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

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In 1950, the year covered by this Thirty-seventh Annual Report of the Board of Governors of the Federal Reserve System, inflationary pressures again became a challenge to credit and monetary policy. The general economic situation became especially inflationary following the outbreak of hostilities in Korea and the inauguration of a far-reaching program of national defense in the United States. In consequence, the Government instituted a comprehensive program to restrain inflation, with primary reliance upon fiscal and monetary measures. In accordance with this program, Federal Reserve policy was directed toward restricting, so far as possible, the availability of bank reserves on which multiple credit expansion could be based.

At the time of the international crisis businesses and consumers, with high and rising incomes and ample credit, were already buying a record volume of goods and services. After June civilian buying expanded sharply. It was stimulated by anticipation of shortages and supported by a continued rise in incomes, extensive use of credit, and considerable drawing on accumulated liquid assets. Prices advanced rapidly. Federal Government expenditures for defense, which had declined slightly in the early months of the year, rose at an accelerating but moderate rate as the defense effort gained momentum. Nevertheless, for the year as a whole, Federal cash receipts and expenditures remained in approximate balance.

A sharp decline in the United States export surplus followed the achievement of extensive economic reconstruction abroad. At the same time continuation of United States Government aid to foreign countries and a sizable flow of private capital abroad resulted in net payments of dollars to foreigners throughout the year. Ensuing purchases of gold and Government securities by foreign monetary authorities exerted a moderating influence on inflationary pressures in this country.

Buying by businesses and consumers increased more rapidly than the available supply of goods and became an increasing threat

to economic stability even before production resources were diverted to the defense program in substantial volume. Under these circumstances restraint of purchasing power became an essential part of the defense program.

On the fiscal side, it was early and generally recognized that additional taxes were necessary in order to restrain inflationary forces and to finance the defense effort on a pay-as-you-go basis. Congress enacted a broad increase in taxes on personal and business incomes in September and a corporate excess profits tax around the turn of the year.

In recognition of the need for limiting the expansion of purchasing power based on credit, the Federal Reserve System on August 18 announced its intention to restrain the expansion of bank credit. On that day the following statement was issued jointly by the Board of Governors and the Federal Open Market Committee:

Within the past six weeks loans and holdings of corporate and municipal securities have expanded by 1.5 billion dollars at banks in leading cities alone. Such an expansion under present conditions is clearly excessive. In view of this development and to support the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board of Governors of the Federal Reserve System and the Federal Open Market Committee are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.

The Board is also prepared to request the Congress for additional authority should that prove necessary.

Effective restraint of inflation must depend ultimately on the willingness of the American people to tax themselves adequately to meet the Government's needs on a pay-as-you-go basis. Taxation alone, however, will not do the job. Parallel and prompt restraint in the area of monetary and credit policy is essential.

In accordance with this declared policy, the Federal Reserve tightened credit requirements progressively. General measures to restrain over-all expansion of bank credit were inaugurated in mid-August when the Federal Reserve Banks increased rediscount rates. Thereafter the Federal Open Market Committee conducted its open market operations so as to make it less attractive for banks and other lending institutions to sell short-term United States Government securities for the purpose of expanding loans and making other investments. The effect of these measures was diminished by Federal Reserve purchases of securities, made principally for the purpose of assuring the successful refunding of maturing or called

securities and to some extent to maintain a stable market for long-term bonds. On balance, Federal Reserve purchases of securities from banks, insurance companies, and others during the latter part of the year substantially exceeded sales from the System portfolio. The expansionary effect of these net purchases on bank reserves was offset in part only by a gold outflow and a seasonal increase in the demand for currency. At the close of the year, the Board of Governors increased the reserve requirements of all member banks effective early in 1951.

In the first few weeks of 1951 the Federal Reserve continued to purchase substantial amounts of long-term Treasury bonds in support of their prices. In March, the Treasury and the Federal Reserve reached an accord with respect to the debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt. Concurrently the Treasury announced that a long-term  $2\frac{3}{4}$  per cent nonmarketable bond, with special redemption features, could be obtained in exchange for the outstanding restricted bonds of June and December 1967-72. Following these actions, prices of long-term bonds declined somewhat and Federal Reserve purchases of bonds were substantially reduced.

Beginning in September 1950, the Board of Governors applied selective controls to limit the expansion of credit in particular areas. Immediately after the Defense Production Act of September 1950 had authorized controls over consumer credit and real estate credit, the Board reissued Regulation W covering consumer instalment credit for the purchase of major durable goods. This regulation was tightened in mid-October. In this same month the Board also issued Regulation X placing restrictions on loans not guaranteed or insured by Federal agencies for the construction of one- and two-family dwellings, and the Federal Housing Administration and the Veterans Administration acted concurrently to establish comparable terms for guaranteed and insured loans. Early in 1951 the scope of Regulation X was extended to cover three- and four-family dwellings, multi-unit residences, and nonresidential construction. In January 1951 the Board also increased margin requirements for purchasing or carrying listed securities.

In August 1950 the Board of Governors joined with other Fed-

eral and State supervisory agencies in urging the cooperation of banks and other lenders in restricting their lending and investing activities. In November and December the Board took additional steps to encourage voluntary limitation of bank lending, and in March 1951 a definite program of voluntary credit restraint under the Defense Production Act was inaugurated.

In the months ahead, heavy defense expenditures will be a source of inflationary pressures. As production to meet defense requirements increases further, the supply of goods and services civilians may buy will not keep pace with civilian incomes. In fact, a significant curtailment in the supply of some consumer goods is in prospect as expansion of the military program gains momentum. Although wage and price controls were initiated in late January 1951, extension and vigorous enforcement of fiscal and monetary measures will be needed to curb private spending and absorb excessive purchasing power. As is indicated in the policy statement of August 18, the Board is prepared to request the Congress to grant any additional authority that may be needed to complement existing powers.

#### ECONOMIC SETTING OF FEDERAL RESERVE ACTION

Increased demands in many sectors of the economy, supported by easy availability of credit, were reflected in expanding production during the first half of 1950 and moderately rising prices during the second quarter. Incomes already augmented by increased production were swollen by payment of National Service Life Insurance dividends to veterans.

In the second quarter, boom conditions were particularly evident in domestic markets for houses, construction materials, and consumer durable goods, as well as for imported primary commodities. Plant expansion was again increasing, stimulated by the growing belief that quick recovery from the moderate recession was the forerunner of a long period of active business.

Prices in world markets were generally much higher in the spring of 1950 than in the autumn of 1949, when many foreign currencies were sharply devalued in relation to the dollar. The strength in world prices reflected expansion in world demand which more than offset expanded output in many countries. While increasing production abroad and competitive relationships more favorable to

foreign producers were reducing the export surplus of the United States, the net effect of international political and economic developments was to stimulate further price advances in world markets and to increase demand, output, and prices in the United States.

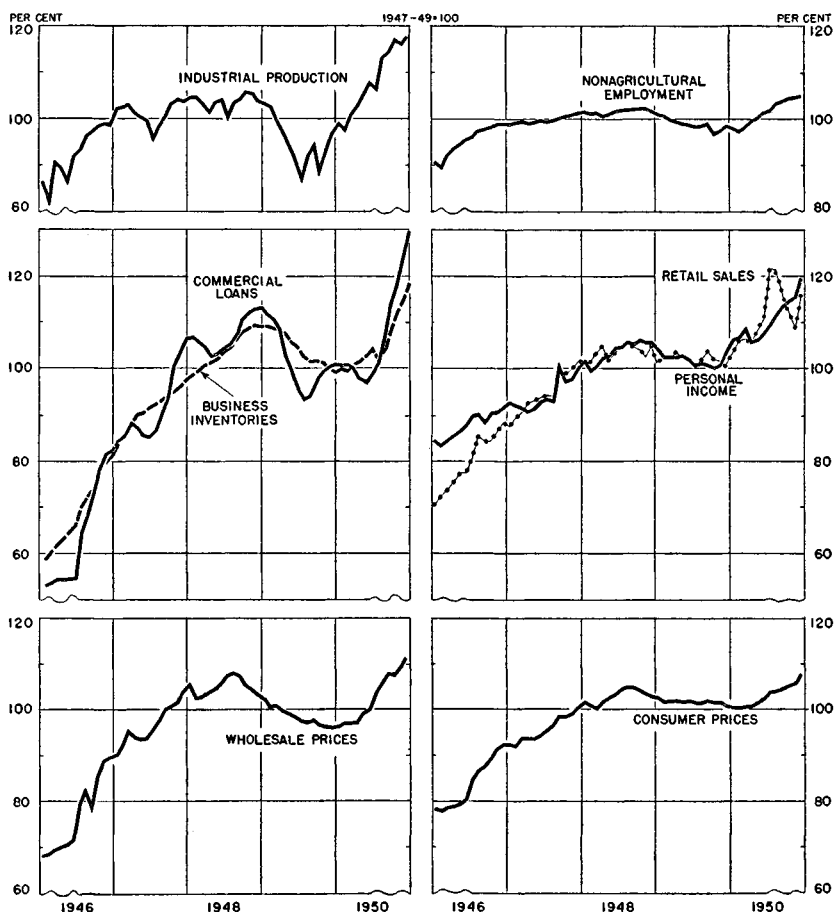
By midyear a number of industries were operating close to capacity and employment was at high levels. Supplies of many commodities appeared inadequate to meet increasing demands, and prices generally were advancing. The sharpest increases were in prices of basic materials, but there were also considerable advances in markets for other vital commodities, especially foods. Profits were rising rapidly.

Heavier buying on the part of consumers and businesses, particularly in this country and to some extent abroad, quickly followed the outbreak of hostilities in Korea on June 25 and the requests for much larger appropriations for national defense and military aid to other countries. Prices rose rapidly, production and employment continued to expand, and the labor market became tighter. New labor contracts providing for higher wage rates and other adjustments in wages were negotiated in many industries.

Thus during the summer, before there was any marked increase in defense expenditures or diversion of resources to defense production, prospects for price increases and shortages were creating immediate heavy demands for goods and manpower. Consumers were using their current incomes freely and in many cases drawing on their liquid assets or using credit to finance purchases, particularly of houses, automobiles, and other durable goods. Businesses were borrowing heavily to finance increased production and, where conditions permitted, to increase and hold inventories—all at advanced prices. Many industries were initiating or expediting plant expansion programs in expectation of increased demand for products and future shortages of materials and labor.

During early autumn demand pressures eased temporarily, reflecting more favorable military developments, earlier satisfaction of many urgent civilian demands, increased output of goods, increased imports of many materials—and also the several fiscal and credit measures taken to restrict demand. For a short period prices showed little additional rise. During this phase, however, incomes rose further and both credit and monetary expansion continued at an exceptionally rapid rate.

## SELECTED BUSINESS INDEXES



NOTE.—Seasonally adjusted series except for prices and commercial loans. Inventory and loan data as of end of month. Loans include commercial, industrial, and agricultural loans, open market paper, and acceptances reported by member banks in leading cities. Department of Commerce inventory, income, and retail sales series and Bureau of Labor Statistics price and employment series converted to 1947-49 base by Federal Reserve; employment series seasonally adjusted by Federal Reserve.

After Chinese forces entered the Korean conflict in the winter, a substantially larger defense program appeared more imminent. There was a resurgence of heavy demand pressures, while business activity continued at earlier record levels. Prices, wages, and bank credit advanced at accelerated rates. At the end of 1950, as shown by the chart, the physical volume of industrial production (output

at factories and mines) was nearly 20 per cent larger than at the beginning of the year and 10 per cent larger than at midyear. Non-agricultural employment was at a record high of 46.6 million, 2.9 million more than a year earlier. The greater part of the increase was in manufacturing industries, where hours of work were also increased. Unemployment of 2.2 million in December was 1.3 million less than a year earlier.

Inflationary pressures were reflected in an advance of 45 per cent in the prices of basic commodities during the year. Wholesale commodity prices rose 17 per cent and consumer prices 7 per cent, with about three-fourths of the advances occurring after June. Capital values also advanced, particularly in the second half of the year. Prices of farm land and urban real estate reached new highs by the end of the year. Prices of common stocks rose substantially to the highest levels since 1930.

The value of all goods and services produced (gross national product) was at an annual rate of 300 billion dollars in the last quarter of 1950, about one-fifth greater than a year earlier. Most of the increase occurred after June. In the last quarter of the year personal income after taxes, despite the increase in tax rates, was about 13 per cent higher than in the last quarter of 1949.

