Kansas City	July 23, 1946
Dallas	July 19, 1946
San Francisco	July 19, 1946

The situation which made this action desirable grew largely out of the elimination by the Federal Reserve Banks earlier in the year of the preferential rate of ½ per cent on advances to member banks secured by Government obligations. The buying rates on bankers' acceptances were not increased at that time because it was believed desirable to watch developments in the market following the elimination of the preferential rate and, if market rates adjusted to the new situation and if bankers' acceptances in the market could be sold to others than the Federal Reserve Banks, the continuation of the existing buying rates on bankers' acceptances would not be important. It was felt, however, that if a volume of acceptances were sold to the Federal Reserve Banks, the minimum buying rates should be increased in order to carry out the policy established in eliminating the preferential discount rate of ½ per cent on advances secured by Government obligations. Since there were sales of acceptances to the Reserve Banks during the period prior to July 12, 1946, the action of the Board referred to above was taken for the purpose indicated.

AUGUST 13, 1946

Members present: Mr. Eccles, Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

By unanimous vote and effective September 3, 1946, Regulation W was amended to make it applicable to consumer credits up to $2,000 instead of $1,500 and to reduce from 18 months to 15 months the maximum maturity of instalment loans that were not for the purpose of purchasing consumers durable goods or semi-durable goods.

The purposes of these changes were to increase the maximum amount of instalment credits covered by the Regulation because of a substantial increase in prices, particularly automobiles, and to bring the maturity of loans not for the purpose of purchasing listed articles more nearly into conformity with the permissible maximum maturity on other instalment loans covered by the Regulation. The volume of consumer credit had been increasing rapidly before this action was taken and a considerable part of the expansion was in the forms which would be restricted by the amendment.

Revision of Regulation C, Acceptance by Member Banks of Drafts or Bills of Exchange.

By unanimous vote, a revision of Regulation C was adopted to become effective August 31, 1946, and a letter was approved requesting the Federal Reserve Banks to make a general review of all cases in their respective districts in which a member bank had been granted authority either to accept up to 100 per cent of its capital and surplus or to accept drafts and bills for the purpose of furnishing dollar exchange, to determine whether in any such case the authority should be rescinded by the Board.

The reasons for the adoption of the revised Regulation C were set forth in the following statement released to the press for publication August 16, 1946:

"The Board of Governors of the Federal Reserve System has adopted, effective August 31, 1946, a revised version of Regulation C, Acceptance by Member Banks of Drafts or Bills of Exchange. The regulation governs the acceptance of drafts or bills drawn against domestic or foreign shipments of goods or secured by warehouse receipts covering readily marketable staples and the acceptance of drafts or bills drawn for the purpose of creating dollar exchange. The revision has been made in order to simplify and clarify the regulation. In making the revision, the Board has had the benefit of suggestions received from a number of member banks experienced in acceptance credit procedure and from the Federal Reserve Banks.

"While the Board, in stating the requirements that must be met, has endeavored to lay down broad principles that should be observed, it should be emphasized that mere technical compliance with the provisions of the regulation will not necessarily afford an accepting bank protection from loss. Sound acceptance practice depends primarily upon the exercise by accepting banks of good credit judgment. The principal reliance for the maintenance of sound practices must be placed upon that judgment and the continued development of seasoned policies in this field of extension of bank credit."

The request for the review of outstanding authorizations was made because in a number of cases such authorizations had been granted many years ago but had not been used and, from the nature of the banks' present business, there appeared little likelihood that they would be needed. Subsequently, in a number of cases where the authority was not being used and there was no apparent need for its continuance, the authority was rescinded without objection on the part of the banks concerned.

August 23, 1946

Members present: Mr. Draper, Chairman pro tem; Mr. Evans; Mr. Vardaman.

Increase in Buying Rates on Bankers' Acceptances.

Unanimous approval was given to an increase from ¾ per cent to one per cent per annum, effective August 24, 1946, in the minimum buying rates established by the Federal Reserve Banks of New York and Minneapolis on bankers' acceptances, it being understood that the Banks' effective buying rates would be raised to one per cent on acceptances of all maturities.

In accordance with the above action, the Board subsequently, by unanimous vote of the members present, approved an increase in buying rates at other Federal Reserve Banks in accordance with the minimum buying rate approved for the Federal Reserve Banks of New York and Minneapolis, effective as of the respective dates shown below:

Boston	August 30, 1946
Philadelphia	September 7, 1946
Cleveland	September 7, 1946
Richmond	September 14, 1946
Atlanta	September 20, 1946
Chicago	August 31, 1946
St. Louis	August 29, 1946
Kansas City	September 4, 1946
Dallas	September 14, 1946
San Francisco	September 7, 1946

It appearing that additional bankers' acceptances might be offered to the Federal Reserve Bank of New York at the buying rates then in effect, the rate was increased to one per cent so that credit would not be available to member banks from this source at less than the rate at which member banks could borrow at the Federal Reserve Banks on the security of Government obligations. The action was in accordance with the general policy of, and taken for the same reasons as, the actions taken earlier in the year to eliminate the preferential discount rate of ½ per cent on advances to member banks secured by Government obligations and to increase the minimum buying rates on bankers' acceptances from ½ to ¾ per cent.

November 12, 1946

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Draper; Mr. Evans.

Amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

It was voted unanimously to amend Regulations T and U in certain respects, effective December 1, 1946.

The scope of the amendments and the reasons therefor are set forth in a statement released in the morning papers of Wednesday, November 13, 1946, which read as follows:

"The Board of Governors of the Federal Reserve System has adopted Amendments No. 6 to Regulation T and No. 7 to Regulation U, relating to the use of credit for purchasing securities, effective December 1, 1946.

"The amendments will permit stockholders of any corporation who receive rights to subscribe to new issues to obtain credit for the purpose of exercising these rights. The permission extends also to cases in which a public utility holding company, when simplifying its corporate structure as required by the Public Utility Holding Company Act of 1935, issues to its stockholders rights to subscribe to its holdings of outstanding securities of operating companies.

"Under these amendments, if the stockholder needs to borrow in order to take up the rights issued directly to him by the company in which he owns stock, he may do so by pledging securities which, for this purpose, shall have a loan value of 50 per cent. Otherwise the prevailing 100 per cent margin requirements remain in effect.

"The Board decided that this change in the regulations would be appropriate as a matter of equity and that it could be made without stimulating speculation or encouraging to any material extent the growth of stock market credit."

November 15, 1946

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Draper; Mr. Evans.

Revision of Regulation W, Consumer Credit.

By unanimous vote, the Board adopted a revision of Regulation W to become effective December 1, 1946.

The reasons for the Board's action were set forth in the following statement which was released for publication in the morning papers of November 16, 1946:

"Effective December 1, 1946, the Board of Governors has today revised Regulation W by confining it to instalment credit and centering it on purchases of major durable goods. If regulation in the field of consumer credit is to be continued on a peacetime basis, the Board believes that the regulation should in general be in the form and scope of this revision in order to be an effective influence towards stability in this sector of the economy.

"This regulation now rests on an Executive Order of August 9, 1941, which is revocable by the President or by action of Congress. The issue as to whether regulation should or should not be continued in any form is a subject of sharp controversy among various groups affected by it. The Board feels that the issue should be decided by the Congress and that the present revision is an appropriate means of bringing before the Congress the question of whether the Executive Order should be vacated or whether authority for such regulation should be continued by specific legislation.

"In its Annual Report to Congress last June, the Board recommended that Congress give consideration to the question of whether regulation of consumer credit should be continued on a peacetime basis as a subordinate but contributory factor in the maintenance of economic stability. As the Report stated, 'Over the past 30 years consumer instalment financing has come to occupy an important and strategic place in the national economy. Such financing is essential to the mass distribution and consequently to the mass production of consumers' durable goods. From time to time, however, the expansion and subsequent contraction of consumer credit have gone so far as to accentuate the upswings and downswings of the business cycle. There is no way of preventing such excessive expansion and contraction except governmental regulation of the terms on which consumer credit shall be made available, such as the down payment required on instalment sales or financing and the length of time permissible for instalment contracts.'

"The regulation is now revised in the light of the foregoing considerations. Under this revision, the regulation is focused on instalment credit, both instalment sales and instalment loans, including 12 major categories of durable consumers' goods, which constitute the great dollar bulk of credit subject to the widest expansion and contraction. Charge accounts and single-payment loans, in which fluctuations are comparatively small, are eliminated from the scope of the regulation. The revision effects a substantial simplification of the regulation's provisions and will make it administratively more workable.

"This revision narrows the scope of the regulation to what the Board considers a minimum consistent with the exercise of a stabilizing influence in this area of the economy. In this form, the Board believes the regulation can be better understood and its merits and defects better appraised. When present inflationary pressures have subsided, the terms of the regulation would need to be modified further.

"The principal changes made by the revision are as follows:

1. The list of consumers' durable goods to which down payment and maturity requirements apply is reduced from 36 categories to 12, the remaining items including automobiles, major household appliances, radios, phonographs, sewing machines, furniture, and soft-surfaced floor coverings, but with an exemption for any article costing less than $50.00.

2. Restrictions on charge accounts and single-payment loans are eliminated.

3. A uniform maximum maturity of 15 months is established for all new instalment credits, whether they arise from sales or loans.

4. The provisions for refinancing, including consolidations with new credits, are simplified, and refinancing credits may have a maximum maturity of 15 months.

5. Except for floor coverings which are transferred to the category calling for a 20 per cent down payment, the items retained have the same down payment as presently prescribed: 33⅓ per cent for all articles other than furniture which is in the 20 per cent category.

6. Procedural rules are simplified in such matters as the statement covering the transaction and the statement obtained from the borrower. It is no longer required that a statement of the transaction be given to the customer.

7. Minor changes reconcile the new provisions with such requirements as are retained and certain technical sections are simplified.

8. The list of articles to which down payment and maturity requirements apply is as follows:

33⅓ per cent down:

Automobiles
Refrigerators
Cooking stoves and ranges
Washing machines
Ironers
Dishwashers
Air conditioners
Radios and phonographs
Sewing machines
Suction cleaners

20 per cent down:

Furniture
Soft-surfaced floor coverings"

RECORD OF POLICY ACTIONS FEDERAL OPEN MARKET COMMITTEE

March 1, 1946

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Leach; Mr. McLarin; Mr. Young; Mr. Clerk.

(A meeting of the Federal Open Market Committee—the last before the members of the Committee took office who were elected as representatives of the Federal Reserve Banks for terms of one year beginning March 1, 1946 —was held on February 28 for the purpose of ratifying actions which had been taken under existing policies and of discussing developments in the international and domestic monetary and credit situation. At that meeting no policy actions were taken.)

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

The executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date other than (1) bills purchased outright in the market on a discount basis at the rate of ⅜ per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury shall not be increased or decreased by more than 3 billion dollars.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars.

Since the meeting of the Committee which was held on October 17, 1945, some of the conditions affecting open market policy had changed materially. The Victory Loan Drive, the last great public drive, had been completed. Instead of being faced with further substantial increases in the public debt, the Treasury had a balance of approximately 25 billion dollars, a large portion of which was available for retirement of Government securities maturing during the remainder of the calendar year. A program for the retirement of Government debt had been undertaken by the Treasury and it had announced that 1 billion of the 4.1 billion dollars of certificates maturing on March 1, 1946, and the 1.8 billion dollars of one per cent notes and 3¾ per cent bonds maturing on March 15, 1946, would be paid off. These issues were held largely by commercial banks and the Federal Reserve Banks and their retirement would effect a substantial reduction in the volume of bank credit outstanding.