Developments after the adverse turn on the Korean front heightened prospects for the curtailment in output of numerous consumer durable goods and diminished further the possibility that supplies of other commodities would be sufficient to meet total demands at prevailing prices. Additional cuts were ordered in the use of materials for civilian goods. The President called for greater expedition of the defense program and to this end on December 16 proclaimed a state of national emergency. The Congress promptly approved large supplementary appropriations for defense and military aid and enacted an excess profits tax. Early in 1951 a preliminary program of direct controls for prices and wages was instituted by the Economic Stabilization Agency.

#### FEDERAL RESERVE CREDIT POLICY AND ACTION

Spending by businesses and consumers in 1950, especially after June, was supported by an exceptional expansion of credit by banks and other lenders. Commercial and mutual savings banks increased their credit to private borrowers and State and local gov-

ernments by more than 13 billion dollars in 1950, with about three-fourths of the expansion in the last half. Deposits and currency held by businesses and individuals showed little change from January to June, when there is usually a seasonal decline, and then increased by almost 7 billion dollars in the last half of the year.

Federal Reserve credit policies in the first part of the year were directed toward modifying prevailing conditions of extreme monetary ease. When pressures for credit and monetary expansion became greatly intensified after June, the Federal Reserve authorities on August 18 issued the general statement of policy given on page 2. Action during the remainder of the year was directed toward implementing this policy while at the same time aiding Treasury refunding operations.

**Modification of credit ease in first half of 1950.** The year began in a financial climate of decided credit ease resulting from a series of policy actions taken some months earlier to promote recovery from the 1949 downturn. During the first few months of 1950, as the economy advanced to higher levels of production and employment with prices increasing in some sectors, the System moved ahead with a program formulated in November 1949 for modifying prevailing easy credit conditions. In January the Federal Reserve sold United States Government securities in order to absorb reserves which were supplied to banks largely by a seasonal return of currency from circulation. Over the following five months open market purchases and sales of Government securities were conducted so as to remove some of the stimulus to credit growth and to hold member bank reserves at about the level reached at the end of January.

In the long-term market investment funds were readily available at very low rates by early 1950. Insurance companies, pension funds, and personal trusts, in particular, had substantial amounts available, reflecting both extensive current savings and a backlog of funds previously accumulated. Under the impact of abundant investment funds, capital values were increasing and prices of long-term bonds were subject to considerable upward pressure.

In order that sustained expansion in production and employment should not be jeopardized by overextension financed through long-term credit and by excessive price increases, the Federal Reserve early in 1950 began to sell freely from its portfolio of long-term

Government bonds, so as to absorb some of the long-term funds seeking investment. This was continued over the first eight months of the year and in that period the Federal Reserve sold 2.5 billion dollars of long-term bonds that were not eligible for purchase by commercial banks.

Federal Reserve action to modify the conditions of monetary and credit ease was reflected in moderate changes in interest rates. Rates on short-term Government securities, which had begun to rise in late 1949, moved irregularly higher for several months. By the end of April 1950 they had advanced about  $\frac{1}{8}$  of 1 per cent and reached levels close to those prevailing in the spring of 1949. The decline in yields on long-term securities which had continued since mid-1949 was arrested early in 1950 and in part reversed in the following several months. Over the first half of 1950 yields on long-term Government bonds not eligible for bank investment increased somewhat more than  $\frac{1}{8}$  of 1 per cent. Yields on corporate bonds remained stable for several months early in the year and thereafter tended to rise slightly. Yields on State and local government issues remained steady throughout the first half of the year.

**Increase in discount rates.** Following the policy statement of August 18 the discount rates of all the Federal Reserve Banks were increased from  $1\frac{1}{2}$  to  $1\frac{3}{4}$  per cent. This action served to emphasize the intention to resist extending Federal Reserve Bank credit to support an inflationary expansion of bank credit and deposits. To the extent that member banks borrowed from the Reserve Banks, the action also increased the cost of additional reserves.

**Open market operations in second half of 1950.** Beginning in mid-August the Federal Open Market Committee directed its open market operations with a view to restraining bank credit expansion by limiting the availability of bank reserves. It minimized Federal Reserve purchases of short-term United States Government securities in order to discourage the sale of Government securities by banks and other investors, and to encourage investors to hold or to buy securities.

From the end of June to mid-August banks had reduced their portfolios of Government securities by about 1.5 billion dollars in order to obtain funds for expanding loans and purchasing municipal and corporate securities. About 1 billion dollars of short-term Government securities had been purchased by the Federal Reserve during

this period, but the effect of these purchases on member bank reserves had been offset by sales to nonbank investors of about 1 billion dollars of long-term Government bonds. By mid-August, however, the market demand for long-term bonds was tapering off and the Federal Reserve had less leeway for selling such securities in order to offset its purchases of other securities.

Following the Federal Reserve policy announcement of August 18, the Open Market Committee purchased 8 billion dollars of Government securities maturing on September 15 and October 1 to assure the success of Treasury refunding operations, which called for the exchange of maturing issues into 1¼ per cent 13-month notes. At the same time, in order to offset additions to the System portfolio and to bank reserves resulting from these support purchases, the System made sales of other securities from its portfolio at somewhat higher yields. On balance, Federal Reserve purchases exceeded sales in this period and bank reserves increased.

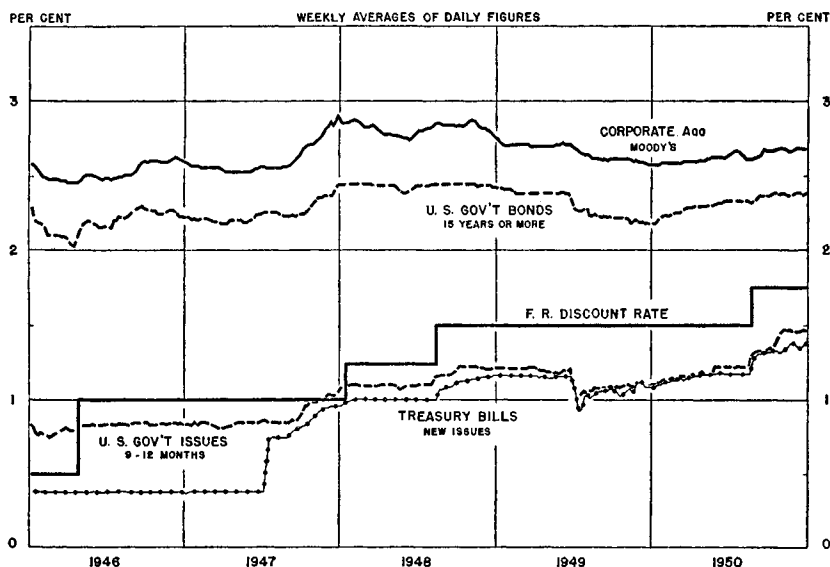
Beginning in September the System also made moderate purchases of restricted bonds, for the purpose of maintaining orderly market conditions when insurance companies and other institutions sold such bonds in order to acquire mortgages and other assets returning higher yields. During October and November there was little change on balance in System holdings of Government securities. In December there were relatively large additions to the Federal Reserve portfolio and a considerable increase in bank reserves. These reflected some liquidation of nonbank holdings of Government securities, in part to meet large cash needs over the year-end, and some sales of issues maturing on December 15 and January 1 by holders who did not take the five-year notes offered in exchange.

The expansionary effect of net open market purchases during the second half of the year was partly offset by a net outflow of gold, which exerted a drain on member bank reserves and a restrictive influence on the money market generally.

**Rise in interest rates.** Growing credit demands tended to stiffen short-term money rates further during the last half of 1950. Federal Reserve purchases of short-term Government securities in support of Treasury refunding operations tended on balance to moderate the rise in rates, notwithstanding offsetting sales of other securities by the System. By the end of the year short-term rates were at levels higher than at any time since the early thirties.

Rates on three-month Treasury bills, which were about 1.17 per cent at mid-1950, rose to 1.38 per cent by the end of November and stayed in that area over the remainder of the year. Yields on one-year Treasury notes rose from about 1.23 per cent in June to 1.48 per cent in December and there was a corresponding advance in yields on Treasury securities maturing within three to five years.

### MONEY RATES



NOTE.—Rate for Treasury bills is average discount on new issue during week. Federal Reserve discount rate is for the Federal Reserve Bank of New York.

Interest rates on short-term credit to private borrowers also increased. Rates on commercial paper of four- to six-month maturities rose from  $1\frac{3}{8}$  to  $1\frac{3}{4}$  per cent and the average interest rate charged by banks in large cities for short-term business loans was 2.84 per cent in December as compared with 2.68 per cent in June.

In the long-term market, yields on Government securities and high-grade corporate issues advanced slightly over the second half of 1950. Yields on high-grade municipal bonds, on the other hand, declined sharply, reflecting increased demand for tax-exempt securities in view of the higher income taxes.

**Bank reserve positions.** Member bank reserve positions were under some pressure during most of 1950 as a result of rapid loan expansion and the loss of reserves through a sustained gold outflow.

Banks acquired the reserves they needed by selling a substantial volume of Government securities. As has been pointed out, some of these were purchased by the Federal Reserve, and member bank reserves were increased by more than 1 billion dollars over the year.

### FACTORS AFFECTING MEMBER BANK RESERVES

[In billions of dollars]

| Factor                                 | Year<br>1950                        | Second<br>half | First<br>half    |
|----------------------------------------|-------------------------------------|----------------|------------------|
|                                        | (Sign indicates effect on reserves) |                |                  |
| Gold stock.....                        | -1.7                                | -1.5           | -0.2             |
| Currency in circulation.....           | -0.1                                | -0.6           | +0.4             |
| Treasury balance at Reserve Banks..... | +0.2                                | +0.3           | -0.1             |
| Federal Reserve Bank credit.....       | +2.7                                | +3.5           | -0.8             |
| U. S. Government securities.....       | +1.9                                | +2.4           | -0.6             |
| Other Federal Reserve credit.....      | +0.8                                | +1.1           | -0.2             |
| Member bank reserve balances.....      | +1.1                                | +1.7           | -0.6             |
| Required reserves.....                 | +1.0                                | +1.0           | ( <sup>1</sup> ) |
| Excess reserves.....                   | +0.1                                | +0.7           | -0.6             |

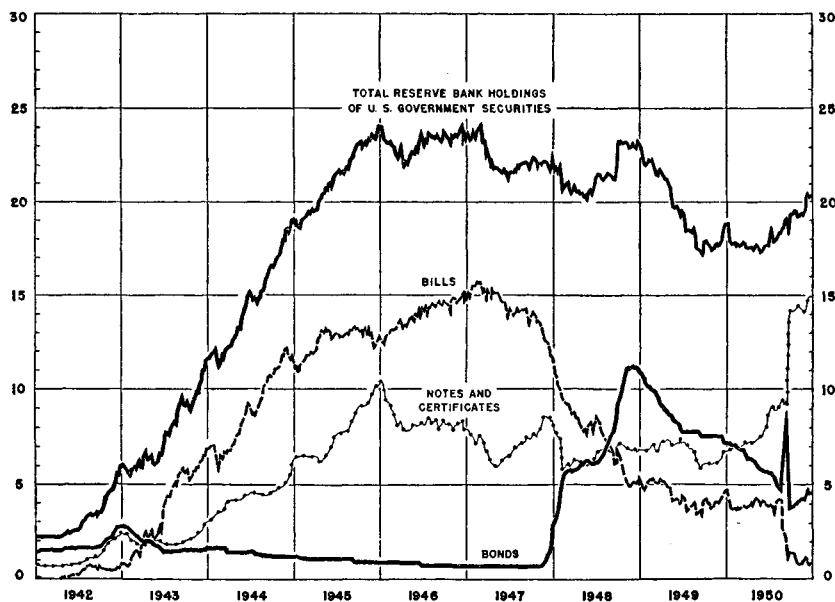
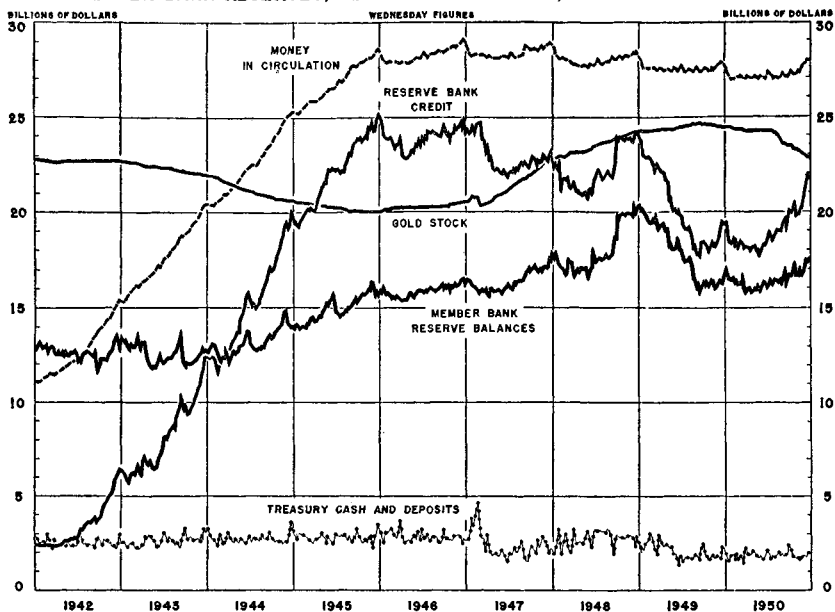
<sup>1</sup> Less than 50 million dollars.