Before this meeting of the Committee, consideration had been given to the question what should be done with respect to the preferential discount rate of ½ per cent in effect at the Federal Reserve Banks on advances to member banks secured by Government obligations, the termination by the Federal Open Market Committee of the ⅜ per cent posted rate at which the Federal Reserve Banks stood ready to purchase Treasury bills offered to them, the policies of the Treasury with respect to management of the public debt including debt retirement, and possible legislation by Congress to increase the powers of the System in the field of credit regulation.

The discontinuance of the preferential discount rate was under active consideration by the Federal Reserve Banks and the Board of Governors and was being discussed with the Treasury at the time of this meeting. It was the belief of the Federal Open Market Committee that the discontinuance of that rate, which was a temporary war measure designed to meet a special situation, should be the first step in a policy which had as its objective the prevention of further expansion of bank reserves and that, for reasons discussed in the annual report of the Board of Governors to which this record is appended, it was important that the large supply of funds resulting from deficit war financing through the banks be reduced rather than increased during the year. The Committee was of the opinion that such reduction could be effected without increasing the cost of carrying the Government debt. It was also felt that until the preferential discount rate was eliminated and the effects of that action on the money market and on yields on Government securities could be observed, and inasmuch as substantial amounts of reserve funds would be required in the market in connection with the retirement of Government debt, the Committee should continue the existing open market policy of maintaining an adequate supply of member bank reserves and at the same time exerting an influence toward the maintenance of conditions in the Government security market that would be satisfactory from the standpoint of Government requirements.

The above direction was adopted for that purpose. It was in the same form as the direction issued at the meeting of the Committee on October 17, 1945, except that the limitation contained in the first paragraph on the amount by which the total securities held in the System account could be changed was raised from 2 billion dollars to 3 billion. The limitation was increased in view of the large transactions in the System account which it was expected would take place before another meeting of the Committee, arising from the needs for reserve funds in connection with the program for retirement of the public debt and the redemption of securities in the System open market account.

June 10, 1946

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. Draper; Mr. Evans; Mr. Vardaman; Mr. Leach; Mr. McLarin; Mr. Young; Mr. Clerk.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee was approved by unanimous vote:

> The executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of 7/8 per cent for one-year certificates and 2½ per cent for 27-year bonds restricted as to ownership; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than 2 billion dollars.
>
> That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars.

During the interim since the meeting of the Committee on March 1, 1946, action had been taken by the Federal Reserve Banks and the Board of Governors to discontinue the preferential discount rate of ½ per cent on advances to member banks secured by Government obligations. In announcing the discontinuance of the rate, the Board of Governors stated that it did not favor a higher level of interest rates on Government securities than the Government was then paying. The Treasury had redeemed for cash more than 10 billion dollars of maturing Government securities since the first of the year and it appeared at the time of this meeting that Treasury balances would permit further substantial retirements in the months immediately ahead. This would continue to reduce the volume of bank credit outstanding and to prevent a return of the downward trend in yields on Government securities that had been present earlier in the year.

At this meeting there was further discussion of the steps that might be taken by the Committee to carry out the System credit policies directed, as part of the program of the Government for combating inflation, toward the prevention of a further expansion of bank reserves and at the same time of any increase in the cost of the Government debt. It was felt that the Treasury program for debt retirement made unnecessary at this time any action to discontinue the outstanding direction issued by the Federal Open Market Committee to the Federal Reserve Banks to purchase Treasury bills offered to them at a discount rate of 3/8 per cent per annum. It was also the view of the Committee that in the existing circumstances the policy referred to above could best be implemented by changing the direction issued to the executive committee with respect to transactions in the System account so that such transactions would be for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which would support the Treasury issuing rates of 7/8 per cent for one-year certificates and 2½ per cent for 27-year bonds restricted as to ownership.

The limitation in the first paragraph of the new direction was reduced from 3 billion to 2 billion dollars for the reason that, while operations in the System account before another meeting of the Committee, particularly the redemption of securities being retired, would be substantial, it was believed that the lower limitation on the authority to change the amount of securities in the account would be adequate to meet the situation.

October 3, 1946

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Vardaman; Mr. Leach; Mr. McLarin; Mr. Young; Mr. Peyton.

1. Authority to Effect Transactions in System Account.

> Upon motion duly made and seconded, the following direction to the executive committee was approved by unanimous vote:
>
> The executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of ⅞ per cent for one-year certificates and 2½ per cent for 27-year bonds restricted as to ownership; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of ⅜ per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than 2 billion dollars.
>
> That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars.

When this meeting was held, there had been no new developments which presented reasons for a change in the policies adopted by the Federal Open Market Committee. The Treasury had continued its program of debt retirement and had redeemed for cash 17.5 billion dollars of Government securities. Further retirements were expected during the remainder of the calendar year and, therefore, the Committee was of the opinion that there was no need at this time for the elimination of the direction to the Federal Reserve Banks to purchase Treasury bills offered to them at a discount rate of ⅜ per cent per annum. Accordingly, for the reasons previously stated, the above direction was issued to continue the existing policies in effect.

UNITED STATES v. MOTOR CITY CREDIT JEWELRY CO., INC.

District Court of the United States for the Eastern District of Michigan, Southern Division

United States of America, Plaintiff v. Motor City Credit Jewelry Co., Inc., a corporation, and David Fink, 22900 Van Dyke Street, Van Dyke, Michigan, Defendants.	Civil Action No. 5567

Judgment

The above-entitled matter came on to be heard by the Court upon the complaint and stipulation for consent judgment filed herein by the parties. Upon consideration of the same and it appearing to the Court that plaintiff's complaint alleges in substance that the defendants named have violated Regulation W of the Board of Governors of the Federal Reserve System and that the defendants have stipulated that this consent judgment be entered against them,

Now, Therefore, It Is Hereby Ordered, Adjudged and Decreed

That the defendants, Motor City Credit Jewelry Co., Inc., and David Fink, and their agents, servants, representatives, employees and persons in active concert and participation with them, be and they are hereby permanently enjoined, in the instalment sale of merchandise, from:

1. Making instalment sales subject to the requirements of Regulation W of the Board of Governors of the Federal Reserve System without obtaining the cash down payment required by Section 4(a) of said Regulation.

2. Making instalment sales subject to the requirements of Regulation W of the Board of Governors of the Federal Reserve System without maintaining and preserving, for the life of the obligation to which they relate, such books of account, records and other papers as are relevant to establishing whether or not an extension of credit within the scope of said Regulation was in conformity with the requirements thereof, as required by Section 12(h) of said Regulation.

Dated this 14th day of February, 1946.

By the Court:

(Signed) Ernest A. O'Brien,
Judge, United States District Court.

MOTOR CITY CREDIT JEWELRY CO., INC.

Board of Governors of the Federal Reserve System

In the Matter of
Motor City Credit Jewelry Co., Inc.,
Van Dyke, Michigan.

Findings and Opinion

This is a proceeding under section 3(d) of Regulation W to determine whether the Motor City Credit Jewelry Co., Inc., Van Dyke, Michigan (hereinafter referred to as the "Registrant"), has violated sections 4(a) and 12(h) of said Regulation, and, if so, whether Registrant's license should be revoked or suspended.

The hearing was begun on November 9, 1945, at the offices of the Detroit Branch of the Federal Reserve Bank of Chicago. The Registrant and the Board were each represented by counsel, and each presented evidence. Upon the basis of the facts developed at such hearing, the Board's Hearing Officer submitted his recommended findings and opinion, which were furnished to counsel in order that they might file exceptions thereto, and subsequently, on January 25, 1946, oral argument was had before the Board at its offices in Washington, D. C.

At the hearing in Detroit, no evidence was introduced by the Registrant to rebut the evidence of violations of the Regulation, and counsel for the Registrant does not contend that the recommended findings were unsupported by the evidence or erroneous. They may therefore be accepted by the Board.

It appears that Registrant is a corporation organized under the laws of the State of Michigan. Its sole office is located at 22900 Van Dyke Street, Van Dyke, Michigan, a suburb of the city of Detroit, where it engages principally in the sale of jewelry on credit. Its annual business is in excess of $100,000. At all times mentioned herein, Registrant has been licensed by the Board under the provisions of Regulation W, and has been subject to the requirements of that Regulation.

Registrant is a family corporation, its stock being owned 45 per cent by David Fink, 35 per cent by Sol Fink, a brother, and 20 per cent by their mother. During the period covered by the evidence (September 1944 to November 1945) Registrant was under the management of David Fink, President, and Eleanor Fink, Secretary-Treasurer, assisted by Leonard Fink, a brother, who was not an officer of the company. For a part of this time there was also one other clerk in the store, a boy about 16 years of age, whose name does not appear.

On September 26, 1944, an investigator from the Detroit Branch of the Federal Reserve Bank of Chicago made a routine investigation of Registrant's books and records to determine whether Registrant was complying with Regulation W. This investigation disclosed a number of apparent violations, particularly shortages in the down payment required by section 4(a) of the Regulation. The violations also included several instances where the Registrant's records, which are required by section 12(h) of the Regulation to be adequate for the purpose of determining whether the provisions of the Regulation are being obeyed, were found to be totally inadequate for that purpose. These matters were called to the attention of Eleanor and Leonard Fink, who promised future compliance.

A second investigation was made on January 19, 1945, which again disclosed numerous shortages in down payments, as well as a continued failure to maintain adequate records. As a result of this investigation, a disciplinary conference was held at the offices of the Reserve Bank on February 2, 1945, which was attended by David Fink. Once again, full future compliance was promised.

A third investigation was commenced on April 17, 1945. Registrant's records indicated that Registrant had carried out the suggestions made at the disciplinary conference on February 2 and showed apparent substantial compliance with the Regulation. It was noted, however, that a considerable number of instalment credit transactions were marked "lay-away," indicating that the store had retained possession of the merchandise until the purchaser had paid the full amount of the down payment required by section 4(a) of the Regulation, at which time the records showed that delivery of the merchandise was made to the purchaser. No customer contacts were made to verify these notations in the company's records.

A fourth and final investigation was commenced on August 31, 1945, and again a considerable number of "lay-away" transactions were noted. This time, customer contacts were made, and they disclosed the fact that Registrant had been systematically falsifying its records. Specifically, they disclosed that customers were allowed to take merchandise from the store on the day of purchase without making the required down payment, and that the records of these sales were marked "lay-away," showing delivery of the merchandise on a subsequent date when the purchaser's payments had equaled or exceeded the required down payment. The conclusion is inescapable that Registrant availed itself of this artifice to conceal a studied and deliberate series of violations of the Regulation. In the face of repeated warnings, Registrant has continued to violate the most fundamental requirements of the Regulation, and for a time at least, these were aggravated by other violations designed to conceal them.

In his oral argument before the Board, Registrant's counsel, without challenging the facts as found above, emphasized that two of the four Fink brothers had been absent in military service during all of the times referred to herein and one of these and their mother together own a majority of the stock of the Registrant. He urged that the Board give consideration to the fact that these two veterans, who expect to make their livelihood from the operation of the Registrant, and their mother, all of whom were innocent of any violations of the Regulation, would be severely penalized by a revocation of Registrant's license.

Obviously, these arguments are in no sense exculpatory of Registrant's past continued disobedience of the Regulation. And, however much they may otherwise appeal to the Board, they may not properly be considered by it in carrying out its enforcement functions under the Regulation. The latter was promulgated as a part of the Government's program against inflation and, to be effective, should be obeyed by all to whom it applies. If the Board were to be deterred in its enforcement of the Regulation because of its possible effect upon innocent corporate stockholders, it would be establishing a precedent which might very well eliminate the Regulation as an effective medium of credit control.

These considerations were pointed out to counsel for the Registrant at the time of the oral argument. At that time, however, the Board suggested that, if some arrangement satisfactory to the Board's counsel could be worked out which would give positive assurance of future compliance, the Board might, consistently with its duty to preserve public respect for and continued obedience to the Regulation, impose a less severe penalty than that recommended by the Hearing Officer.

Since the oral argument the Board is advised that, as a result of a stipulation entered into between counsel on January 31, 1946, and approved by the Board on that date, the following events have occurred:

1. On February 14, 1946, a consent decree was entered in the United States District Court in Detroit against the Registrant and David Fink, together with all of Registrant's officers and employees, enjoining them from further violations of Regulation W.

2. David Fink resigned as President of the Registrant.

3. David Fink's stock interest in Registrant was reduced from 45 per cent to 30 per cent by the transfer of 15 per cent to his brother, Nathan Fink.

4. Appropriate resolutions were adopted by Registrant's stockholders placing the management of Registrant's business in Sol and Nathan Fink, requiring all credit sales to be subject to the approval of either of them, and excluding David Fink from the making of credit policies and restricting his executive and administrative activities solely to the handling of the building program and purchasing.

In the light of the changes thus effected in the management of Registrant, and the continuing and effective nature of the judicial decree entered against it and its employees, the Board is satisfied that future compliance with the Regulation is reasonably assured. Under these circumstances the Board is disposed to reduce the sanction recommended by the Hearing Officer. Accordingly, it is the Board's decision that Registrant's license under Regulation W be suspended for a period of 60 days. An appropriate order will issue.

By order of the Board of Governors of the Federal Reserve System this 18th day of February 1946.

S. R. Carpenter,
Secretary.

In the Matter of
Motor City Credit Jewelry Co., Inc.,
Van Dyke, Michigan.

Order Suspending License

A proceeding having been instituted before the Board under section 3(d) of Regulation W to determine whether the license of Motor City Credit Jewelry Co., Inc., should be suspended or revoked; public hearings having been held thereon; a Hearing Officer's report having been filed with the Board and oral argument had thereon; the Board having considered the entire record and arguments of counsel; and the Board having this day issued its findings and opinion,

IT IS ORDERED, that the license of the Motor City Credit Jewelry Co., Inc., issued pursuant to the Board's Regulation W, be and the same hereby is suspended for the period from February 24, 1946, to and including April 24, 1946, unless this order is sooner terminated by the Board.

By order of the Board of Governors of the Federal Reserve System this 18th day of February, 1946.

S. R. Carpenter,
Secretary.

IN RE: CONSUMERS HOME EQUIPMENT CO.

In the District Court of the United States for the Eastern District of Michigan, Southern Division

In re:

Consumers Home Equipment Co., a Corporation,

and

A. B. Chereton,

4801-19 Woodward Avenue, Detroit, Michigan

Cr. No. 28826

Oral Opinion

This cause having come on for hearing May 27, 1946, on the Rule to Show Cause issued pursuant to Petition filed in behalf of the United States of America was continued from day to day thereafter until May 31, 1946.

The Court having fully considered the evidence submitted and arguments urged on behalf of respective parties found both defendants to have violated the terms of an injunction issued July 19, 1945 in Civil Action No. 5097 in the following particulars.

More than thirty customer witnesses were sworn on behalf of the United States of America and the evidence stands undisputed except in one case, where an attempt was made to controvert the testimony of the witness for the Government. The overwhelming weight of such testimony conclusively establishes that the defendant Corporation and A. B. Chereton, individually, violated the terms of said injunction in making instalment sales, of so called listed articles without securing the one-third down payment required by Section 4 of Regulation W of the Board of Governors of the Federal Reserve System. Under the evidence in this case there can be no doubt that the persons who made the sales to the customer witnesses produced by the Government were in fact Agents of the defendant Corporation acting under a general policy of said company determined and controlled by the defendant A. B. Chereton. The forms used by said Agents in negotiating sales of merchandise bore the name of the defendant corporation and the undisputed evidence is that the samples they displayed were the property of said defendant Corporation. While it may have been true that detailed directions as to prospective customers were not given said Agents, it certainly can not be contradicted that they acted under the general direction of the defendant Corporation, pursuant to policies emanating from the defendant A. B. Chereton. It is admitted that the goods sold were the property of the defendant Corporation and the sales were made in behalf of said Corporation. It is admitted that the Michigan State Sales Tax was paid in every instance by the defendant Corporation. The form used by said Agents in making such sales was supplied by the defendant Corporation. It appears on its face to be an order form, and with the notations made thereon in each instance, reflects a direct instalment sale. It is stated thereon in each instance, without equivocation that the goods described were sold on a certain date to the purchaser named and the amount of the down payment received. It necessarily follows that the transaction is a time or instalment sale on the face of it and that it could not be anything else.

These salesmen did nothing whatever to enlighten the prospective purchasers as to the cash price of the goods sold with the single possible exception noted above. A substantial number of instalment sales were made by defendants of "listed articles" selling for more than $10.00 either without any down payment whatsoever or with a down payment substantially smaller than that required by Section 4 of Regulation W, directly in violation of the terms of said injunction.

Something has been said as to intent. Intent is not evidenced by what a man says, nor by his proclamations, but by what he does. Intent in a criminal action flows not from a written or spoken word, but from the logical and natural inferences that come from a man's actions. From all the facts presented from this witness stand, rather than from isolated declarations or written circulars of defendants, it is found that there was an intent to violate Regulation W and the terms of said injunction.

The defendants and each of them are accordingly found guilty of contempt of court.

The Court does not pass directly on the validity or the constitutionality of Regulation W. The Regulation is presumed to be valid, and that is all that is necessary in this proceeding.

ERNEST A. O'BRIEN,
United States District Judge.

Dated: June 14, 1946.

PEOPLES BANK v. ECCLES, et al.

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Civil Action 32200

PEOPLES BANK, Plaintiff,

v.

MARRINER S. ECCLES, et al., Defendants

This case is before the Court on defendants' motion for judgment on the pleadings and plaintiff's motion for summary judgment, both motions having been orally argued on April 29th, last.

The complaint shows that plaintiff is a banking corporation organized under the laws of the State of California; that defendants are the individual members of the Board of Governors of the Federal Reserve System; that in 1941 plaintiff applied for membership in the Federal Reserve System; that in May 1942 it was admitted to the Federal Reserve System membership upon the following condition, among others:

> "4. If, without prior written approval of the Board of Governors of the Federal Reserve System, Transamerica Corporation or any unit of the Transamerica group, including Bank of America National Trust and Savings Association, or any holding company affiliate or any subsidiary thereof, acquires, directly or indirectly, through the mechanism of loans for the purpose of acquiring bank stock, or in any other manner, any interest in such bank, other than such as may arise out of usual correspondent bank relationships, such bank, within 60 days after written notice from the Board of Governors of the Federal Reserve System, shall withdraw from membership in the Federal Reserve System."

The complaint further shows that, since plaintiff's admission to the Federal Reserve System membership, a number of its shares have been acquired by, and registered on its books in the name of Transamerica Corporation, and that these shares were acquired by Transamerica without plaintiff's knowledge or consent, and without the approval of the Board of Governors.

Upon the basis of these facts plaintiff seeks a declaratory judgment that Condition No. 4 is invalid and an injunction restraining defendants from taking any steps to enforce the Condition.

The defendants have filed a joint and several answer, in which they set forth two defenses. The first defense is that plaintiff, having enjoyed for almost four years the benefits of the Federal Reserve System membership, which resulted from its acceptance of Condition No. 4, is now estopped from challenging the validity of such Condition. The second defense is that the complaint otherwise fails to state facts upon which any relief can be granted.

It appears that plaintiff filed its formal application for admission to the Federal Reserve System under date of December 2, 1941; that on February 14, 1942, the Board of Governors rejected the application; that after a conference with the Board representatives in Washington, attended by its representatives, plaintiff by letter formally requested the Board of Governors to reconsider its decision, calling attention to the fact that a number of changes had taken place in its stock ownership; that, following the receipt of plaintiff's formal request for reconsideration, the Board of Governors, under date of March 11, 1942, notified plaintiff that its application would be reconsidered if the plaintiff could demonstrate inter alia:

* * *

> "2. That some change has been made in the arrangements for the use of the furniture and fixtures whereby the bank will be under no obligation to Capital Company or any other part of the Transamerica group.
>
> "3. That neither Transamerica Corporation nor any organization affiliated or closely identified with Transamerica Corporation or any other bank holding company group has any interest, direct or indirect, in the applicant bank, and that the bank is in no manner obligated to any such organization.
>
> "4. That all stockholders have stated in writing that they have no agreements or understandings, expressed or implied, with respect to the sale or transfer of the stock of the bank to any such organization, and that they do not intend to enter into any such agreements or understandings.
>
> "5. That the bank was organized as a *bona fide* local, independent institution, and is expected to be continued as such."

Plaintiff, as a means of securing the Board of Governors reconsideration of its application, voluntarily complied with all of these requirements. Under date of April 23, 1942, plaintiff sent to the Federal Reserve Bank of San Francisco (1) a statement relative to the refinancing of his shares of plaintiff's stock, (2) a declaration signed by all of plaintiff's directors that plaintiff was "organized as a *bona fide* local, independent institution," and that it was not obligated in any manner to Transamerica Corporation or to any of its affiliated companies, and (3) a signed statement of each stockholder that he had no arrangements respecting the sale or transfer of his shares to Transamerica or any of its affiliated companies and that he did not intend to enter into any such arrangements in the future.

Based upon the representations thus made to it by the bank and by all of its directors and stockholders, the Board of Governors, under date of May 6, 1942, notified the plaintiff that its application had been approved subject to a number of conditions, including Condition No. 4. Before Membership status could attach, however, plaintiff was required to evidence its acceptance of the conditions by formal resolution, a certified copy of which was to be filed with the Federal Reserve Bank of San Francisco.

The plaintiff contends that the Board was without power to impose this Condition No. 4 and therefore it is a nullity and should be cancelled. In my opinion, however, the plaintiff is not in a position to raise this question. It voluntarily agreed to it and on the basis of that agreement was admitted to membership in the Federal Reserve System, and for several years has received the benefits of membership in that System. It is true that there are many cases in which the Supreme Court has held that a state cannot impose conditions upon the doing of business by foreign corporations which are in violation of rights secured by the Federal Constitution, and in the case of *United States v. Chicago, M. St. P. & Pac. RR. Co.*, 282 U. S. 311, it held that a corporation was not estopped by a condition imposed by the Interstate Commerce Commission which was beyond the power of the Federal Government to impose. The case of *Hammer* v. *Dagenhart, et al.,* 247 U. S. 251, had not then been overruled and was relied on by the majority of the court in holding that neither the Interstate Commerce Commission nor Congress itself may take any action which lies outside the realm of interstate commerce. On the other hand, in cases such as *Pierce Oil Corporation* v. *Phoenix Refining Co.,* 259 U. S. 125; *St. Louis Malleable Casting Co.* v. *Prendergast Construction Co.,* 260 U. S. 469; and *Hurley* v. *Commission of Fisheries,* 257 U. S. 223, it has been held that where one accepts a privilege it consents to be bound by the conditions attached to it and it will not be heard to attack its legality. And in those cases, where a foreign corporation undertakes to do intrastate business within a state, as distinguished from business arising out of interstate commerce, the tendency has been to sustain the conditions imposed by a state, *United Fuel Gas Co.* v. *Railroad Commission,* 278 U. S. 300. So, too, in the case of *United States* v. *Chicago etc. R. R. Co., supra,* at p. 342, Mr. Justice Stone, dissenting, said:

> "Courts may determine whether the Commission lacks the power to impose a particular condition; but they may not strike from an order the condition upon which it was granted, and thus declare that it should stand although the condition is not complied with."