NOTE.—Details may not add to totals because of rounding.

Over the first six months of 1950 member bank reserves declined by about 0.6 billion dollars, reflecting pressures generated by continued sales of long-term Government securities from the Federal Reserve portfolio. Other factors affecting reserves were about in balance, as is shown in the table. Over the second half of the year there were drains on reserves from a large outflow of gold and an increase in currency circulation. Such factors taken alone would have accounted for a decrease of reserves of 2.1 billion dollars. Purchases of Government securities by the Federal Reserve Banks and changes in other factors supplying reserves were more than offsetting, however, and total member bank reserves increased by 1.7 billion dollars. The expansion in total reserves exceeded the amount needed to provide for the increase in deposits, and excess reserves increased.

**Increase in reserve requirements.** On December 29, the Board announced an increase in reserve requirements for member banks

## MEMBER BANK RESERVES, RESERVE BANK CREDIT, AND RELATED ITEMS



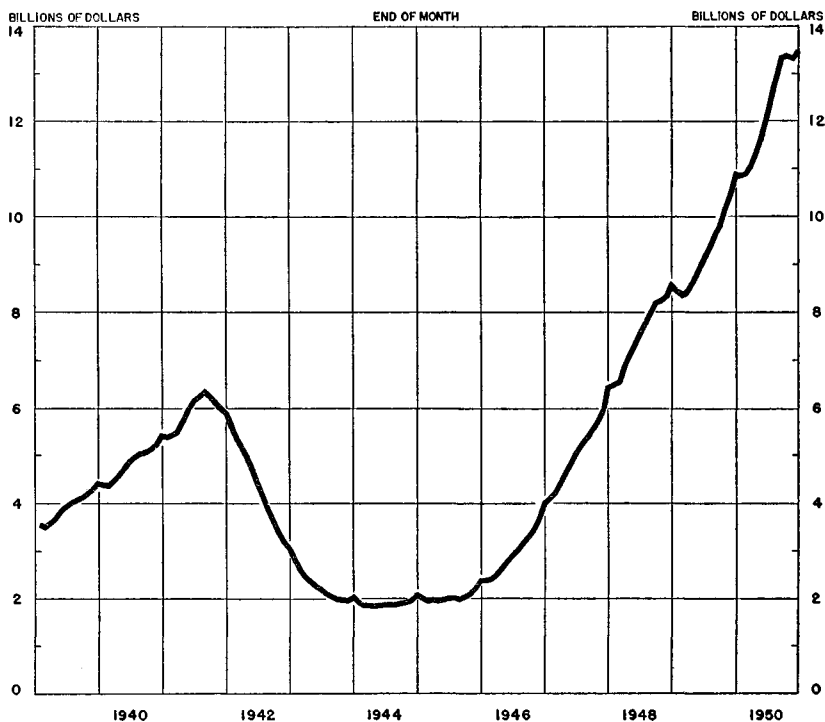
of 2 percentage points on demand deposits and 1 percentage point on time deposits. Reserve requirements on net demand deposits at reserve city and country banks were raised to the maximum legal limits of 20 and 14 per cent, respectively, the same requirements that had prevailed during the war period. Requirements on net demand deposits at central reserve city banks were placed at 24 per cent, 2 percentage points less than the maximum under existing authority but above requirements that had prevailed for these banks during most of the war period. Requirements on time deposits at all classes of banks were placed at the legal maximum of 6 per cent. These increases became effective gradually in the period January 11-February 1, 1951, as shown in the table on page 63.

The Board's action increased the reserves required of member banks by approximately 2 billion dollars, which amount could otherwise have been the basis for about a sixfold increase in bank credit. The volume of bank credit and the money supply had continued to increase despite restraining action by the System; and, with the post-holiday return flow of currency from circulation, banks would have had additional funds available for lending. The purpose of the increase in reserve requirements was to absorb such funds and generally to reduce the ability of banks further to expand credit. The banks were in a position to adjust to the increased requirements without difficulty.

**Regulation of consumer instalment credit.** In the light of the general economic situation and of the responsibility imposed by the Defense Production Act, the Board reissued Regulation W, effective September 18, 1950, establishing minimum down payments and maximum maturities on instalment credits extended for the purchase of certain major durable goods. Regulation of consumer instalment credit is intended to exert a restraining influence on a credit area in which substantial use of credit by consumers tends to increase demand in relation to supply and as a consequence exerts an upward pressure on prices. It is also intended to reduce demand in an area from which it is necessary to divert critical materials and manpower to defense purposes.

Short-term borrowing by consumers on an instalment basis had accelerated in 1950, as is shown in the chart. After a slight seasonal decline in January, the amount of such credit outstanding had moved upward steadily. The sharp upturn in consumer buying of automo-

## CONSUMER INSTALMENT CREDIT OUTSTANDING



biles and other durable goods in July and August had been facilitated by easy down payment and maturity terms for instalment purchases. In the four months June-September, outstanding instalment credit had increased by 1.7 billion dollars, an unprecedented amount for a four-month period.

Intensive studies of the demand-supply situation and of the consumer credit business, including numerous consultations with the trade, were carried on while legislation authorizing regulation of consumer credit was under consideration by the Congress. In establishing terms as soon as the authority became effective, the Board indicated that they could be promptly adapted to changing conditions. As the magnitude and strength of inflationary trends became more apparent during the latter part of September and in October, and were accompanied by continuing strong demand and by further expansion of consumer credit, the Board amended Regulation W, effective October 16, to take account of these developments.

The terms of the reissued regulation and the October modifications are summarized on pages 33-34 and in Table 16, page 65.

During the last three months of the year the increase in installment credit outstanding was 130 million dollars compared with nearly 1 billion in the same months of 1949. The increase for the year 1950 was about 2.6 billion dollars and the total outstanding reached an estimated 13.5 billion by the end of the year.

Slowing up in growth of this type of credit after September reflected a sharp reduction in new credits as well as continued large repayments. A survey made by the Board of Governors indicated that prevailing terms were generally much easier in mid-1950 than they had been a year earlier, but that they were substantially stiffened under the regulation. Although the stiffening in terms of installment credit was undoubtedly an important factor in the reduced volume of new credits, other factors were also working in the same direction. Some purchases which ordinarily would have been made in the fall or later had been made in the summer, and prospective model change-overs as well as a decline from the seasonal peak of automobile travel also affected demand for automobiles.

**Regulation of real estate credit.** Private construction was in record volume in 1950, reflecting primarily the boom in residential building. New housing units started and completed during the year exceeded all previous levels. An important factor in the demand for both new and old residential properties was the large volume of Government guaranteed mortgage funds available from banks and other lenders on very favorable terms. Residential mortgage lending during the first half of the year expanded rapidly and outstanding home mortgage debt increased at a new high rate. In the third quarter the rate of lending and the increase in outstanding debt accelerated, despite action in July to tighten terms and otherwise restrict loans insured or guaranteed by Federal agencies.

Title VI of the Defense Production Act of September 1950 provided for broader regulation of real estate credit. It authorized the President to regulate (1) the terms on which real estate loans may be made, insured, or guaranteed by Federal agencies, and (2) the terms on which credit not so insured or guaranteed may be extended in connection with construction or other improvements to real property started after August 3, 1950.

By Executive Order No. 10161, dated September 9, 1950, the President delegated to the Board of Governors the authority to regulate real estate loans made in connection with construction begun after August 3 but not made, insured, or guaranteed by Federal agencies, and required that the Board obtain the concurrence of the Housing and Home Finance Administrator in regulations concerning residential real estate credit. At the same time, the President authorized the Housing and Home Finance Administrator to restrict the terms on which real estate loans involving residential property were made, insured, or guaranteed by Federal agencies, and required him to make sure first, that the restrictions imposed by the Board were made applicable to the fullest extent practicable to such loans, and second, that the relative preferences accorded to veterans under existing law were preserved.

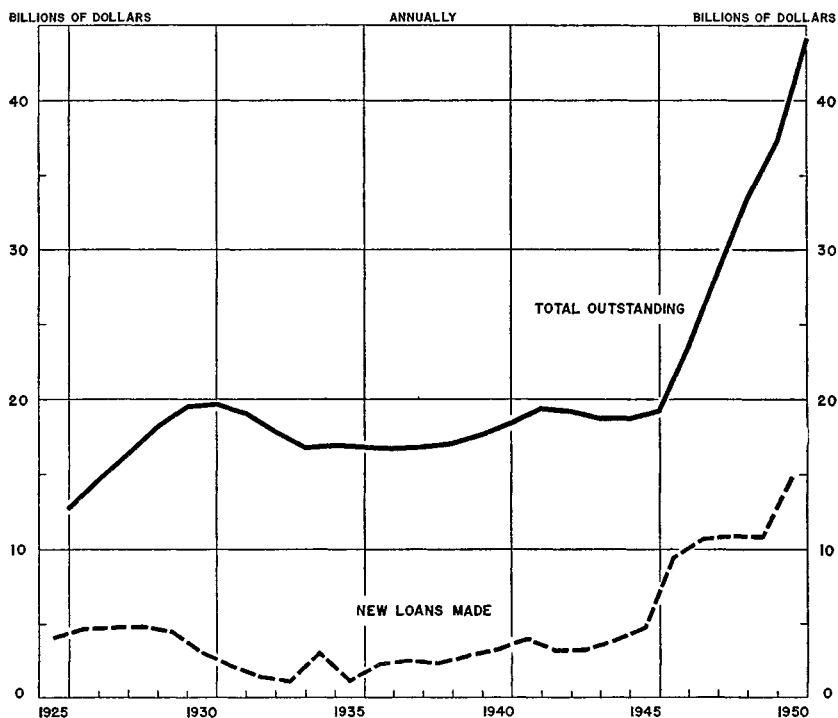
During the time the legislation was being considered by the Congress, the Board and the Administrator were preparing regulations to carry out its provisions. On October 11, the Board, with the concurrence of the Housing and Home Finance Administrator, issued Regulation X, and the Federal Housing Administration and the Veterans Administration announced parallel regulations, with the approval of the Administrator, all to become effective October 12. These regulations applied only to credit in connection with one- and two-family properties. They established maximum amounts that could be borrowed, maximum maturities, and minimum amortization requirements for extensions of credit in respect to such properties, including the financing of major additions and improvements. Further details are given on pages 34-35.

By amendment effective November 14, 1950, exception was made for credit extended before May 1, 1951, in connection with properties on which construction was started before October 12, 1950. By steps taken early in 1951 the regulation was revised to apply restrictions to three- and four-family properties, multi-unit residences, and non-residential construction.

These regulations had little effect on the amount of real estate credit extended between their effective dates and the end of 1950 because they did not apply to uninsured credit on existing houses, to the substantial number of houses already under construction, or to credit already committed. By the end of the year the amount of mortgage debt outstanding on small family dwellings was estimated

**NONFARM MORTGAGE DEBT**

HOME LOAN BANK BOARD ESTIMATES



NOTE.—Total outstanding on December 31 and new loans made during year. Data for 1950 are preliminary.

at about 44 billion dollars, as is shown in the chart. This was an increase of about 7 billion since the end of 1949, and considerably more than twice the amount outstanding at the end of the war. The increase was larger in 1950 than in any previous year.

**Regulation of stock market credit.** The inflationary pressures that developed within the economy during 1950 were reflected in the stock market. Common stock prices advanced on the average by nearly one-fourth, reaching a new postwar high at the close of the year. Stock market credit, as represented by customers' debit balances, increased by 480 million dollars to a total of 1,357 million at the end of December. Stock trading volume during 1950 was about double that of the preceding year, averaging 2 million shares per day as compared with 1 million in 1949.

Following a further rise in stock prices and trading activity during the first two weeks of January 1951, as of January 17 the Board

amended its Regulations T and U governing margin requirements to increase the amount of cash required for the purchase or short sale of listed stocks from 50 to 75 per cent of market value.