The condition here is clearly not one outside the domain of the Federal Government. Here the defendant Board, with discretionary power to admit or to refuse to admit the plaintiff to the privilege of membership in the Federal Reserve System, imposed a condition which was not merely acquiesced in but agreed to by the plaintiff. The claim that this agreement was brought about by duress of the plaintiff is, I think, without foundation. The agreement was voluntarily made, it was acted on and the plaintiff received the benefits which arose from its admission to membership in the System. I see nothing contrary to public policy in the condition agreed upon by the parties; indeed, it may well be that the condition imposed was within the Board's discretion if it was of the opinion that unsound banking policies were being pursued by Transamerica and that the character of management of this plaintiff bank, if Transamerica obtained control, would be detrimental to sound banking.

In any event, plaintiff cannot now attack the validity of the condition to which it voluntarily agreed and this motion of the defendants for summary judgment will be sustained.

Mr. Justice Holtzoff has held that the Court has jurisdiction of this suit and that a case is presented for a declaratory judgment. Peoples Bank vs. Eccles et al. 64 F. Supp. 811; and denied a motion to dismiss the complaint based on the ground that no justiciable controversy was presented; but the motions for summary judgment were not before him, they having been filed since his action on the motion to dismiss.

The defendant, John K. McKee, has moved to dismiss the complaint as to him, and apart from the motions for summary judgment it will be sustained. He is no longer a member of the Board; the action is not one for damages; and he no longer has any power to take any action in the premises.

(Signed) JENNINGS BAILEY,
Justice.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM v. AGNEW, et al.

SUPREME COURT OF THE UNITED STATES

No. 66. October Term, 1946

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, ET AL., Petitioners, v. JOHN AGNEW, F. O. FAYERWEATHER.	On writ of certiorari to the United States Court of Appeals for the District of Columbia.

[January 6, 1947]

MR. JUSTICE DOUGLAS delivered the opinion of the Court.

This case, here on certiorari to the Court of Appeals of the District of Columbia, presents important problems under § 30 and § 32 of the Banking Act of 1933, 48 Stat. 162, 193, 194, as amended, 49 Stat. 684, 709, 12 U.S.C. §§ 77, 78.

Section 30 of the Act provides that the Comptroller of the Currency, whenever he is of the opinion that a director or officer of a national bank has violated any law relating to the bank, shall warn him to discontinue the violation and, if the violation continues, may certify the facts to the Board of Governors of the Federal Reserve System. The Board is granted power to order that the director or officer be removed from office if it finds after notice and a reasonable opportunity to be heard that he has continued to violate the law.[1]

Section 32 of the Act prohibits, *inter alia,* any partner or employee of any partnership "primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities" from serving at the same time as an officer, director, or employee of a member bank.[2]

Pursuant to the procedure outlined in § 30 the Board ordered respondents removed from office as directors of the Paterson National Bank on the ground that they were employees of a firm "primarily engaged" in underwriting within the meaning of § 32. Respondents brought suit in the District Court for the District of Columbia to review the action of the Board or to enjoin its action. The District Court dismissed the complaint. The Court of Ap-

[1] Section 30 also provides:

"That such order and the findings of fact upon which it is based shall not be made public or disclosed to anyone except the director or officer involved and the directors of the bank involved, otherwise than in connection with proceedings for a violation of this section. Any such director or officer removed from office as herein provided who thereafter participates in any manner in the management of such bank shall be fined not more than $5,000, or imprisoned for not more than five years, or both, in the discretion of the court."

[2] Not material here is an exception "in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments." § 32.

peals reversed by a divided vote, holding that the Board exceeded its authority and that an injunction should issue. 153 F. 2d 785.

First. The Board contends that the removal orders of the Board made under § 30 are not subject to judicial review in the absence of a charge of fraud. It relies on the absence of an express right of review and on the nature of the Federal bank supervisory scheme of which § 30 is an integral part. Cf. *Adams* v. *Nagle,* 303 U. S. 532; *Switchmen's Union* v. *Mediation Board,* 320 U. S. 297; *Estep* v. *United States,* 327 U. S. 114. A majority of the Court, however, is of the opinion that the determination of the extent of the authority granted the Board to issue removal orders under § 30 of the Act is subject to judicial review and that the District Court is authorized to enjoin the removal if the Board transcends its bounds and acts beyond the limits of its statutory grant of authority. See *American School of Magnetic Healing* v. *McAnnulty,* 187 U. S. 94; *Philadelphia Co.* v. *Stimson,* 223 U. S. 605, 620; *Stark* v. *Wickard,* 321 U. S. 288, 309-310. That being decided, it seems plain that the claim to the office of director is such a personal one as warrants judicial consideration of the controversy. Cf. *Columbia Broadcasting System* v. *United States,* 316 U. S. 407; *Stark* v. *Wickard, supra,* p. 305.

Second. We come then to the merits. Respondents for a number of years have been directors of the Paterson National Bank, a national banking association and a member of the Federal Reserve System. Since 1941 they have been employed by Eastman, Dillon & Co., a partnership, which holds itself out as being "Underwriters, Distributors, Dealers and Brokers in Industrial, Railroad, Public Utility and Municipal Securities." During the fiscal year ending February 28, 1943, its gross income from the underwriting field [3] was 26 per cent of its gross income from all sources, while its gross income from the brokerage business was 42 per cent of its gross income from all sources. The same percentages for the fiscal year ending February 29, 1944, were 32 per cent and 47 per cent respectively; and for the period from March 1, 1944, to July 31, 1944, 39 per cent and 40 per cent respectively. Of the total number of transactions, as well as the total market value of the securities bought and sold by the firm as broker and as dealer for an indefinite period prior to September 20, 1943, about 15 per cent were in the underwriting field. The firm is active in the underwriting field, getting what business it can. In 1943 it ranked ninth among 94 leading investment bankers in the country with respect to its total participations in underwritings of bonds. For a time during 1943 it ranked first among the underwriters of the country. Apart from municipals and rails, its participation in underwritings during 1943 amounted to $14,657,000. Since October, 1941, respondents have done no business with the bank other than a strictly commission business with its customers. Nor has the firm done business with the bank since the fall of 1941.

These are the essential facts found by the Board.

On the basis of these facts the Board concluded that during the times relevant here Eastman, Dillon & Co. was "primarily engaged" in the underwriting business and that respondents, being employees of the firm, were disqualified from serving as directors of the bank.

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[3] The issue, flotation, underwriting, public sale or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds or other similar securities. The firm does not deal in United States Government bonds.

The Court of Appeals concluded that when applied to a single subject "primary" means first, chief, or principal; that a firm is not "primarily engaged" in underwriting when underwriting is not by any standard its chief or principal business. Since this firm's underwriting business did not by any quantitative test exceed 50 per cent of its total business, the court held that it was not "primarily engaged" in the underwriting business within the meaning of § 32 of the Act.

We take a different view. It is true that "primary" when applied to a single subject often means first, chief, or principal. But that is not always the case. For other accepted and common meanings of "primarily" are "essentially" (Oxford English Dictionary) or "fundamentally" (Webster's New International). An activity or function may be "primary" in that sense if it is substantial. If the underwriting business of a firm is substantial, the firm is engaged in the underwriting business in a primary way, though by any quantitative test underwriting may not be its chief or principal activity. On the facts in this record we would find it hard to say that underwriting was not one primary activity of the firm and brokerage another. If "primarily" is not used in the sense we suggest, then the firm is not "primarily engaged" in any line of business though it specializes in at least two and does a substantial amount of each. One might as well say that a professional man is not "primarily engaged" in his profession though he holds himself out to serve all comers and devotes substantial time to the practice but makes the greater share of his income on the stock market.

That is the construction given the Act by the Board. And it is, we think, not only permissible but also more consonant with the legislative purpose than the construction which the Court of Appeals adopted. Firms which do underwriting also engage in numerous other activities. The Board indeed observed that, if one was not "primarily engaged" in underwriting unless by some quantitative test it was his principal activity, then § 32 would apply to no one. Moreover, the evil at which the section was aimed is not one likely to emerge only when the firm with which a bank director is connected has an underwriting business which exceeds 50 per cent of its total business. Section 32 is directed to the probability or likelihood, based on the experience of the 1920's, that a bank director interested in the underwriting business may use his influence in the bank to involve it or its customers in securities which his underwriting house has in its portfolio or has committed itself to take. That likelihood or probability does not depend on whether the firm's underwriting business exceeds 50 per cent of its total business. It might, of course, exist whatever the proportion of the underwriting business. But Congress did not go the whole way; it drew the line where the need was thought to be the greatest. And the line between substantial and unsubstantial seems to us to be the one indicated by the words "primarily engaged."

There is other intrinsic evidence in the Banking Act of 1933 to support our conclusion. Section 20 of the Act outlaws affiliation [4] of a member bank with an organization "engaged principally" in the underwriting business. Section 19 provides control over bank holding companies. In order to vote its stock in controlled banks a bank holding company must show that it does not own, control, or have any interest in, and is not participating in the management or direction of any organization "engaged principally" in the underwriting

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[4] Defined in § 2(b) as direct or indirect ownership or control of more than 50 per cent of the voting stock of the organization in question, common ownership or control of 50 per cent or more of such voting stock, or a majority of common directors.

business. On the other hand, when Congress came to deal with the practice of underwriters taking checking deposits, it used language different from what it used either in §§ 19 and 20 on the one hand or in § 32 on the other. By § 21 it prohibited any organization "engaged" in the underwriting business "to engage at the same time to any extent whatever" in the business of receiving checking deposits. Thus within the same Act we find Congress dealing with several types of underwriting firms—those "engaged" in underwriting, those "primarily engaged" in underwriting, those "engaged principally" in underwriting. The inference seems reasonable to us that Congress by the words it chose marked a distinction which we should not obliterate by reading "primarily" to mean "principally."

The Court of Appeals laid some stress on the fact that Congress did not abolish the bank affiliate system but only those underwriter affiliates which were under the control of a member bank or which were under a common control with it.[5] Section 20. Since Congress made majority control critical under § 20, it was thought that under § 32 a firm was not "primarily engaged" in underwriting unless underwriting constituted a majority of its business. But the two situations are not comparable. In § 32 Congress was not dealing with the problem of control of underwriters by banks or *vice versa*. The prohibited nexus is in no way dependent on the presence or absence of control, nor would it be made so even if "primarily engaged" in underwriting were construed to mean principally engaged in that business. Section 32 was designed, as we have said, to remove tempting opportunities from the management and personnel of member banks. In no realistic sense do those opportunities disappear merely because the underwriting activities of the outside firm with which the officer, director, or employee is connected happens to fall below 51 per cent. Fifty-one per cent, which is relevant in terms of control, is irrelevant here. The fact then that Congress did not abolish underwriter affiliates serves as no guide in determining whether "primarily engaged" in underwriting as used in § 32 means principally engaged or substantially engaged in that business.

Section 32 is not concerned, of course, with any showing that the director in question has in fact been derelict in his duties or has in any way breached his fiduciary obligation to the bank. It is a preventive or prophylactic measure. The fact that respondents have been scrupulous in their relationships to the bank is therefore immaterial.