**Voluntary restraint by lenders.** In mid-July leaders of private financial groups cautioned their members against extensions of bank credit that would contribute to inflationary pressures. This was followed in early August by a joint statement issued by the Federal and State supervisors of banks and the Home Loan Bank Board urging voluntary cooperation of banks and other lenders in screening their loan applications with great care to avoid making loans that would have inflationary effects. This statement is reproduced on page 95 of this Report.

As the unprecedented expansion of bank credit continued during the autumn, the Chairman of the Board of Governors in mid-November addressed a letter to all member banks pointing out that continuation of such expansion would seriously handicap the necessary expansion of military production and urging them to discourage loans that would not contribute to the defense effort. The letter, which is given in full on page 96 of this Report, included the following statement:

Commercial banks can also do their part in bringing about restraint of credit by advising borrowers to avoid overstocking of inventories and to postpone unnecessary business expansion and by discouraging various types of loans that do not make a definite contribution to the defense effort. The sacrifice of some earnings at this time is a small price to pay for the defense of the dollar which is of paramount importance.

At the end of the year the Federal Reserve was actively cooperating with representatives of banks, investment bankers, and life insurance companies to arrange a voluntary program of credit restraint. Consultations were had with these representatives, pursuant to authority granted to the President under Section 708 of the Defense Production Act and delegated to the Board by Executive Order No. 10161 of September 9, 1950. Under the law action taken in accordance with such a program, pursuant to request of the Board with the approval of the Attorney General, will be exempt from the provisions of the antitrust laws.

#### LOAN GUARANTEES FOR DEFENSE PRODUCTION

For the purpose of expediting production and deliveries or services for the defense program, the Defense Production Act of 1950

provided for the guarantee of loans made by commercial banks and other financing institutions to contractors, subcontractors, and others engaged in fulfilling Government defense contracts. Executive Order No. 10161, issued on September 9, 1950, named the Departments of the Army, Navy, Air Force, Commerce, Agriculture, and Interior, and the General Services Administration as guaranteeing agencies. It also designated and authorized the Federal Reserve Banks to act on behalf of the guaranteeing agencies as fiscal agents of the United States in the making of such contracts of guarantee, and delegated to the Board of Governors responsibility for supervising all actions and operations of the Reserve Banks in connection with the loan guarantee program.

The Board, after consultation with the guaranteeing agencies, issued its Regulation V on September 27, 1950, outlining the authority of the Federal Reserve Banks and the procedures to be followed in receiving applications for loan guarantees, establishing eligibility of the borrower, and approving loan guarantees. Pursuant to the regulation, the Board prescribed a standard form of guarantee agreement and announced a schedule of guarantee fees and establishment of a 5 per cent maximum rate of interest on guaranteed loans (see Table 15, page 64). A maximum of one-half of one per cent was established for any commitment fee charged on guaranteed loans.

Up to December 31, 1950 the number and dollar volume of loan guarantees authorized had been relatively small. A total of 62 loans amounting to 31 million dollars had been approved for the issuance of loan guarantees. For the purpose of removing an impediment to the new V-loan program, the Board has recommended to Congress an amendment to the Assignment of Claims Act of 1940 which would clarify the rights of financing institutions taking assignments of defense contracts as security for guaranteed loans.

Generally speaking, the primary purpose of the present V-loan program, which is closely patterned after that of World War II, is to facilitate the provision of short-term working capital funds for defense contractors and subcontractors. Experience during the early part of World War II revealed that a number of small and medium-sized subcontractors were often unable, because of the

relatively substantial sums required, to obtain needed funds from usual sources. Other concerns, either newly established or with little or no experience in the type of work being undertaken on war contracts, were unable to establish satisfactory credit ratings. Moreover, there were some very large concerns whose working capital requirements for production under war contracts were so great that neither the funds at their disposal nor nonguaranteed credits available from their banks were adequate for their needs. By guaranteeing the financing institutions against loss of principal or interest on loans made under such conditions, the V-loan program greatly facilitated the fulfillment of Government contracts.

### CREDIT AND MONETARY EXPANSION

The 7 billion dollar growth in the money supply during 1950 reflected a large expansion in bank deposits. The volume of currency outside banks showed little change. Most of the monetary expansion was the result of the record increase in bank loans and investments that supplied funds to the private sector of the economy. About one-half of the funds lent by commercial banks went to businesses and about one-fifth to consumers; another fifth went into real estate loans; and a small proportion went to State and local governments. This expansion of credit was accompanied by a sharp reduction in commercial and mutual savings bank holdings of United States Government securities. This reduction was partly offset by additions to Reserve Bank holdings of Government securities. The resulting net decline of 3.6 billion dollars in the Government securities held by the banking system as a whole tended to reduce the money supply, and a gold outflow of 1.7 billion dollars had a similar effect, as shown in the table on page 22.

**Increased volume and use of money.** In the first quarter of the year total deposits and currency held by individuals and businesses declined, as is usual in this period of heavy tax payments. The decrease, however, was smaller than in other recent years and, with bank credit expanding, the money supply was as large by the end of June as at the beginning of the year. After June the money supply increased at an exceptionally rapid rate, as the chart on page 23 shows, especially in the closing months of the year.

MAJOR FACTORS AFFECTING THE MONEY SUPPLY <sup>1</sup>

[In billions of dollars; partly estimated]

| Factor                                                                          | 1950                                    |             |            | 1949 |                  |            |
|---------------------------------------------------------------------------------|-----------------------------------------|-------------|------------|------|------------------|------------|
|                                                                                 | Year                                    | Second half | First half | Year | Second half      | First half |
|                                                                                 | (Sign indicates effect on money supply) |             |            |      |                  |            |
| Bank loans and investments other than U. S. Govt. securities <sup>2</sup> ..... | +13.1                                   | +9.6        | +3.5       | +2.6 | +3.2             | -0.6       |
| Bank holdings of U. S. Govt. securities <sup>3</sup> .....                      | - 3.6                                   | -1.9        | -1.7       | -0.1 | +3.1             | -3.2       |
| Gold stock.....                                                                 | - 1.7                                   | -1.5        | -0.2       | +0.2 | ( <sup>4</sup> ) | +0.2       |
| Treasury deposits.....                                                          | + 0.5                                   | +1.2        | -0.7       | -0.5 | -1.3             | +0.8       |
| Other factors.....                                                              | - 1.3                                   | -0.6        | -0.7       | -1.5 | -0.8             | -0.7       |
| Total money supply.....                                                         | + 7.0                                   | +6.8        | +0.2       | +0.7 | +4.2             | -3.5       |
| Demand deposits adjusted.....                                                   | + 6.8                                   | +7.5        | -0.7       | +0.2 | +3.9             | -3.6       |
| Time deposits adjusted <sup>5</sup> ....                                        | + 0.4                                   | -0.7        | +1.1       | +1.1 | +0.1             | +1.0       |
| Currency outside banks....                                                      | - 0.1                                   | +0.1        | -0.2       | -0.7 | +0.1             | -0.8       |

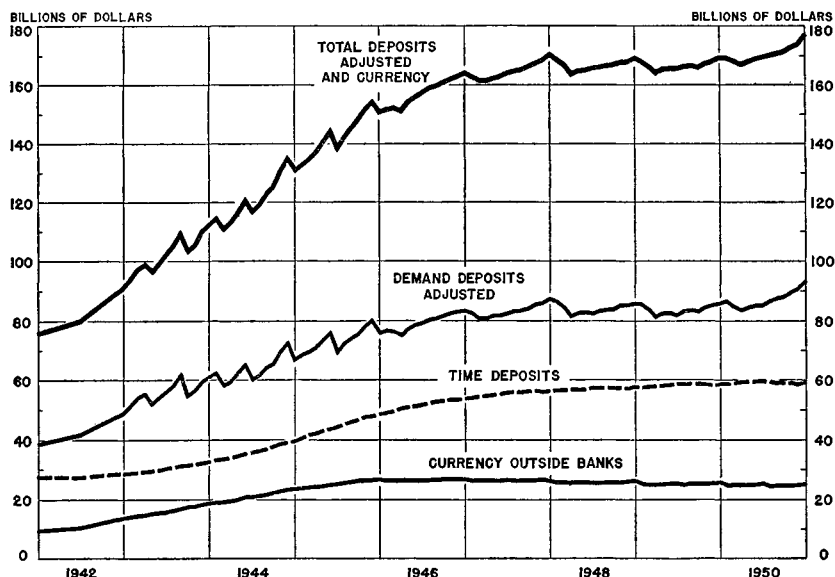
<sup>1</sup> Excludes money supply held by banks and the U. S. Government.<sup>2</sup> Commercial and mutual savings banks.<sup>3</sup> Commercial, mutual savings, and Federal Reserve Banks.<sup>4</sup> Less than 50 million dollars.<sup>5</sup> Commercial and mutual savings banks and the Postal Savings System.

NOTE.—Data are for end of June and December dates. Data for December 1950 are partly estimated. Details may not add to totals because of rounding.

Demand deposits, the largest and most volatile component of the money supply, increased by almost 7 billion dollars, a greater growth than in any postwar year since 1946. Time deposits, on the other hand, rose by only about half a billion dollars, much less than in other recent years. Currency outside banks declined for the fourth consecutive year as wartime accumulations were further reduced.

Increased spending during 1950 reflected in part a more rapid turnover of demand deposits. At banks in leading cities outside New York the rate of use of deposits rose steadily during the first half of the year, accelerated sharply during the third quarter, and was at a high rate during the remainder of the year. At year-end deposit turnover, although somewhat more rapid than in other recent years, was slower than during the 1920's. Advance to the turnover

## BANK DEPOSITS AND CURRENCY



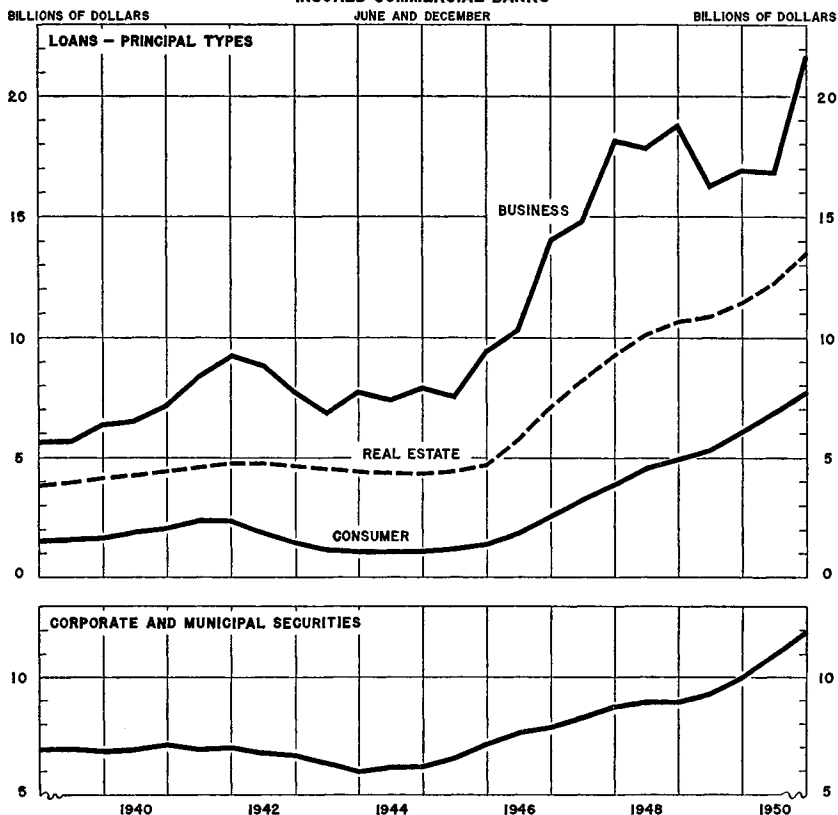
NOTE.—Figures are partly estimated. Deposits are for all banks in the United States. Demand deposits adjusted exclude U. S. Government and interbank deposits and items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Figures are for June and December, 1942; end of month, 1943–46; last Wednesday of month, 1947–50 except for June and December call dates. Figures for December 1950 are estimates.

rate of the twenties would permit a considerable increase in expenditures without further growth in the money supply.

The more active turnover of demand deposits in the last half of the year was accompanied by a more active use of other liquid assets by individuals. Time deposits in commercial banks, mutual savings banks, and the Postal Savings System were drawn down by about three-fourths of a billion dollars in the last half of the year and there were net cash redemptions of savings bonds.

**Commercial bank credit.** Commercial banks increased their outstanding loans and holdings of State and local government and corporate securities by about 11.5 billion dollars in 1950, to a total of almost 65 billion. The increase compared with less than 8 billion in 1947, also an inflationary year, and surpassed all previous records. Credits to businesses accounted for about 50 per cent of the 1950 growth in bank loans and loans to consumers and real estate loans each for about 20 per cent.

**BANK LOANS AND INVESTMENTS  
OTHER THAN U. S. GOVERNMENT SECURITIES  
INSURED COMMERCIAL BANKS**



All insured commercial banks in the United States. Figures for Dec. 30, 1950 are partly estimated. Business loans include commercial and industrial loans, open market commercial paper, and acceptances. Municipal securities include State and local government obligations.

Commercial banks directly or indirectly provide most of the short-term credit sought by businesses from financing institutions, while savings institutions and individuals supply the greater part of the longer term funds. In 1950 bank loans to business rose by about 5 billion dollars, as the chart shows, and bank holdings of corporate securities increased by about 500 million.

Business borrowing at banks declined as usual in the early months of the year but, with accelerating recovery prompting many businesses to rebuild inventories, the decline was much less than might have been expected on seasonal grounds. More extensive borrowing began in the early part of June and greatly increased after the out-

break of hostilities in Korea. A considerable part of the increase after the middle of the year reflected borrowing by commodity dealers and processors of agricultural commodities for the purpose of building up their inventories at rising prices. Another substantial part of the increase went to distributors and to sales finance companies. The amount of increased borrowing to finance defense contracts was small.

Short-term credit to consumers on an instalment basis also accelerated in 1950, especially during the summer, and commercial banks provided 1.2 billion dollars, or about half, of the 1950 increase in this type of credit. Banks also expanded their noninstalment loans to consumers by about 300 million dollars, bringing the total increase in their consumer credit balances to more than 1.5 billion dollars. As indicated earlier, commercial banks also made a substantial amount of loans to retailers and finance companies in connection with their extensions of credit to consumers.

Long-term loans on residential mortgages by commercial banks and other lenders were in record volume throughout 1950. Commercial banks expanded their portfolios of home and other real estate mortgages by more than 2 billion dollars during the year. This amount was substantially less than the increase for life insurance companies, but almost the same as that for savings and loan associations and considerably more than the increase for savings banks. The expansion in real estate loans at commercial banks was larger during 1950 than in any previous year except 1946 and 1947. The new peak of more than 13.5 billion dollars outstanding on December 31, 1950 represented more than one-fourth of the real estate debt held by all institutional lenders.

Commercial banks increased their portfolios of State and local government and corporate securities by about 2 billion dollars during 1950, as compared with 1 billion in 1949. The major part of the increase in both years was in State and local government obligations. Banks provided a considerable part of the substantial amounts borrowed by State and local governments to finance postwar programs for improving roads and streets and providing schools, public buildings, sewerage systems, and other government facilities.

**Changes in ownership of United States Government securities.** To obtain funds for expansion of private credit during the year, commercial banks reduced their holdings of United States Govern-

ment securities by more than 5 billion dollars. Reductions in bank portfolios were particularly large in the third quarter when private demand for loans was expanding rapidly. Nonbank investors as a group and the Federal Reserve Banks increased their holdings of Government securities over the year as a whole. The total marketable portion of the Federal debt, which had increased by 0.2 billion dollars in the first half of the year, declined by 2.9 billion in the second half and by a further 0.8 billion early in January 1951.

### OWNERSHIP OF UNITED STATES GOVERNMENT DEBT

[In billions of dollars, par value, partly estimated]

| Item                                                                     | Dec. 31,<br>1950 <sup>p</sup> | Change for       |                  |                  |
|--------------------------------------------------------------------------|-------------------------------|------------------|------------------|------------------|
|                                                                          |                               | Year<br>1950     | Second<br>half   | First<br>half    |
| <b>Total debt outstanding.....</b>                                       | <b>256.7</b>                  | <b>-0.4</b>      | <b>-0.6</b>      | <b>+0.2</b>      |
| Marketable.....                                                          | 152.5                         | -2.7             | -2.9             | +0.2             |
| Nonmarketable.....                                                       | 104.3                         | +2.2             | +2.2             | ( <sup>1</sup> ) |
| <b>Debt held by Federal agencies and trust<br/>    funds, total.....</b> | <b>39.2</b>                   | <b>-0.1</b>      | <b>+1.4</b>      | <b>-1.5</b>      |
| Marketable.....                                                          | 5.4                           | ( <sup>1</sup> ) | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| Nonmarketable.....                                                       | 33.8                          | -0.2             | +1.4             | -1.5             |
| <b>Debt held by public, total.....</b>                                   | <b>217.5</b>                  | <b>-0.3</b>      | <b>-2.0</b>      | <b>+1.7</b>      |
| Marketable.....                                                          | 147.1                         | -2.7             | -2.9             | +0.2             |
| Nonmarketable.....                                                       | 70.4                          | +2.4             | +0.9             | +1.6             |
| <b>Distribution of debt held by public:</b>                              |                               |                  |                  |                  |
| <b>Federal Reserve Banks, total (all marketable)</b>                     | <b>20.8</b>                   | <b>+1.9</b>      | <b>+2.4</b>      | <b>-0.6</b>      |
| Bills, certificates, and notes.....                                      | 16.2                          | +4.5             | +3.4             | +1.0             |
| Bank-eligible bonds.....                                                 | 1.1                           | -1.2             | -1.0             | -0.2             |
| Restricted bonds.....                                                    | 3.5                           | -1.4             | ( <sup>1</sup> ) | -1.4             |
| <b>Commercial banks, total.....</b>                                      | <b>61.6</b>                   | <b>-5.1</b>      | <b>-4.0</b>      | <b>-1.1</b>      |
| Marketable securities, total.....                                        | 59.2                          | -5.4             | -4.4             | -0.9             |
| <i>Bills, certificates, and notes.....</i>                               | 23.2                          | +0.7             | +1.0             | -0.3             |
| <i>Bank-eligible bonds.....</i>                                          | 34.9                          | -6.1             | -5.3             | -0.7             |
| <i>Restricted bonds.....</i>                                             | 1.1                           | +0.1             | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| Nonmarketable securities.....                                            | 2.5                           | +0.2             | +0.4             | -0.2             |
| <b>Nonbank investors, total.....</b>                                     | <b>135.1</b>                  | <b>+3.0</b>      | <b>-0.4</b>      | <b>+3.4</b>      |
| Marketable securities, total.....                                        | 67.1                          | +0.8             | -0.9             | +1.6             |
| <i>Bills, certificates, and notes.....</i>                               | 18.9                          | +2.9             | +1.4             | +1.4             |
| <i>Bank-eligible bonds.....</i>                                          | 8.1                           | -3.1             | -2.1             | -1.1             |
| <i>Restricted bonds.....</i>                                             | 40.2                          | +1.0             | -0.3             | +1.3             |
| Nonmarketable securities.....                                            | 68.0                          | +2.2             | +0.4             | +1.7             |

<sup>p</sup> Preliminary.

<sup>1</sup> Less than 50 million dollars.

NOTE.—Includes matured and noninterest-bearing securities.

Federal Reserve selling of long-term bank-restricted securities during the first eight months of the year resulted in a large shift of these issues from the System account into the portfolios of nonbank investors. Over the year as a whole the System made net sales of about 1.4 billion dollars of restricted bonds, as is shown in the table, and made net purchases of bank eligible securities of about 3.3 billion.

Nonbank investors increased their holdings of Government securities by 3.0 billion dollars over the year, including increases amounting to 1.4 billion in the portfolios of foreign monetary authorities and international organizations. The increase in holdings of restricted bonds, totaling about 1 billion dollars, was due to purchases by pension funds, fire, casualty, and marine insurance companies, and miscellaneous investors in excess of sales by life insurance companies. Nonbank investors reduced their holdings of bank-eligible bonds and increased their holdings of bills, certificates, and notes on balance as the result of both exchanges and market transactions. Bonds maturing in March, September, and December were refunded with note issues. Nonfinancial corporations and foreign accounts purchased short-term securities in the market, while insurance companies, mutual savings banks, and miscellaneous investors sold bank-eligible bonds, partly for the purpose of acquiring restricted bonds. Life insurance companies as a group reduced their Government security holdings by 1.8 billion dollars, primarily for the purpose of increasing their credits to other borrowers. Nonbank holdings of nonmarketable issues increased by 2.2 billion dollars, reflecting largely the accrual of interest on savings bonds and net purchases of Treasury savings notes.

#### BANKING OPERATIONS AND STRUCTURE

**Bank earnings and profits.** The earnings position of member banks continued to improve during 1950. Net current earnings before income taxes advanced to 1,245 million dollars, an increase of 148 million over 1949. The most important factor in the increase was the rapid growth of loans during the second half of the year which brought annual earnings on loans to 1,634 million dollars, 207 million above the previous year. This, together with smaller increases in other categories, more than offset the increase of 131 million dollars in expenses.

Net profits (after adjustments for losses, recoveries, profits on securities, valuation reserves, and income taxes) amounted to 781 million dollars, an increase of 95 million over 1949. Larger net current earnings and a slight decline in net losses and transfers to reserves were offset in part by larger accruals for income taxes. About 346 million dollars or 44 per cent of net profits was paid out in dividends, which amounted to 3.7 per cent of average total capital accounts. This ratio was up slightly from 1949.

Net profits were 8.3 per cent of average capital accounts during the year, slightly above the three preceding years, but below the peak of 10.9 per cent in 1945, when profits on securities were very high. The ratio of net current earnings to average capital accounts continued its upward trend and amounted to 13.2 per cent in 1950 as compared with 12.2 in 1949.

**Bank earning assets.** Earning assets of member banks amounted to 107 billion dollars at the end of 1950, nearly 6 billion more than at the end of 1949. Increases of 8 billion in loans and 2 billion in corporate and State and local government securities were offset in part by a decline in holdings of United States Government obligations of 4 billion dollars. These changes resulted in average earning assets for the year of 6 billion dollars more than in 1949.

**Capital accounts.** Capital accounts of member banks amounted to 9.7 billion dollars at the end of 1950, an increase of about half a billion from the end of 1949. Retention of profits accounted for most of the increase; receipts from sales of common stock amounting to slightly more than 100 million dollars were offset in part by the retirement of preferred stock and reductions in capital accounts incident to mergers.

The ratio of average capital accounts to average total assets remained practically unchanged from 1949. However, the ratio of average capital accounts to average "risk assets" (total assets less United States Government securities and cash assets) resumed its downward trend, interrupted in 1949, with a decline from 20.2 per cent in 1949 to 18.9 per cent in 1950. This reflected the increased proportion of earning assets that consisted of loans and securities other than United States Government securities.

**Number of banking offices.** The number of banking offices in the United States increased by 213 in 1950, the seventh consecutive

annual increase; the number of branches and additional offices increased by 250 and the number of banks declined by 37. At the end of 1950 there were 19,584 banking offices (14,650 banks and 4,934 branches and additional offices). All of these figures exclude banking facilities at military and other Government establishments, of which there were 122 at the end of 1950, an increase of 28 for the year. There were about 350 of these banking facilities at the end of World War II.

The number of banks (head offices) declined for the third successive year. A total of 106 banks went out of existence through consolidations, liquidations, and suspensions, but 71 of them became branches. One small noninsured unincorporated private bank, with deposits of only about \$42,000, suspended operations. Of the 68 banks opened for business, 15 were members of the Federal Reserve System, 44 were insured nonmembers, and 9 were noninsured. Of the 14,650 banks in operation at the end of the year, 14,121 were commercial banks and 529 were mutual savings banks.

The number of branches and additional offices, exclusive of banking facilities at military and other Government establishments, increased by a net of 250 during the year, the largest increase since the early twenties. Approximately one-third of the new branches established were in California, New York, and North Carolina, where either State-wide or area branch banking has had considerable development.

**Changes in Federal Reserve membership.** There were 6,873 member banks in operation at the end of 1950, 19 less than at the end of 1949. The number of offices of member banks, however, increased as the result of the addition of 179 branches. The decline in the number of banks was largely the result of consolidations and conversions of banks into branches and occurred despite the 26 additions to membership. Of the additions to membership, 9 were national banks and 17 were State banks; of the latter, 8 were newly organized and 9 were already in operation. These 9 had total deposits of 55 million dollars and all but 3 were already insured.

The 6,873 member banks in operation at the end of 1950 accounted for 49 per cent of the number and held 85 per cent of the deposits of all commercial banks in the country. State member banks accounted for 21 per cent of the number and held 65 per cent of

the deposits of all State commercial banks. These relationships have varied only slightly in recent years.