There is a suggestion that if "primarily" does not mean principally but merely connotes substantially, § 32 constitutes an unlawful delegation of authority to the Board. But we think it plain under our decisions that if substantiality is the statutory guide, the limits of administrative action are sufficiently definite or ascertainable so as to survive challenge on the grounds of unconstitutionality. *Sunshine Anthracite Coal Co.* v. *Adkins,* 310 U. S. 381, 397-400; *Opp Cotton Mills* v. *Administrator,* 312 U. S. 126, 142-146; *Yakus* v. *United States,* 321 U. S. 414, 424-428; *Bowles* v. *Willingham,* 321 U. S. 503, 512-516.

Reversed.

MR. JUSTICE RUTLEDGE, concurring.

If the question presented on the merits is reviewable judicially, in my opinion it is only for abuse of discretion by the Board of Governors. Not only

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[5] See note 4, *supra.*

because Congress has committed the system's operation to their hands, but also because the system itself is a highly specialized and technical one, requiring expert and coordinated management in all its phases, I think their judgment should be conclusive upon any matter which, like this one, is open to reasonable difference of opinion. Their specialized experience gives them an advantage judges cannot possibly have, not only in dealing with the problems raised for their discretion by the system's working, but also in ascertaining the meaning Congress had in mind in prescribing the standards by which they should administer it. Accordingly their judgment in such matters should be overturned only where there is no reasonable basis to sustain it or where they exercise it in a manner which clearly exceeds their statutory authority.

In this case I cannot say that either of these things has occurred. The Board made its determination after the required statutory hearing on notice. 48 Stat. 162, 193, 12 U.S.C. § 77. The consideration given was full and thorough, including detailed findings of fact and conclusions of law, followed by a carefully written opinion.[1] The Board concluded that "primarily" in § 32 does not mean "first in volume in comparison with any other business or businesses in which it [the employer] engages," [2] but means rather as "a matter of primary importance," like "primary" colors or planets or as the word is used in the phrase "the primary causes of a war." This view it found not only supported by accepted dictionary meaning but also in conformity with Congress' intent as established by the legislative history. In a further ground which we must take as reflecting its specialized experience, the Board stated: "To say that a securities firm ranking ninth among the leading investment bankers of the country with respect to its total participations in underwritings of bonds, and for a period ranking first, should be held to be beyond the scope of the statute is to say that Congress enacted a statute with the intention that it would apply to no one."

I cannot say that the Board's conclusion, in the light of those groundings, is wanting either for warrant in law or for reasonable basis in fact. The considerations stated in the Court's opinion and in the dissenting opinion filed in the Court of Appeals, 153 F. 2d 785, 795, as well as by the Board itself, confirm this view. I think it important, not only for this case but for like ones which may arise in the future, perhaps as a result of this decision, to make clear that my concurrence in the Court's disposition of the case is based upon the ground I have set forth, and not upon independent judicial determination of the question presented on the merits. I do not think this Court or any other should undertake to reconsider, as an independent judgment, the Board's determination upon that question or similar ones likely to arise, if the Board was not without basis in fact for its judgment and does not clearly transgress a statutory mandate. More than has been shown here would be required to cause me to believe that the Board has exceeded its power in either respect.

MR. JUSTICE FRANKFURTER joins in this opinion.

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[1] The opinion is not reported, pursuant to the statutory prohibition, 12 U.S.C. § 77, which is effective except in connection with proceedings for enforcement.

[2] Under such a view, in cases involving different facts the question would become judicial whether "primarily" means more than half of (1) the gross volume of business done; (2) the gross profit; (3) the net profit, where some but not all these factors as relating to one phase of the total activities carried on amounts to more than half the gross. Such discriminations would seem to be clearly within the Board's power to determine in the first instance. If so, it is difficult to see why that power does not include the determination made here.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[December 31, 1946]

	Term Expires
MARRINER S. ECCLES, of Utah, *Chairman*	January 31, 1958
RONALD RANSOM, of Georgia, *Vice Chairman*	January 31, 1956
M. S. SZYMCZAK, of Illinois	January 31, 1948
ERNEST G. DRAPER, of Connecticut	January 31, 1950
R. M. EVANS, of Virginia	January 31, 1954
JAMES K. VARDAMAN, JR., of Missouri	January 31, 1960

ELLIOTT THURSTON, *Assistant to the Chairman*
CHESTER MORRILL, *Special Adviser to the Board of Governors*
LEO H. PAULGER, *Special Adviser to the Board of Governors*
S. R. CARPENTER, *Secretary*
  BRAY HAMMOND, *Assistant Secretary*
  MERRITT SHERMAN, *Assistant Secretary*
GEORGE B. VEST, *General Counsel*
  J. LEONARD TOWNSEND, *Assistant General Counsel*
WOODLIEF THOMAS, *Director, Division of Research and Statistics*
  RALPH A. YOUNG, *Assistant Director, Division of Research and Statistics*
  CHANDLER MORSE, *Assistant Director, Division of Research and Statistics*
  J. BURKE KNAPP, *Assistant Director, Division of Research and Statistics*
ROBERT F. LEONARD, *Director, Division of Examinations*
  EDWIN R. MILLARD, *Assistant Director, Division of Examinations*
  GEORGE S. SLOAN, *Assistant Director, Division of Examinations*
EDWARD L. SMEAD, *Director, Division of Bank Operations*
  J. R. VAN FOSSEN, *Assistant Director, Division of Bank Operations*
  J. E. HORBETT, *Assistant Director, Division of Bank Operations*
CARL E. PARRY, *Director, Division of Security Loans*
  BONNAR BROWN, *Assistant Director, Division of Security Loans*
FRED A. NELSON, *Director, Division of Personnel Administration*
LISTON P. BETHEA, *Director, Division of Administrative Services*
  GARDNER L. BOOTHE, II, *Assistant Director, Division of Administrative Services*

FEDERAL OPEN MARKET COMMITTEE

[December 31, 1946]

MEMBERS

MARRINER S. ECCLES, *Chairman* (Board of Governors)
ALLAN SPROUL, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
ERNEST G. DRAPER (Board of Governors)
R. M. EVANS (Board of Governors)
HUGH LEACH (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
W. S. MCLARIN, JR. (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
J. N. PEYTON (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
RONALD RANSOM (Board of Governors)
M. S. SZYMCZAK (Board of Governors)
JAMES K. VARDAMAN, JR. (Board of Governors)
C. S. YOUNG (Elected by Federal Reserve Banks of Cleveland and Chicago)

EXECUTIVE COMMITTEE

MARRINER S. ECCLES, *Chairman*
ALLAN SPROUL, *Vice Chairman*
ERNEST G. DRAPER
R. M. EVANS
HUGH LEACH

AGENT

FEDERAL RESERVE BANK OF NEW YORK
R. G. ROUSE, *Manager of System Open Market Account.*

OFFICERS

CHESTER MORRILL, *Secretary*
S. R. CARPENTER, *Assistant Secretary*
GEORGE B. VEST, *General Counsel*
J. LEONARD TOWNSEND, *Assistant General Counsel*
WOODLIEF THOMAS, *Economist*
E. A. KINCAID, *Associate Economist*
JOHN K. LANGUM, *Associate Economist*
EARLE L. RAUBER, *Associate Economist*
O. P. WHEELER, *Associate Economist*
JOHN H. WILLIAMS, *Associate Economist*

FEDERAL ADVISORY COUNCIL

[December 31, 1946]

MEMBERS

District No. 1—CHARLES E. SPENCER, JR., President, The First National Bank of Boston, Boston, Massachusetts.

District No. 2—JOHN C. TRAPHAGEN, President, Bank of New York, New York, New York.

District No. 3—DAVID E. WILLIAMS, President, Corn Exchange National Bank and Trust Company, Philadelphia, Pennsylvania.

District No. 4—JOHN H. MCCOY, President, The City National Bank and Trust Company, Columbus, Ohio.

District No. 5—A. L. M. WIGGINS, President, The Bank of Hartsville, Hartsville, South Carolina.

District No. 6—J. T. BROWN, President, Capital National Bank, Jackson, Mississippi.

District No. 7—EDWARD E. BROWN, Chairman, The First National Bank of Chicago, Chicago, Illinois.

District No. 8—JAMES H. PENICK, President, W. B. Worthen Company, Bankers, Little Rock, Arkansas.

District No. 9—JULIAN B. BAIRD, President, The First National Bank of St. Paul, St. Paul, Minnesota.

District No. 10—A. E. BRADSHAW, President, National Bank of Tulsa, Tulsa, Oklahoma.

District No. 11—ED H. WINTON, President, Continental National Bank of Fort Worth, Fort Worth, Texas.

District No. 12—RENO ODLIN, President, Puget Sound National Bank of Tacoma, Tacoma, Washington.

EXECUTIVE COMMITTEE

EDWARD E. BROWN, *ex officio*
JOHN C. TRAPHAGEN
A. L. M. WIGGINS
CHARLES E. SPENCER, JR., *ex officio*
DAVID E. WILLIAMS
JOHN H. MCCOY

OFFICERS

President, EDWARD E. BROWN
Vice President, CHARLES E. SPENCER, JR.
Secretary, WALTER LICHTENSTEIN
Acting Secretary, HERBERT V. PROCHNOW

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS

[December 31, 1946]

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Albert M. Creighton	Henry I. Harriman
New York	Beardsley Ruml	William I. Myers
Philadelphia	Thomas B. McCabe	Warren F. Whittier
Cleveland	George C. Brainard	Reynold E. Klages
Richmond	Robert Lassiter	W. G. Wysor
Atlanta	Frank H. Neely	J. F. Porter
Chicago	Simeon E. Leland	Vacancy
St. Louis	Russell L. Dearmont	Douglas W. Brooks
Minneapolis	Roger B. Shepard	W. D. Cochran
Kansas City	Robert B. Caldwell	Robert L. Mehornay
Dallas	J. R. Parten	R. B. Anderson
San Francisco	Henry F. Grady	Harry R. Wellman

Conference of Chairmen

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen which meets from time to time to consider matters of common interest, and to consult with and advise the Board of Governors.

Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, served as Chairman of the Conference and as Chairman of the Executive Committee until December 6. The other members of the Executive Committee were Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, and Mr. Grady, Chairman of the Federal Reserve Bank of San Francisco. At the meeting of the Conference on December 6, Mr. Grady, Chairman of the Federal Reserve Bank of San Francisco, was elected Chairman of the Conference and Chairman of the Executive Committee. The other members of the Executive Committee were Mr. Parten, Chairman of the Federal Reserve Bank of Dallas, and Mr. Shepard, Chairman of the Federal Reserve Bank of Minneapolis.

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of the member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either five or seven directors, of whom a majority, including the managing director if the by-laws provide for a managing director as the chief officer of the branch, are appointed by the Board of Directors of the parent Federal Reserve Bank and the others are appointed by the Board of Governors of the Federal Reserve System.