Although nearly one-half of all commercial banks in the country are members of the Federal Reserve System, the proportion that are members in the various States ranges from 87 per cent in New York to 24 per cent in Iowa. The States with the largest number and proportion of member banks are, with some exceptions, in the northern and eastern sections of the country, while the nonmember banks are concentrated more in the midwestern and southern sections of the country. Variations from State to State in the proportions of member and nonmember banks may be attributed to a number of factors, including differences between State requirements for capital and those prescribed by Federal law for admission to Federal Reserve membership, attitudes toward deposit insurance and par clearance of checks (both of which are required for membership), and the extent to which banking facilities are provided by means of branch systems rather than by single-unit banks.

**Par and nonpar banks.**<sup>1</sup> During 1950 there was a net decrease of 16 in the number of banks on the Federal Reserve Par List and a net decrease of 20 in the number of nonpar banks.

During the year, a total of 78 banks were added to the par list, 1 withdrew, and 93 banks formerly on the list terminated existence. Of these 93 banks, 84 were absorbed by other par banks (including 65 that were converted into branches) and 9 were liquidated.

At the end of 1950 there were 12,162 par-remitting and 1,853 nonpar banks. The latter represented only 13 per cent of the banks on which checks are drawn and held only a very small proportion of the deposits of all commercial banks in the country. There were 4,534 par-remitting branches and 290 nonpar branches of commercial banks as compared with 4,289 and 273, respectively, at the beginning of the year.

At the end of the year all banks in 6 Federal Reserve districts, 29 States, and the District of Columbia were on the Federal Reserve Par List. In each of 5 other States the number of nonpar banks was less than 10. Over 99 per cent of the banks not on the par list were

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<sup>1</sup> This section refers only to banks on which checks are drawn and their branches and offices, including "banking facilities." 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 Federal Reserve Banks for payment, and also such nonmember banks as have agreed to do so.

in the following 14 States: Minnesota 413; Georgia 284; Mississippi 161; Arkansas 123; North Carolina 113; Louisiana 104; South Dakota 98; Alabama 96; Tennessee 91; North Dakota 87; South Carolina 84; Missouri 65; Florida 61; and Texas 55.

**Check routing symbols.** The program inaugurated by the American Bankers Association and the Federal Reserve System in June 1945 to facilitate check collection by use of routing symbols was considerably extended during 1950. A survey conducted as of December 1, 1950 showed that practically all banks handling a sizable volume of checks made extensive use of the routing symbols. A count made at all Federal Reserve Banks of more than 8 million checks drawn on par-remitting banks indicated that 76 per cent of the checks carried the routing symbol. This compares with 67 per cent a year ago and 58 per cent in 1948.

#### BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM

**Examination of Federal Reserve Banks.** The Board's Division of Examinations examined each of 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 at the 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 conduct 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. 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 1950 program for the examination of State member banks was practically completed.

**Bank holding companies.** During 1950 the Board authorized the issuance of two voting permits for general purposes and six permits for limited purposes to holding company affiliates of member banks.

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. In accordance with established practice, a number of 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.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of Section 23A of the Federal Reserve Act, any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. During the year the Board made such determinations with respect to four organizations.

**Trust powers of national banks.** During 1950, 20 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 10 banks which previously had been granted certain trust powers. Trust powers of 13 national banks were terminated, 12 by voluntary liquidation, consolidation, or conversion and one by voluntary surrender. At the end of 1950 there were 1,773 national banks holding permits to exercise trust powers.

**Foreign branches and banking corporations.** The Board approved during 1950 eight applications made by member banks pursuant to the provisions of Section 25 of the Federal Reserve Act for permission to establish foreign branches. Member banks opened four branches abroad in 1950, one each in Brazil, Guam, Mexico, and the Republic of Panama. One branch in China of a member bank was closed during the year.

At the end of 1950, seven member banks had in active operation a total of 95 branches in 24 foreign countries and possessions of the United States. Of the 95 branches, four national banks were operating 89 and three State member banks were operating 6. The foreign branches in active operation were distributed geographically as follows:

|                                 |    |                                |    |
|---------------------------------|----|--------------------------------|----|
| <b>Latin America</b> .....      | 49 | <b>England</b> .....           | 10 |
| Argentina .....                 | 10 | <b>Far East</b> .....          | 19 |
| Brazil .....                    | 9  | China .....                    | 1  |
| Chile .....                     | 2  | Hong Kong .....                | 1  |
| Colombia .....                  | 3  | India .....                    | 2  |
| Cuba .....                      | 16 | Japan .....                    | 8  |
| Mexico .....                    | 2  | Philippines .....              | 5  |
| Panama .....                    | 4  | Singapore .....                | 1  |
| Peru .....                      | 1  | Thailand .....                 | 1  |
| Uruguay .....                   | 1  | <b>U. S. Possessions</b> ..... | 12 |
| Venezuela .....                 | 1  | Canal Zone .....               | 4  |
| <b>Continental Europe</b> ..... | 5  | Guam .....                     | 1  |
| Belgium .....                   | 1  | Puerto Rico .....              | 7  |
| France .....                    | 1  | <b>Total</b> .....             | 95 |
| Germany .....                   | 3  |                                |    |

There was no change during the year in the 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 investment by member banks in the stock of corporations engaged principally in international or foreign banking. Of the four corporations in operation, one has no subsidiaries or foreign branches, one operates a branch each in England and France, one operates a branch in France, and one has an English fiduciary affiliate. A routine examination of one such corporation was conducted in 1950 by the Board's Division of Examinations.

At the end of 1950 there were in operation two banking corporations organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. The head offices of these corporations are located in New York City and both were examined during the year by the Board's Division of Examinations. One such institution operates a branch each in France and Hong Kong and has a fiduciary affiliate in England; a branch formerly operated in China was closed during the year.

During 1950 the Board approved the applications of a foreign banking corporation for permission to establish three foreign branches.

#### CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

**Consumer credit.** The Board's Regulation W, relating to consumer credit, was reissued on September 8, 1950, effective September 18, 1950, in much the same form as when it expired on June 30, 1949. This was done under authority in Title VI of the Defense

Production Act approved September 8, 1950. The new regulation covered instalment sales and loans for the purchase of substantially the same kinds of consumer durable goods as the previous regulation, and likewise unclassified instalment loans for most other consumer purposes. However, unlike the previous regulation, the new regulation also covered residential repairs, alterations, and improvements. A further difference was the reduction of the maximum amount of credit to be regulated from \$5,000 to \$2,500, except credit involving automobiles.

The regulation as reissued prescribed a minimum down payment of  $33\frac{1}{3}$  per cent and a maximum maturity of 21 months for automobiles; a minimum down payment of 15 per cent and a maximum maturity of 18 months for major household appliances; a minimum down payment of 10 per cent and a maximum maturity of 18 months for household furniture and floor coverings; and a minimum down payment of 10 per cent and a maximum maturity of 30 months for residential repairs, alterations, or improvements. Unclassified instalment loans were limited to a maximum maturity of 18 months. Articles selling for less than \$100 were excluded from the down payment requirements of the regulation.

Effective October 16, 1950, Regulation W was amended by increasing the down payment on appliances from 15 per cent to 25 per cent; by increasing the down payment on furniture and floor coverings from 10 per cent to 15 per cent; by decreasing the maximum maturity for automobiles from 21 months to 15 months; and by decreasing the maximum maturity for appliances, furniture, and floor coverings, and unclassified instalment loans from 18 months to 15 months. In addition, the \$100 exemption from the down payment requirement was reduced to \$50.

**Residential real estate credit.** The Board's Regulation X, relating to residential real estate credit, was issued by the Board, with the concurrence of the Housing and Home Finance Administrator, effective October 12, 1950, under authority of the Defense Production Act of 1950 and Executive Order No. 10161. The regulation prescribed credit restrictions on housing loans not insured, guaranteed, or extended by Government agencies, and specified maximum amounts which could be borrowed, maximum maturities, and minimum amortization requirements for extensions of credit on resi-

dential construction, including the financing of major additions and major improvements. The regulation was not applied to loans on construction begun before noon on August 3, 1950 or to loan commitments made prior to the effective date.

The new regulation called for maximum loan values ranging from 90 per cent for a property valued at not more than \$5,000 to 50 per cent for a property valued at more than \$24,250. All real estate construction credit was limited to a maximum term of 20 years, except that made on properties valued at \$7,000 or less under a contract which called for complete amortization by equal periodic payments in 25 years. An alternative method of amortization for loans on properties valued at more than \$7,000 called for payments of 5 per cent per year until the loan was reduced to 50 per cent of the value of the property. Value of a residential property, in the great majority of cases, was the *bona fide* sales price. In cases which did not involve a sale at the time of the credit extension, value was cost to the borrower if the property had been purchased not more than a year before the credit extension. Otherwise, value was determined by *bona fide* appraisal of the lender.

Effective November 14, 1950, the Board, with the concurrence of the Housing and Home Finance Administrator, amended the regulation so as to exempt from its prohibitions real estate construction credit extended prior to May 1, 1951, on new construction begun prior to October 12, 1950, and to extend until December 31, 1950, the time permitted for filing with the Federal Reserve Banks statements of facts with respect to unwritten agreements to extend credit which were entered into prior to October 12, 1950.

**Loan guarantees for defense production.** The Board revised its Regulation V effective September 27, 1950, under authority of the Defense Production Act of 1950 and Executive Order No. 10161. The regulation governs the general operation of the program of guaranteed loans authorized by the Defense Production Act of 1950. This program, which is described on pages 19-21 of this Report, is patterned after the so-called V-loan program of World War II.

**Reserve requirements.** On December 28, 1950, the Board issued a revised supplement to its Regulation D that increased the amount of reserves required to be maintained with the Federal Reserve

Banks by banks which are members of the Federal Reserve System. The increase became effective according to the following schedule:

| <i>On net demand deposits</i>                  | <i>Effective</i> |
|------------------------------------------------|------------------|
| Central reserve city banks                     |                  |
| From 22 to 23 per cent                         | January 11, 1951 |
| From 23 to 24 per cent                         | January 25, 1951 |
| Reserve city banks                             |                  |
| From 18 to 19 per cent                         | January 11, 1951 |
| From 19 to 20 per cent                         | January 25, 1951 |
| Country banks                                  |                  |
| From 12 to 13 per cent                         | January 16, 1951 |
| From 13 to 14 per cent                         | February 1, 1951 |
| <i>On time deposits</i>                        |                  |
| Central reserve city and<br>reserve city banks |                  |
| From 5 to 6 per cent                           | January 11, 1951 |
| Country banks                                  |                  |
| From 5 to 6 per cent                           | January 16, 1951 |

#### HEARING AND LITIGATION

**Transamerica Corporation.** As noted in the last two annual reports, the Board, on June 24, 1948, issued its Complaint against Transamerica Corporation, San Francisco, California, together with a notice of hearing to determine whether an order should be entered requiring the Corporation to cease and desist from violating Section 7 of the Clayton Antitrust Act.

The taking of testimony was continued at intervals during 1950 and was concluded on December 15 in San Francisco. Counsel were directed to prepare recommended findings for submission to the Hearing Officer.

In connection with this proceeding, the Board filed suit in June 1950 in the United States Court of Appeals for the Ninth Circuit for an injunction to prevent Bank of America N. T. & S. A., one of the banks listed in the complaint against Transamerica, from converting into branches of that bank 22 banks majority-owned by Transamerica, which were also listed in the complaint. The Court held that the proposed take-overs would deprive the Board as well as the Court of jurisdiction under the Clayton Act with respect to the 22 banks, and enjoined the consummation of the transaction. After the injunction order was issued the banks were made branches of the Bank of America. This was held by the Court to constitute contempt of its injunction order, and Transamerica and Bank of Amer-

ica were required to reverse the transaction and to restore the banks to their status as separate institutions until the completion of the Board's Clayton Act proceeding against Transamerica. The United States Supreme Court denied a petition for certiorari to review the decision of the Court of Appeals. The two opinions and two orders of the Court of Appeals were printed in the *Federal Reserve Bulletin* for July and September 1950, beginning at pages 823 and 1155, respectively.

### LEGISLATION

**Real estate loans.** The Housing Act of 1950, approved April 20, 1950, amended Section 24 of the Federal Reserve Act so as to make certain limitations and restrictions on loans made by national banks, secured by real estate, inapplicable to loans for low-cost homes insured under a new Section 8 of Title I of the National Housing Act which provided mortgage insurance for low-cost homes, particularly in suburban and outlying areas.

**Purchase of Government obligations by Federal Reserve Banks.** An Act approved June 30, 1950, amended Section 14(b) of the Federal Reserve Act so as to extend until July 1, 1952, the authority of the Federal Reserve Banks to purchase or sell directly from or to the United States bonds, notes, or other obligations which are direct obligations of the United States or which are fully guaranteed as to principal and interest, provided the aggregate amount acquired directly from the United States held at any one time by the twelve Federal Reserve Banks shall not exceed 5 billion dollars.