District No. 1—Boston

		Term Expires Dec. 31
Class A:		
Allen W. Holmes	President, The Middletown National Bank, Middletown, Conn.	1946
Allan Forbes	President, State Street Trust Company, Boston, Mass.	1947
Leon A. Dodge	President, The First National Bank of Damariscotta, Damariscotta, Me.	1948
Class B:		
Roy L. Patrick	President and Director, Rock of Ages Corporation, Burlington, Vt.	1946
Philip R. Allen	Director, Bird & Son, inc., East Walpole, Mass.	1947
Frederick S. Blackall, Jr.	President and Treasurer, Taft-Peirce Manufacturing Company, Woonsocket, R. I.	1948
Class C:		
Henry I. Harriman	Director and Vice Chairman, New England Power Association, Boston, Mass.	1946
Albert M. Creighton	Chairman of the Board	1947
Donald K. David	Dean, Graduate School of Business Administration, Harvard University, Cambridge, Mass.	1948

District No. 2—New York

Class A:		
S. Sloan Colt	President, Bankers Trust Company, New York, N. Y.	1946
Harry H. Pond	Chairman of the Board, The Plainfield Trust Company, Plainfield, N. J.	1947
Howard A. Wilson	President, Citizens National Bank and Trust Company of Fulton, Fulton, N. Y.	1948
Class B:		
Donaldson Brown	Vice Chairman of the Board, General Motors Corporation, New York, N. Y.	1946
Charles E. Adams	Chairman, Air Reduction Company, Inc., New York, N. Y.	1947
Carle C. Conway	Chairman of the Board and President, Continental Can Company, Inc., New York, N. Y.	1948
Class C:		
Robert D. Calkins	Dean, School of Business, Columbia University, New York, N. Y.	1946
Beardsley Ruml	Chairman, R. H. Macy & Company, Inc., New York, N. Y.	1947
William I. Myers	Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1948

Buffalo Branch

Appointed by Federal Reserve Bank:		
Insley B. Smith	Managing Director, Buffalo, N. Y.	1946
Elmer B. Milliman	President, Central Trust Company Rochester, N. Y., Rochester, N. Y.	1946
Charles H. Norton	President, Erie County Trust Company, East Aurora, N. Y.	1947
Charles H. Diefendorf	President, The Marine Trust Company of Buffalo, Buffalo, N. Y.	1948
Appointed by Board of Governors:		
Thomas Robins, Jr.	President, Hewitt-Robins, Inc., Buffalo, N. Y.	1946
Marion B. Folsom	Treasurer, Eastman Kodak Company, Rochester, N. Y.	1947
Carl G. Wooster	Farmer, Union Hill, N. Y.	1948

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS—Cont.

District No. 3—Philadelphia

		Term Expires Dec. 31
Class A:		
John B. Henning	President, Wyoming National Bank, Tunkhannock, Pa.	1946
Howard A. Loeb	Chairman, Tradesmens National Bank & Trust Company, Philadelphia, Pa.	1947
George W. Reily	President, Harrisburg National Bank, Harrisburg, Pa.	1948
Class B:		
James T. Buckley	Chairman, Executive Committee, Philco Corporation, Philadelphia, Pa.	1946
Charles A. Higgins	Chairman and President, Hercules Powder Company, Inc., Wilmington, Del.	1947
Albert G. Frost	President, The Esterbrook Pen Company, Camden, N. J.	1948
Class C:		
Warren F. Whittier	Farmer, dairyman and cattle breeder, Chester Springs, Pa.	1946
C. Canby Balderston	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1947
Thomas B. McCabe	President, Scott Paper Company, Chester, Pa.	1948

District No. 4—Cleveland

		Term Expires Dec. 31
Class A:		
H. B. McDowell	President, The McDowell National Bank of Sharon, Sharon, Pa.	1946
F. F. Brooks	Chairman of the Board, Peoples First National Bank & Trust Company, Pittsburgh, Pa.	1947
Ben R. Conner	President, The First National Bank of Ada, Ada, Ohio	1948
Class B:		
Ross Pier Wright	Secretary-Treasurer, Reed Manufacturing Company, Erie, Pa.	1946
George D. Crabbs	Industrialist, Cincinnati, Ohio	1947
Thomas E. Millsop	President, Weirton Steel Company, Weirton, W. Va.	1948
Class C:		
George C. Brainard	President and General Manager, Addressograph-Multigraph Corporation, Cleveland, Ohio	1946
A. Z. Baker	President and General Manager, The Cleveland Union Stock Yards Company, Cleveland, Ohio	1947
Reynold E. Klages	President, Columbus Auto Parts Company, Columbus, Ohio	1948

Cincinnati Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
Waldo E. Pierson	President, The First National Bank of Cincinnati, Cincinnati, Ohio	1946
Walter H. J. Behm	President, Winters National Bank and Trust Company of Dayton, Dayton, Ohio	1947
Neil H. McElroy	Vice President, The Procter and Gamble Company, Cincinnati, Ohio	1948
Spears Turley	Vice President and Trust Officer, State Bank & Trust Company of Richmond, Richmond, Ky.	1948
Appointed by Board of Governors:		
S. Headley Shouse	Tobacco and livestock raiser, Lexington, Ky.	1946
Paul G. Blazer	Chairman of the Board, Ashland Oil and Refining Company, Ashland, Ky.	1947
Francis H. Bird	Professor of Commerce, College of Engineering and Commerce, University of Cincinnati, Cincinnati, Ohio	1948

Pittsburgh Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
R. E. Bowie	President, Security Trust Company, Wheeling, W. Va.	1946
T. C. Swarts	Executive Vice President, Woodlawn Trust Company, Aliquippa, Pa.	1947
Archie J. McFarland	President, Wheeling Steel Corporation, Wheeling, W. Va.	1948
Laurence S. Bell	Executive Vice President, The Union National Bank of Pittsburgh, Pittsburgh, Pa.	1948
Appointed by Board of Governors:		
Howard W. Jordan	President, Pennsylvania Rubber Company, Jeannette, Pa.	1946
J. M. Koch	Vice President and Director, Quaker State Oil Refining Corporation, Oil City, Pa.	1947
A. H. Burchfield, Jr.	Vice President, Joseph Horne Company, Pittsburgh, Pa.	1948

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS—Cont.

District No. 5—Richmond

		Term Expires Dec. 31
Class A:		
James C. Braswell	Chairman of Board, Planters National Bank & Trust Company, Rocky Mount, N. C.	1946
John A. Sydenstricker	Cashier, First National Bank in Marlinton, Marlinton, W. Va.	1947
James D. Harrison	President, First National Bank of Baltimore, Baltimore, Md.	1948
Class B:		
H. L. Rust, Jr.	President, H. L. Rust Company, Washington, D. C.	1946
Edwin Malloy	President and Treasurer, Cheraw Cotton Mills, Inc., Cheraw, S. C.	1947
Charles C. Reed	President, Williams & Reed, Inc., Richmond, Va.	1948
Class C:		
Robert Lassiter	Chairman of Board, Mooresville Cotton Mills, Mooresville, N. C.	1946
Charles P. McCormick	President, McCormick & Company, Inc., Baltimore, Md.	1947
W. G. Wysor	General Manager, Southern States Cooperative, Inc., Richmond, Va.	1948

Baltimore Branch

Appointed by Federal Reserve Bank:		
W. R. Milford	Managing Director, Baltimore, Md.	1946
George M. Moore	Vice President, The Union National Bank, Clarksburg, W. Va.	1946
W. Bladen Lowndes	President, The Fidelity Trust Company, Baltimore, Md.	1947
Holmes D. Baker	President, The Citizens National Bank of Frederick, Frederick, Md.	1948
Appointed by Board of Governors:		
W. Frank Roberts	President, Standard Gas Equipment Corporation, Baltimore, Md.	1946
James M. Shriver	President, B. F. Shriver Company, Westminster, Md.	1947
James E. Hooper	Vice President, William E. Hooper and Sons Company, Baltimore, Md.	1948

Charlotte Branch

Appointed by Federal Reserve Bank:		
W. T. Clements	Managing Director, Charlotte, N. C.	1946
Allen H. Sims	Executive Vice President and Trust Officer, Citizens National Bank in Gastonia, Gastonia, N. C.	1946
N. S. Calhoun	President, Security National Bank, Greensboro, N. C.	1947
Angus E. Bird	Chairman of Board, The Citizens & Southern National Bank of S. C., Charleston, S. C.	1948
Appointed by Board of Governors:		
George M. Wright	President, Republic Cotton Mills, Great Falls, S. C.	1946
Charles L. Creech	Chairman of Board, B. F. Huntley Furniture Company, Winston-Salem, N. C.	1947
R. Flake Shaw	Executive Secretary, North Carolina Farm Bureau Federation, Greensboro, N. C.	1948

District No. 6—Atlanta

Class A:		
W. D. Cook	President, First National Bank in Meridian, Meridian, Miss.	1946
George J. White	President, The First National Bank of Mount Dora, Mount Dora, Fla.	1947
R. C. Williams	President, The First National Bank of Atlanta, Atlanta, Ga.	1948
Class B:		
Donald Comer	Chairman, Avondale Mills, Birmingham, Ala.	1946
Ernest T. George	President, Seaboard Refining Company, Ltd., New Orleans, La.	1947
J. A. McCrary	Vice President and Treasurer, J. B. McCrary Company, Inc., Atlanta, Ga.	1948
Class C:		
Rufus C. Harris	President, The Tulane University of Louisiana, New Orleans, La.	1946
Frank H. Neely	Executive Vice President and Secretary, Rich's, Inc., Atlanta, Ga.	1947
J. F. Porter	President and General Manager, Tennessee Farm Bureau Federation, Columbia, Tenn.	1948

Birmingham Branch

Appointed by Federal Reserve Bank:		
P. L. T. Beavers	Managing Director, Birmingham, Ala.	1946
James G. Hall	Executive Vice President, The First National Bank of Birmingham, Birmingham, Ala.	1946
Gordon D. Palmer	President, The First National Bank of Tuskaloosa, Tuscaloosa, Ala.	1947
M. B. Spragins	President, The First National Bank of Huntsville, Huntsville, Ala.	1948

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

		Term Expires Dec. 31
DIRECTORS—Cont.		
Appointed by Board of Governors:		
Edward L. Norton	Chairman, Voice of Alabama, Inc., Radio Station WAPI, Birmingham, Ala.	1946
John C. Curry	Administrative Assistant to Algernon Blair, Contractor, Montgomery, Ala.	1947
Wm. Howard Smith	President, McQueen-Smith Farms, Prattville, Ala.	1948

Jacksonville Branch

Appointed by Federal Reserve Bank:		
Geo. S. Vardeman, Jr.	Managing Director, Jacksonville, Fla.	1946
J. C. McCrocklin	President, First National Bank in Tarpon Springs, Tarpon Springs, Fla.	1946
J. L. Dart	President, The Florida National Bank of Jacksonville, Jacksonville, Fla.	1947
J. S. Fairchild	Cashier, The First National Bank of Winter Garden, Winter Garden, Fla.	1948
Appointed by Board of Governors:		
Frank D. Jackson	President and General Manager, Jackson Grain Company, Tampa, Fla.	1946
Walter J. Matherly	Dean, College of Business Administration, University of Florida, Gainesville, Fla.	1947
Charles S. Lee	Planter and cattle raiser, Oviedo, Fla.	1948

Nashville Branch

Appointed by Federal Reserve Bank:		
Joel B. Fort, Jr.	Managing Director, Nashville, Tenn.	1946
L. R. Driver	President, The First National Bank in Bristol, Bristol, Tenn.	1946
B. L. Sadler	President, First National Bank in Harriman, Harriman, Tenn.	1947
Edward Potter, Jr.	President, Commerce Union Bank, Nashville, Tenn.	1948
Appointed by Board of Governors:		
W. Bratten Evans	President, Tennessee Enamel Manufacturing Company, Nashville, Tenn.	1946
Clyde B. Austin	President, Austin Company, Inc., Greeneville, Tenn.	1947
H. C. Meacham	Farmer, Franklin, Tenn.	1948

New Orleans Branch

Appointed by Federal Reserve Bank:		
E. P. Paris	Managing Director, New Orleans, La.	1946
John Legier	President, National American Bank of New Orleans, New Orleans, La.	1946
J. F. McRae	President, The Merchants National Bank of Mobile, Mobile, Ala.	1947
T. G. Nicholson	President, The First National Bank of Jefferson Parish, Gretna, La.	1948
Appointed by Board of Governors:		
D. P. Cameron	President, The Merchants Company, Hattiesburg, Miss.	1946
H. G. Chalkley, Jr.	President, Sweet Lake Land and Oil Company, Inc., Lake Charles, La.	1947
John J. Shaffer, Jr.	Planter, Ellendale, La.	1948

District No. 7—Chicago

Class A:		
Horace S. French	President, The Manufacturers National Bank of Chicago, Chicago, Ill.	1946
Vivian W. Johnson	President, First National Bank in Cedar Falls, Cedar Falls, Iowa	1947
Walter J. Cummings	Chairman, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.	1948
Class B:		
Clarence W. Avery	President and Chairman, The Murray Corporation of America, Detroit, Mich.	1946
Nicholas H. Noyes	Vice President in Charge of Finances, Eli Lilly and Company, Indianapolis, Ind.	1947
William C. Heath	President, A. O. Smith Corporation, Milwaukee, Wis.	1948
Class C:		
Paul G. Hoffman	President, The Studebaker Corporation, South Bend, Ind.	1946
Simeon E. Leland	Dean, College of Liberal Arts, Northwestern University, Evanston, Ill.	1947
Vacancy		1948

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS—Cont.