**Consent to reduction of capital or surplus.** The Act of August 17, 1950, authorizing national banks to convert into and to merge or consolidate with State banks, also provided that when an insured bank converts into or consolidates or merges with an insured State bank, or assumes liability to pay any deposits in another insured bank, the prior written consent of the appropriate Federal banking agency (the Board in the case of State member banks) must be obtained if the capital stock or surplus of the insured bank will be less than that of the converting bank or less than the aggregate capital stock or surplus, respectively, of the merging or consolidating banks or of all parties to the assumption of liabilities. In addition, the Act made certain technical amendments to Sections 9 and 12B of the Federal Reserve Act.

**Federal deposit insurance.** By an Act approved September 21, 1950, Section 12B was withdrawn as a part of the Federal Reserve Act and, with certain amendments, was made a separate Act, to be known as the "Federal Deposit Insurance Act." Some important changes made by the new Act were a modification in the assessment base for determining assessments against insured banks, a dividend credit plan which results in a reduction in the amount of annual assessments, and an increase in the amount of an insured deposit from \$5,000 to \$10,000.

**Defense Production Act.** The Defense Production Act of 1950, approved September 8, 1950, among other things conferred directly upon the Board the authority to exercise consumer credit controls. Under Executive Order No. 10161, issued by the President pursuant to the Act, the Board was delegated authority to regulate real estate construction credit not made, insured, or guaranteed by Federal agencies, provided that in prescribing, changing, or suspending any regulations in connection with residential real estate credit, the concurrence of the Housing and Home Finance Administrator must be obtained. The Board was also authorized to exercise supervision over the operations of Federal Reserve Banks in connection with guaranteeing defense production loans, and to exercise the functions conferred upon the President by Section 708(a) and (b) of such Act in connection with voluntary agreements with respect to financing.

### RESERVE BANK OPERATIONS

**Volume of operations.** Figures showing the volume of operations in principal departments of the Federal Reserve Banks for the past five years are given in Table 5 on page 53.

Discounts and advances were less in 1950 than in 1949. There was a corresponding reduction in the number of banks using Federal Reserve discount facilities, 899 in 1950 compared with 1,006 in 1949.

The number of pieces of paper currency sorted and counted in 1950 set an all-time record, while the aggregate dollar value thereof was exceeded only in 1948. The volume of coin handled was almost as great during 1950 as in 1949. New peaks were established in check collection operations. The number of issues, redemptions, and exchanges of Government securities effected by the Reserve Banks acting as fiscal agents of the United States, after declining from a

peak of 382 million in 1945, turned upward in 1950. The amount thereof exceeded the previous peak established in 1948. The number of transfers of funds continued its rise since 1940, and the amount of such transfers in 1950 set an all-time high.

**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 pages 54-55, and a condensed annual statement for all the Reserve Banks since 1913 is shown in Table 7 on pages 56-57. The table below presents a condensed summary for the year 1950 as compared with 1949.

Total current earnings of 275 million dollars in 1950 represent a decline of 41 million from 1949. Current expenses increased by 3 million dollars, leaving current net earnings of 195 million, or 44 million less than in the preceding year.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF  
FEDERAL RESERVE BANKS, 1950 AND 1949

[In thousands of dollars]

| Item                                                         | 1950      | 1949                |
|--------------------------------------------------------------|-----------|---------------------|
| Current earnings.....                                        | \$275,839 | \$316,537           |
| Current expenses.....                                        | 80,572    | 77,478              |
| Current net earnings.....                                    | 195,267   | 239,059             |
| Additions to current net earnings.....                       | 36,969    | 31,664              |
| Deductions from current net earnings <sup>1</sup> .....      | 675       | 43,786              |
| Net additions.....                                           | 36,294    | <sup>2</sup> 12,122 |
| Net earnings before payments to U. S. Treasury.....          | 231,561   | 226,937             |
| Paid U. S. Treasury (interest on outstanding F. R. notes)... | 196,629   | 193,146             |
| Dividends.....                                               | 13,083    | 12,329              |
| Transferred to surplus (Sec. 7).....                         | 21,849    | 21,462              |

<sup>1</sup> Includes \$408,000 (1950) and \$40,394,000 (1949) transferred to reserves for contingencies.

<sup>2</sup> Net deductions.

Net additions to current net earnings were 36 million dollars (consisting mostly of net profits on the sale of Government securities), making 231 million net earnings before payments to the United States Treasury. After payments of 196 million dollars to the United States Treasury as interest on outstanding Federal

Reserve notes and 13 million in dividends to member banks, net earnings of 22 million were added to surplus accounts.

**Holdings of loans and securities.** The following table presents a comparison of average daily holdings, earnings for the year, and average rate of interest on loans and securities held by the Federal Reserve Banks during each of the past four years.

### RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1947-50

[Dollar amounts in thousands]

| Item and year                                   | Total        | Dis-<br>counts<br>and<br>advances | Accept-<br>ances<br>pur-<br>chased | U. S.<br>Government<br>securities<br>direct and<br>guaranteed | Indus-<br>trial<br>loans |
|-------------------------------------------------|--------------|-----------------------------------|------------------------------------|---------------------------------------------------------------|--------------------------|
| <b>Average daily holdings:<sup>1</sup></b>      |              |                                   |                                    |                                                               |                          |
| 1947.....                                       | \$22,552,491 | \$218,755                         | \$384                              | \$22,331,740                                                  | \$1,612                  |
| 1948.....                                       | 21,841,623   | 330,706                           | .....                              | 21,509,321                                                    | 1,596                    |
| 1949.....                                       | 19,804,711   | 231,201                           | .....                              | 19,572,664                                                    | 846                      |
| 1950.....                                       | 18,536,551   | 129,081                           | .....                              | 18,405,083                                                    | 2,387                    |
| <b>Earnings:</b>                                |              |                                   |                                    |                                                               |                          |
| 1947.....                                       | 157,823      | 2,195                             | 4                                  | 155,564                                                       | 60                       |
| 1948.....                                       | 303,316      | 4,371                             | .....                              | 298,903                                                       | 42                       |
| 1949.....                                       | 315,754      | 3,472                             | .....                              | 312,241                                                       | 41                       |
| 1950.....                                       | 275,066      | 2,034                             | .....                              | 272,916                                                       | 116                      |
| <b>Average rate of interest<br/>(per cent):</b> |              |                                   |                                    |                                                               |                          |
| 1947.....                                       | 0.70         | 1.00                              | 1.01                               | 0.70                                                          | 3.75                     |
| 1948.....                                       | 1.39         | 1.32                              | .....                              | 1.39                                                          | 2.64                     |
| 1949.....                                       | 1.59         | 1.50                              | .....                              | 1.60                                                          | 4.85                     |
| 1950.....                                       | 1.48         | 1.58                              | .....                              | 1.48                                                          | 4.85                     |

<sup>1</sup> Based on holdings at opening of business.

Federal Reserve Bank holdings of Government securities averaged more than 1 billion dollars less in 1950 than in 1949, thus extending the downward trend to four straight years from the 1946 record holdings. The average rate of interest received from holdings of securities was also lower than in 1949, resulting primarily from a shift in the relative proportion of holdings from bonds to shorter term securities. Reflecting the lower average yield and smaller holdings, earnings from Government securities declined to below the 1949 and 1948 amounts, but were still in excess of previous years. Holdings of discounts and advances and earnings thereon were also in smaller amounts in 1950 than 1949, and average holdings were

smaller than in any of the preceding three years. On the other hand, industrial loans and earnings therefrom showed a marked increase and were higher than in the preceding years.

**Foreign and international accounts.** Accelerating the upward trend which first became evident in the latter part of 1947, total deposits of foreign central banks and governments with the Federal Reserve Banks and gold and securities held in custody for foreign accounts increased in 1950 by about 2.2 billion dollars to more than 7.2 billion. This net increase was dominated by a rise of 1,246 million dollars in earmarked gold. United States Government securities held in custody and deposits showed smaller, though significant, increases, rising by 903 million dollars and 139 million, respectively.

The amount of dollar deposits and gold custodies held by the Federal Reserve Bank of New York for the International Bank for Reconstruction and Development and the International Monetary Fund showed a moderate increase. Combined deposits and custodies held for foreign and international account rose to well over 10 billion dollars at the end of the year, and were substantially in excess of the previous peak of 8.2 billion reached in February 1947.

Loans on gold by the Federal Reserve Banks to foreign central banks, which had reached a record high of nearly 260 million dollars outstanding in 1948, had receded to slightly less than 70 million at the end of 1949. The last such loan was paid off in August 1950.

The Federal Reserve Bank of New York handled a variety of operations during the year for the International Bank for Reconstruction and Development and the International Monetary Fund, and, as fiscal agent of the United States, continued to operate the United States Stabilization Fund in accordance with authorizations and instructions from the Treasury Department.

In December the Secretary of the Treasury designated the Federal Reserve Bank of New York as fiscal agent of the United States to act on behalf of the Treasury Department in the administration of the regulations relating to the blocking in this country of the assets of Communist China and North Korea.

**Bank premises.** Considerable progress was made during the year toward alleviating the need for additional permanent space and improving working conditions in the quarters of certain Federal Reserve Banks and Branches. However, in view of the enlarged defense program and the manpower and construction materials

situation, the Board in December 1950 advised the Federal Reserve Banks that while it would continue to approve the preparation of plans for needed building construction it would authorize only construction of an emergency character.

Work on the new buildings to house the Portland and Seattle Branches of the Federal Reserve Bank of San Francisco had progressed to a point near completion by the end of 1950. The Seattle building was occupied on January 2, 1951, and upon occupancy of the Portland building, all Reserve Banks and Branches will be housed in their own buildings for the first time since the Federal Reserve System was founded. As indicated above, however, there is still need for expanded quarters, especially at some of the Branches, and it continues to be necessary to rent a substantial amount of outside space. Considerable progress was made during the year toward the completion of the new addition and alterations to the Detroit Branch building of the Federal Reserve Bank of Chicago.

The Board in 1950 authorized the Federal Reserve Bank of Boston to obtain bids for remodeling and lateral extension of its banking house, the Federal Reserve Bank of Richmond to accept the low bid for the erection of an addition at the rear of the present structure and for alterations in the existing quarters including the construction of a new coin vault, the Federal Reserve Bank of Atlanta to accept the low bid for the construction of the new Jacksonville Branch building, the Federal Reserve Bank of San Francisco to proceed with modernization and improvement of certain facilities and areas in the head-office building, including the building of a new coin and auxiliary vault.

The following additional authorizations were given: installation of stand-by oil burning equipment to service one boiler in the building of the Federal Reserve Bank of Chicago; construction of a coin vault in the Federal Reserve Bank of Minneapolis; and modernizing the elevator system in the Federal Reserve Bank of Cleveland.

Late in the year a lot situated across the street from the Federal Reserve Bank of Richmond's head-office property was acquired to provide for possible future expansion. The Federal Reserve Bank of Kansas City purchased real estate adjoining its Omaha Branch for the purpose of eventually building an addition. In order that more efficient utilization may be made of the site which the Federal Reserve Bank of San Francisco owns across the street from its main

quarters, a small strip of land jutting into this lot was acquired during the year.

Cost and net book value of Federal Reserve Bank premises are presented in Table 9 on page 60.