Detroit Branch

Appointed by Federal Reserve Bank:

		Term Expires Dec. 31
Rudolph E. Reichert	President, Ann Arbor Bank, Ann Arbor, Mich.	1946
Charles A. Kanter	President, The Manufacturers National Bank of Detroit, Detroit, Mich.	1946
Charles T. Fisher, Jr.	President, The National Bank of Detroit, Detroit, Mich.	1947

Appointed by Board of Governors:

Ernest Gilbert	Farmer, Waldron, Mich.	1946
Prentiss M. Brown	Chairman, The Detroit Edison Company, Detroit, Mich.	1947

District No. 8—St. Louis

Class A:

G. R. Corlis	President, Anna National Bank, Anna, Ill.	1946
Tom K. Smith	President, Boatmen's National Bank, St. Louis, Mo.	1947
Phil E. Chappell	President, Planters Bank and Trust Company, Hopkinsville, Ky.	1948

Class B:

K. August Engel	President, Arkansas Democrat Company, Little Rock, Ark.	1946
Louis Ruthenburg	President and General Manager, Servel, Inc., Evansville, Ind.	1947
A. Wessel Shapleigh	President, Shapleigh Hardware Company, St. Louis, Mo.	1948

Class C:

Russell L. Dearmont	Chief Counsel for Trustee, Missouri-Pacific Lines, St. Louis, Mo.	1946
Douglas W. Brooks	President, The Newburger Company, Memphis, Tenn.	1947
J. P. Redman	Farmer, Cairo, Ill.	1948

Little Rock Branch

Appointed by Federal Reserve Bank:

Emmet Morris	Chairman, W. B. Worthen Company, Bankers, Little Rock, Ark.	1946
Geo. S. Neal	President, Bank of Russellville, Russellville, Ark.	1947
Chas. A. Gordon	Vice President, Simmons National Bank, Pine Bluff, Ark.	1948
Lloyd Spencer	President, First National Bank, Hope, Ark.	1948

Appointed by Board of Governors:

I. N. Barnett	Manager, Barnett Bros. Mercantile Company, Batesville, Ark.	1946
S. M. Brooks	President, Brooks Advertising Agency, Little Rock, Ark.	1947
Cecil C. Cox	Farmer, Stuttgart, Ark.	1948

Louisville Branch

Appointed by Federal Reserve Bank:

A. C. Voris	President, Citizens National Bank, Bedford, Ind.	1946
Wallace M. Davis	Vice President, Citizens Fidelity Bank and Trust Company, Louisville, Ky.	1947
Lee L. Persise	President, The State Bank of Salem, Salem, Ind.	1948
H. Lee Cooper	President, Ohio Valley National Bank, Henderson, Ky.	1948

Appointed by Board of Governors:

Rosco Stone	Farmer, Hickman, Ky.	1946
E. J. O'Brien, Jr.	President, E. J. O'Brien & Company, Louisville, Ky.	1947
Geo. O. Boomer	President, The Girdler Corporation, Louisville, Ky.	1948

Memphis Branch

Appointed by Federal Reserve Bank:

W. W. Campbell	President, National Bank of Eastern Arkansas, Forrest City, Ark.	1946
W. P. Kretschmar	President, Commercial National Bank, Greenville, Miss.	1947
Norfleet Turner	President, First National Bank, Memphis, Tenn.	1948
H. W. Hicks	President, First National Bank, Jackson, Tenn.	1948

Appointed by Board of Governors:

Rufus C. Branch	Cotton planter and ginner, Pecan Point, Ark.	1946
J. Holmes Sherard	President, Jno. H. Sherard & Son, Sherard, Miss.	1947
Leslie M. Stratton, Jr.	Executive Vice President, Stratton-Warren Hardware Company, Memphis, Tenn.	1948

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS—Cont.

District No. 9—Minneapolis

		Term Expires Dec. 31
Class A:		
Clarence E. Hill	Chairman of the Board, Northwestern National Bank, Minneapolis, Minn.	1946
J. R. McKnight	President, Pierre National Bank, Pierre, S. D.	1947
F. D. McCartney	Vice President, First National Bank, Oakes, N. D.	1948
Class B:		
Homer P. Clark	Chairman of the Board, West Publishing Company, St. Paul, Minn.	1946
J. E. O'Connell	President, Eddy's Bakeries, Helena, Mont.	1947
Ray C. Lange	President, Chippewa Canning Company, Chippewa Falls, Wis.	1948
Class C:		
W. D. Cochran	Cochran Freight Lines, Iron Mountain, Mich.	1946
Roger B. Shepard	Chairman of the Board	1947
Paul E. Miller	Director, Agricultural Extension Division, University of Minnesota, Minneapolis, Minn.	1948

Helena Branch

Appointed by Federal Reserve Bank:		
R. E. Towle	Managing Director, Helena, Mont.	1946
P. B. McClintock	Cashier, Farmers National Bank, Chinook, Mont.	1946
B. M. Harris	President, Yellowstone Bank, Columbus, Mont.	1947
Appointed by Board of Governors:		
R. B. Richardson	President, Western Life Insurance Company, Helena, Mont.	1946
Malcolm E. Holtz	Agriculturist, Great Falls, Mont.	1947

District No. 10—Kansas City

Class A:		
M. A. Limbocker	Chairman of the Board and President, Citizens National Bank, Emporia, Kan.	1946
W. L. Bunten	Executive Vice President, Goodland State Bank, Goodland, Kan.	1947
T. A. Dines	Chairman of the Board and President, United States National Bank, Denver, Colo.	1948
Class B:		
J. M. Bernardin	Lumberman, Kansas City, Mo.	1946
L. C. Hutson	President and General Manager, Chickasha Cotton Oil Company, Chickasha, Okla.	1947
Willard D. Hosford	Vice President and General Manager, John Deere Plow Company, Omaha, Neb.	1948
Class C:		
Robert B. Caldwell	Caldwell, Downing, Noble and Garrity, Kansas City, Mo.	1946
Robert L. Mehornay	President, North-Mehornay Furniture Company, Kansas City, Mo.	1947
Lyle L. Hague	Farmer and stockman, Cherokee, Okla.	1948

Denver Branch

Appointed by Federal Reserve Bank:		
W. C. Kurtz	President and General Manager, Independent Lumber Company, Grand Junction, Colo.	1946
Harold Kountze	President, Colorado National Bank, Denver, Colo.	1946
P. K. Alexander	Vice President, The First National Bank of Denver, Denver, Colo.	1947
Appointed by Board of Governors:		
M. E. Noonen	Sheep rancher, Kremmling, Colo.	1946
W. A. Alexander	Vice President and Assistant General Manager, The Denver Tramway Corporation, Denver, Colo.	1947

Oklahoma City Branch

Appointed by Federal Reserve Bank:		
D. M. Tyler	First Vice President, Dewey Portland Cement Company, Dewey, Okla.	1946
Hugh L. Harrell	Vice President, First National Bank and Trust Company, Oklahoma City, Okla.	1946
S. A. Bryant	President, The Farmers National Bank, Cushing, Okla.	1947
Appointed by Board of Governors:		
Neil R. Johnson	Rancher and farmer, Norman, Okla.	1946
Lloyd Noble	President, Noble Drilling Corporation, Tulsa, Okla.	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS—Cont.

Omaha Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
George A. Bible	President, First National Bank, Rawlins, Wyo.	1946
George W. Holmes	President, First National Bank, Lincoln, Neb.	1947
Walter S. Byrne	General Manager, Metropolitan Utilities District of Omaha, Omaha, Neb.	1947
Appointed by Board of Governors:		
Fred S. Wallace	Farmer, Gibbon, Neb.	1946
L. E. Hurtz	President, Fairmont Creamery Company, Omaha, Neb.	1947

District No. 11—Dallas

Class A:		
Frank Turner	President, First National Bank in Decatur, Decatur, Texas	1946
J. E. Woods	Chairman of Board, Temple National Bank, Temple, Texas	1947
Walter P. Napier	President, Alamo National Bank, San Antonio, Texas	1948
Class B:		
Geo. A. Hill, Jr.	President, Houston Oil Company of Texas, Houston, Texas	1946
W. F. Beall	President and General Manager, 3 Beall Brothers 3, Department Stores, Jacksonville, Texas	1947
J. R. Milam	President, The Cooper Company, Inc., Waco, Texas	1948
Class C:		
J. R. Parten	President, Woodley Petroleum Company, Houston, Texas	1946
G. A. Frierson	G. A. Frierson & Son, Planters & Merchants, Shreveport, La.	1947
R. B. Anderson	General Manager, W. T. Waggoner Estate, Vernon, Texas	1948

El Paso Branch

Appointed by Federal Reserve Bank:		
R. W. McAfee	President, State National Bank, El Paso, Texas	1946
J. E. Moore	President, First National Bank, Roswell, N. M.	1947
W. S. Warnock	Vice President, El Paso National Bank, El Paso, Texas	1948
W. Henry Wooldridge	President, Lone Star Motor Company, El Paso, Texas	1948
Appointed by Board of Governors:		
Jack B. Martin	President, Arizona Ice and Cold Storage Company, Tucson, Ariz.	1946
Hal Bogle	Owner, Pecos Valley Alfalfa Mill Company, Dexter, N. M.	1947
Dorrance D. Roderick	President, Newspaper Printing Corporation, El Paso, Texas.	1948

Houston Branch

Appointed by Federal Reserve Bank:		
W. N. Greer	President, Citizens State Bank, Houston, Texas	1946
John W. McCullough	President, Hutchings-Sealy National Bank, Galveston, Texas.	1947
James A. Elkins	President, City National Bank, Houston, Texas	1948
B. C. Roberts	President, Wharton Bank & Trust Company, Wharton, Texas	1948
Appointed by Board of Governors:		
George A. Slaughter	Farming, Wharton, Texas	1946
J. E. Wheat	Attorney-at-Law, Woodville, Texas	1947
Ross Stewart	General Manager, C. Jim Stewart and Stevenson, Houston, Texas	1948

San Antonio Branch

Appointed by Federal Reserve Bank:		
J. A. Walker	Executive Vice President, Del Rio National Bank, Del Rio, Texas	1946
T. C. Frost	Vice President, Frost National Bank, San Antonio, Texas	1947
R. D. Barclay	President, National Bank of Commerce, San Antonio, Texas	1948
C. L. Skaggs	President, The First National Bank of Weslaco, Weslaco, Texas	1948
Appointed by Board of Governors:		
Holman Cartwright	Livestock and farming, Twin Oaks Ranch, Dinero, Texas	1946
J. M. Odom	General Contractor, Austin, Texas	1947
Henry P. Drought	Attorney, San Antonio, Texas	1948

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

DIRECTORS—Cont.

District No. 12—San Francisco

		Term Expires Dec. 31
Class A:		
C. K. McIntosh	Chairman of the Board, The Bank of California, N. A., San Francisco, Calif.	1946
Chas. H. Stewart	President, Portland Trust and Savings Bank, Portland, Ore.	1947
Carroll F. Byrd	Chairman of the Board and Executive Vice President, The First National Bank of Willows, Willows, Calif.	1948
Class B:		
Walter S. Johnson	President, American Box Corporation of California, San Francisco, Calif.	1946
St. George Holden	St. George Holden Realty Company, San Francisco, Calif.	1947
Reese H. Taylor	President, Union Oil Company of California, Los Angeles, Calif.	1948
Class C:		
Brayton Wilbur	President, Wilbur-Ellis Company, San Francisco, Calif.	1946
Henry F. Grady	President, American President Lines, Ltd., San Francisco, Calif.	1947
Harry R. Wellman	Director, Giannini Foundation of Agricultural Economics, University of California, Berkeley, Calif.	1948

Los Angeles Branch

Appointed by Federal Reserve Bank:		
W. N. Ambrose	Managing Director, Los Angeles, Calif.	1946
Herbert D. Ivey	President, Citizens National Trust & Savings Bank of Los Angeles, Los Angeles, Calif.	1946
F. E. Snedecor	President, The First National Bank of Corona, Corona, Calif.	1947
Appointed by Board of Governors:		
Fred G. Sherrill	Vice President, J. G. Boswell Company, Los Angeles, Calif.	1946
Y. Frank Freeman	Vice President, Paramount Pictures, Inc., Hollywood, Calif.	1947

Portland Branch

Appointed by Federal Reserve Bank:		
D. L. Davis	Managing Director, Portland, Ore.	1946
William C. Christensen	President, The Commercial National Bank of Hillsboro, Hillsboro, Ore.	1946
E. B. MacNaughton	President, The First National Bank of Portland, Portland, Ore.	1947
Appointed by Board of Governors:		
William H. Steen	Livestock and farming, Milton, Ore.	1946
Aaron M. Frank	President, Meier and Frank Company, Inc., Portland, Ore.	1947

alt Lake City Branch

Appointed by Federal Reserve Bank:		
W. L. Partner	Managing Director, Salt Lake City, Utah	1946
Orval W. Adams	Executive Vice President, The Utah State National Bank of Salt Lake City, Salt Lake City, Utah	1946
D. F. Richards	President, American National Bank, Idaho Falls, Idaho	1947
Appointed by Board of Governors:		
R. C. Rich	Livestock and farming, Burley, Idaho	1946
Henry Aldous Dixon	President, Weber College, Ogden, Utah	1947

Seattle Branch

Appointed by Federal Reserve Bank:		
C. R. Shaw	Managing Director, Seattle, Wash.	1946
Fred L. Stanton	President, The Washington Trust Company, Spokane, Wash.	1946
Lawrence M. Arnold	Chairman of the Board, Seattle-First National Bank, Seattle, Wash.	1947
Appointed by Board of Governors:		
John M. McGregor	Manager, McGregor Land & Livestock Company, Hooper, Wash.	1946
John T. Tenneson	President, Superior Packing Company, Seattle, Wash.	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

SENIOR OFFICERS OF FEDERAL RESERVE BANKS

Federal Reserve Bank of—	President First Vice President	Vice Presidents	
Boston	Laurence F. Whittemore William Willett	E. G. Hult J. C. Hunter[1]	Carl B. Pitman O. A. Schlaikjer
New York	Allan Sproul L. R. Rounds	E. O. Douglas J. W. Jones H. H. Kimball L. W. Knoke Walter S. Logan A. Phelan	H. V. Roelse Robert G. Rouse John H. Williams V. Willis R. B. Wiltse
Philadelphia	Alfred H. Williams W. J. Davis	E. C. Hill Wm. G. McCreedy	C. A. McIllhenny Philip M. Poorman[1] C. A. Sienkiewicz
Cleveland	Ray M. Gidney Wm. H. Fletcher	W. D. Fulton J. W. Kossin A. H. Laning[2]	B. J. Lazar Martin Morrison W. F. Taylor Donald S. Thompson
Richmond	Hugh Leach J. S. Walden, Jr.	Claude L. Guthrie[2] E. A. Kincaid R. W. Mercer	C. B. Strathy Edw. A. Wayne
Atlanta	W. S. McLarin, Jr. L. M. Clark	V. K. Bowman	H. F. Conniff S. P. Schuessler
Chicago	C. S. Young Charles B. Dunn	Allan M. Black[1] Neil B. Dawes J. H. Dillard E. C. Harris	John K. Langum O. J. Netterstrom A. L. Olson Alfred T. Sihler
St. Louis	Chester C. Davis F. Guy Hitt	O. M. Attebery A. F. Bailey Wm. E. Peterson	William B. Pollard C. A. Schacht William H. Stead C. M. Stewart
Minneapolis	J. N. Peyton O. S. Powell	H. G. McConnell A. W. Mills[1] Otis R. Preston	E. W. Swanson Sigurd Ueland Harry I. Ziemer
Kansas City	H. G. Leedy Henry O. Koppang	O. P. Cordill L. H. Earhart Delos C. Johns	John Phillips, Jr. G. H. Pipkin D. W. Woolley[2]
Dallas	R. R. Gilbert W. D. Gentry	E. B. Austin[2] R. B. Coleman H. R. DeMoss	W. E. Eagle W. H. Holloway Watrous H. Irons L. G. Pondrom
San Francisco	C. E. Earhart	J. M. Leisner[2] H. N. Mangels	H. F. Slade W. F. Volberg

[1] Cashier. [2] Also Cashier.

NOTE: See p. 131 for note on Conference of Presidents.

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1946—Cont.

OFFICERS IN CHARGE OF BRANCHES OF FEDERAL RESERVE BANKS

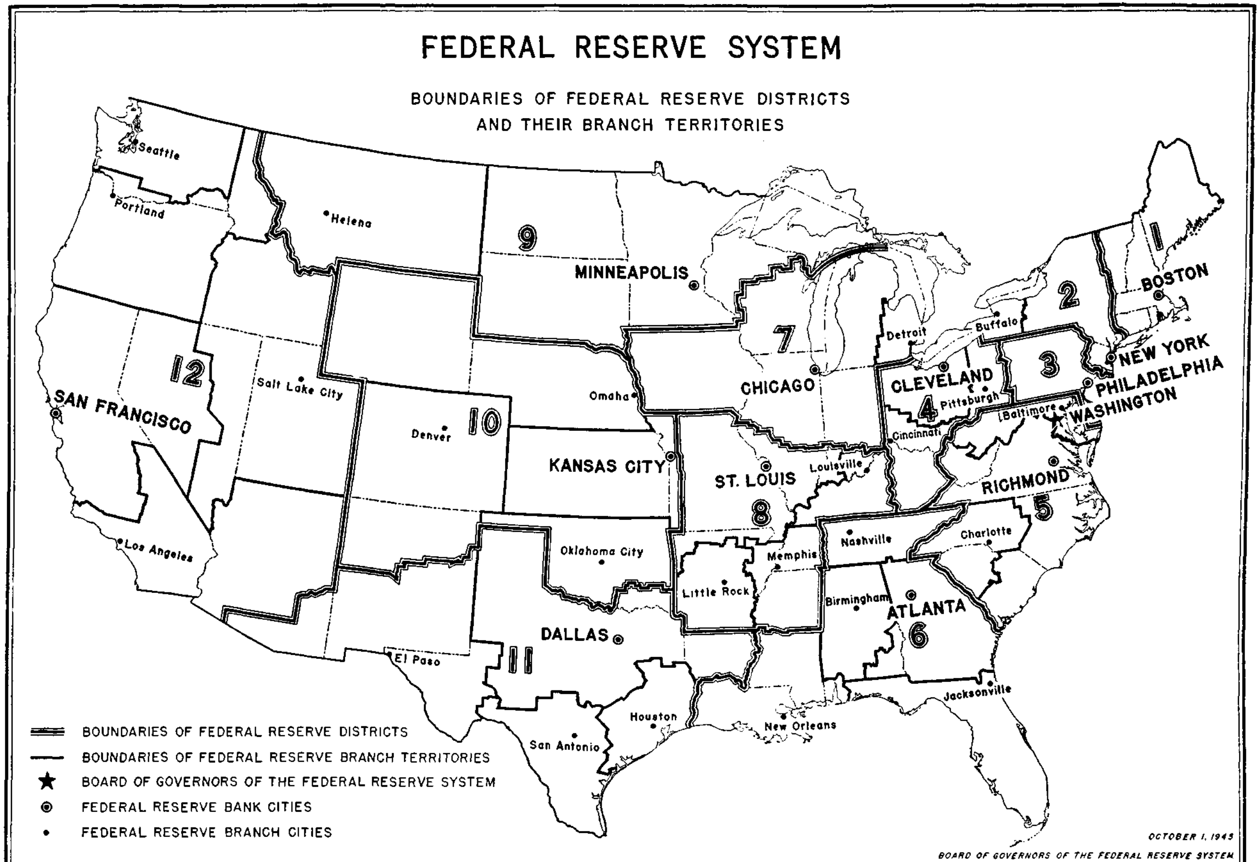
Federal Reserve Bank of—	Branch	Chief Officer
New York	Buffalo	I. B. Smith[3]
Cleveland	Cincinnati	B. J. Lazar[4]
	Pittsburgh	J. W. Kossin[4]
Richmond	Baltimore	W. R. Milford[3]
	Charlotte	W. T. Clements[3]
Atlanta	Birmingham	P. L. T. Beavers[3]
	Jacksonville	Geo. S. Vardeman, Jr.[3]
	Nashville	Joel B. Fort, Jr.[3]
	New Orleans	E. P. Paris[3]
Chicago	Detroit	E. C. Harris[4]
St. Louis	Little Rock	A. F. Bailey[4]
	Louisville	C. A. Schacht[4]
	Memphis	William B. Pollard[4]
Minneapolis	Helena	R. E. Towle[3]
Kansas City	Denver	G. H. Pipkin[4]
	OklahomaCity	O. P. Cordill[4]
	Omaha	L. H. Earhart[4]
Dallas	El Paso	W. E. Eagle[4]
	Houston	L. G. Pondrom[4]
	San Antonio	W. H. Holloway[4]
San Francisco	Los Angeles	W. N. Ambrose[3]
	Portland	D. L. Davis[3]
	Salt Lake City	W. L. Partner[3]
	Seattle	C. R. Shaw[3]

[3] Managing Director. [4] Vice President.

Conference of Presidents

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents which meets from time to time to consider matters of common interest, and to consult with and to advise the Board of Governors.

During the year Mr. Sproul, President of the Federal Reserve Bank of New York, served as Chairman of the Conference and Mr. Davis, President of the Federal Reserve Bank of St. Louis, served as Vice Chairman. In June Mr. Treiber, Assistant Vice President and Secretary of the Federal Reserve Bank of New York, succeeded Mr. Sienkiewicz, Vice President of the Federal Reserve Bank of Philadelphia, as Secretary.



NOTE: There has been no change in district or branch territory boundaries since the publication of the description in the *Annual Report* of the Board of Governors for 1942, pp. 138-45.

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