### BOARD OF GOVERNORS—INCOME AND EXPENSES

The following table shows the income and expenses of the Board for the year 1950:

|                                                             |              |              |    |              |
|-------------------------------------------------------------|--------------|--------------|----|--------------|
| OPERATING SURPLUS, January 1, 1950.....                     | \$           | 322,607.31   |    |              |
| Adjustment in 1950 applicable to preceding years..          |              | 93.19        | \$ | 322,514.12   |
| <hr/>                                                       |              |              |    |              |
| INCOME:                                                     |              |              |    |              |
| Assessments on Federal Reserve Banks.....                   |              | 3,433,700.00 |    |              |
| Sale of <i>Federal Reserve Bulletin</i> .....               |              | 12,659.32    |    |              |
| Sale of other publications.....                             |              | 17,684.41    |    |              |
| Miscellaneous.....                                          |              | 3,986.33     |    | 3,468,030.06 |
|                                                             |              |              |    | <hr/>        |
|                                                             |              |              |    | 3,790,544.18 |
| <hr/>                                                       |              |              |    |              |
| EXPENSES:                                                   |              |              |    |              |
| Salaries.....                                               |              | 2,451,447.00 |    |              |
| Retirement contributions—regular.....                       |              | 189,206.88   |    |              |
| Retirement contributions—special.....                       |              | 17,088.45    |    |              |
| Traveling expenses.....                                     |              | 198,105.22   |    |              |
| Postage and expressage.....                                 |              | 13,684.61    |    |              |
| Telephone and telegraph.....                                |              | 86,509.66    |    |              |
| Printing and binding.....                                   |              | 162,338.83   |    |              |
| Stationery and supplies.....                                |              | 30,358.05    |    |              |
| Furniture and equipment, including rental.....              |              | 62,841.07    |    |              |
| Books and subscriptions.....                                |              | 14,485.43    |    |              |
| Heat, light, and power.....                                 |              | 34,018.36    |    |              |
| Repairs and alterations (building and grounds)..            |              | 31,093.78    |    |              |
| Repairs and maintenance (furniture and equip-<br>ment)..... |              | 6,071.13     |    |              |
| Medical service and supplies.....                           |              | 1,421.19     |    |              |
| Insurance.....                                              |              | 4,607.82     |    |              |
| All other:                                                  |              |              |    |              |
| Surveys of Consumer Finances..                              | \$154,300.00 |              |    |              |
| Cafeteria (net).....                                        | 33,411.75    |              |    |              |
| Legal and consultant fees and ex-<br>penses.....            | 33,208.20    |              |    |              |
| Miscellaneous.....                                          | 45,791.76    |              |    |              |
|                                                             |              | 266,711.71   |    | 3,569,989.19 |
| <hr/>                                                       |              |              |    |              |
| OPERATING SURPLUS, December 31, 1950.....                   | \$           | 220,554.99   |    |              |

In addition to the foregoing, the Board made certain expenditures on a reimbursable basis for which it received reimbursements in 1950 as follows:

|                                                                                  |                |
|----------------------------------------------------------------------------------|----------------|
| Printing Federal Reserve notes.....                                              | \$5,184,830.98 |
| Leased wire service (telegraph).....                                             | 97,272.16      |
| Leased telephone lines.....                                                      | 9,684.00       |
| Federal Reserve Issue and Redemption<br>Division (Comptroller of the Currency).. | 107,366.22     |
| Miscellaneous.....                                                               | 20,157.75      |

The accounts of the Board for the year 1950 were audited by the Auditor of the Federal Reserve Bank of Boston, who certified them to be correct.

#### FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met in Washington on February 28, March 1, June 13-14, August 18, September 28, October 11, October 30, and November 27, 1950, 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 80-94 of this Report.

Conferences of the Chairmen of the Federal Reserve Banks were held on January 16-17 and September 18-19, 1950, and were attended by members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on February 27, June 12-13, September 21-22, and November 27-28, and the Board of Governors met with the Presidents on March 1, June 14-15, September 27, and November 29.

Meetings of the Federal Advisory Council were held on February 19-21, May 14-16, October 1-3, and November 19-21. The Board of Governors met with the Council on February 21, May 16, October 3, and November 21. 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.

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

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The year 1951, which is covered by this, the Thirty-eighth Annual Report of the Board of Governors of the Federal Reserve System, marked a transition from strong inflationary trends to relative economic stability at high levels of activity. The inflationary pressures dominant for an extended period following the Korean outbreak were brought under restraint during the first half of the year. Restrictive monetary policies in combination with a strengthened fiscal program played an important role in bringing about this result.

Prices of basic commodities, which had advanced rapidly in the rush of buying after June 1950, declined considerably from early 1951 until midsummer and then fluctuated within a narrow range. At the year-end prices of these sensitive commodities were nearly one-sixth below the peak levels of February 1951, but were still one-fourth above the level reached immediately before the Korean outbreak. Prices of all commodities at wholesale declined moderately. After the summer they were at a level some 3 per cent below the peak reached earlier in the year. Consumer prices, which had risen at an exceptionally rapid rate following the Korean outbreak, leveled off for a time after early spring and then rose again in the fall. At the end of the year they were about 6 per cent above the June 1950 level. Real property values changed little after February, except for some rise in farm land values. Common stock prices increased about 12 per cent during 1951, a somewhat smaller rise than in 1950.

As the year opened, business and consumer psychology reflected the impact of the Chinese intervention in Korea in December 1950. Buying activity was intense, and upward pressure on prices was strong and was supported by active use of credit. In January, with a view to imposing additional restraint on these developments, member bank reserve requirements were increased, margin requirements on loans secured by stock market collateral were raised, and the scope of regulation of real estate credit connected with new construction was extended to cover multi-family and nonresidential properties. Fol-

lowing the Treasury-Federal Reserve accord on March 4, continuous Federal Reserve support of the market for United States Government securities was withdrawn. In the same month leading financial groups inaugurated a voluntary credit restraint program under Federal Reserve auspices to cooperate in restricting nonessential credit extensions while facilitating those for essential purposes. By this time, regulation had checked growth of consumer instalment credit, and higher taxes on business and individual incomes were being reflected in substantially larger Federal revenues. Also, the military situation in Korea was improving, and direct price and wage controls had been imposed to help curb inflationary developments.

Withdrawal of Federal Reserve support of the Government securities market following the Treasury-Federal Reserve accord was an important factor in changing inflationary psychology. This action, taken at a time when many lenders were more heavily committed than usual to make loans in the future, had a pervasive influence on the climate of the money market. It reduced the liquidity of lenders—indeed of all holders of marketable Government securities—and lessened their disposition to sell such securities in order to extend other credit. As a result of this change in climate, expectations of further depreciation in the value of the dollar were widely revised, search for various hedges against inflation was moderated, and willingness to accumulate liquid savings was strengthened. Foreign appraisal of prospects for the dollar also improved and this was a factor in the subsequent cessation of gold outflow from the United States.

As the climate of expectations changed, distortions in the economy brought about by the earlier overbuying, overborrowing, and overpricing became potent moderating factors. Business, financial, and consumer decisions ceased to be dominated by the conviction that prices would continue to rise rapidly under the threat of general war and the impact of defense expenditures; instead, decisions became increasingly influenced by the large volume of inventories on hand and the possibility of declines in prices.

Succeeding months were characterized by further moderate growth in total output but with divergent trends in important sectors of the economy, without resurgence of inflationary pressures. The monetary and credit situation reflected the interplay of market forces of demand and supply with a minimum of Federal Reserve

intervention in the money market. Further changes in prices of Government securities were moderate. Bank credit for business activities related to defense continued to expand but credit for other purposes changed little more than seasonally. While credit expansion and other factors induced a further increase in the money supply, the turnover of demand deposits slowed down.

### FEDERAL RESERVE POLICY

Effective in January and early February, the Board of Governors raised reserve requirements against demand deposits for member banks by 2 percentage points and against time deposits by one percentage point, thereby increasing the amount of required reserves about 2 billion dollars or more than 10 per cent. These increases absorbed the additional reserves being made available at the time by a return flow of currency, a decline in Treasury deposits at Reserve Banks, and Federal Reserve purchases of long-term Treasury bonds from nonbank investors who were selling them to shift to higher yielding investments. The Federal Reserve purchased additional Government securities in the market to assist in the adjustment of some banks to the increased reserve requirements, and to cushion the effect upon prices of Government securities. As a result the System's portfolio of Government securities increased 1.1 billion dollars in the first two months of the year.

Selective regulation of stock market credit and real estate credit was also strengthened in this period. Regulation of real estate credit under the Board's Regulation X and related Federal Housing Administration and Veterans Administration regulations was broadened on January 12 to include residential properties with more than two family units and on February 15 to include nonresidential properties. On January 17 the Board amended its Regulations T and U to increase the margin required in the purchase or short sale of listed stocks from 50 to 75 per cent of market value.

**The Treasury-Federal Reserve accord.** During the early part of the year, despite the restraints applied, inflationary pressures in the private sector of the economy continued and extension of bank credit, especially to businesses, proceeded at an unusually rapid rate. In the light of these developments it became increasingly clear that anti-inflationary credit and monetary measures could not be made effective—in fact, that credit and monetary developments would tend to

be inflationary—as long as Government securities were given a “money quality” by support of their prices. The Federal Open Market Committee, in discussions with the Treasury, sought a way to remove a significant quantity of the Government securities pressing on the market and also to restore the discount mechanism as a restraint on inflation.

As a result of these discussions, on March 4 the Treasury and the Federal Reserve made the following announcement with respect to monetary and debt management policies:

The Treasury and the Federal Reserve System have reached full accord with respect to debt management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt.

The monetary and debt management policies on which agreement was reached are described on pages 98-102 of this Report. In meeting their changing problems the Federal Reserve and the Treasury have worked closely together in the spirit of the accord.

The first step under the accord was the exchange early in April 1951 of marketable United States Government long-term bonds for new long-term bonds not directly marketable. Holders of the two longest term  $2\frac{1}{2}$  per cent bank-restricted bonds of 1967-72, which were outstanding in the amount of 19.7 billion dollars, were offered in exchange  $2\frac{3}{4}$  per cent bonds of 1975-80, convertible at the holder's option into  $1\frac{1}{2}$  per cent five-year marketable notes. This gave holders of the longest term restricted bonds, who were selling them in large amounts in order to shift into higher yielding private investments, an opportunity to exchange their holdings for the new issue bearing a higher return. This financing operation removed from the market 13.6 billion dollars of these two issues. Some 5.6 of the 13.6 billion exchanged were held by the Federal Reserve and the Treasury.

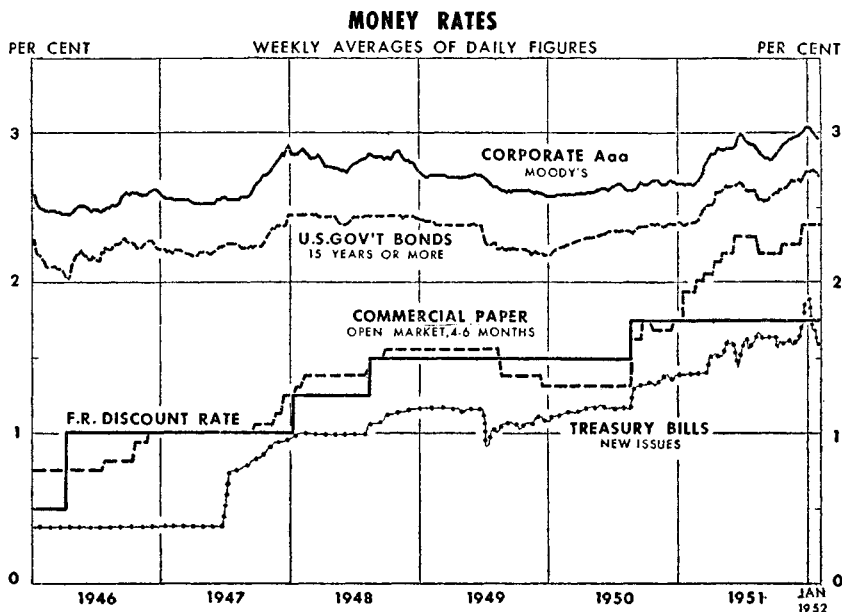
This exchange operation paved the way for discontinuance of Federal Reserve purchases of Government bonds in support of their prices. While the long-term bonds were being exchanged, support purchases were continued by the Federal Reserve and the Treasury but at declining prices. After the exchange was completed, very moderate purchases were sufficient to prevent the development of disorderly conditions in the market, and after June the Federal Re-

serve bought practically no long-term bonds. Federal Reserve net purchases of restricted bonds, which had totaled 1,380 million dollars in the first four months of the year, declined to 250 million in May and June and to less than 20 million in the last half of 1951. Prices of long-term  $2\frac{1}{2}$  per cent restricted bonds, which had been supported around  $100\frac{3}{4}$  in January and February, fluctuated around 97 during the last half of the year when the bond market was on its own.

The new market situation contrasted sharply with the situation that had prevailed throughout the postwar period, when any amount of bonds could be sold readily at relatively fixed prices. After mid-April bondholders came to realize that security prices would decline further if bonds were forced on the market but that sales could be made gradually as savings accumulated and were reflected in increased investment demand. Holders did not force bonds on the market; either they did not sell or they found buyers other than the Federal Reserve. Such liquidation of bonds as did occur was accomplished without the creation of additional money or additional bank reserves by Federal Reserve purchases.

Another important step under the accord was the change in Federal Reserve operations in the market for short-term Government securities. Beginning in early March the short-term Government securities market was largely without Federal Reserve open market support. Any bank or other investor wishing to dispose of such securities had to depend on buyers in the market. The play of market forces resulted in some fluctuation as well as some rise in rates. Treasury bill rates fluctuated much more widely than previously, as is shown in the chart on the following page, but generally were somewhat below the Federal Reserve discount rate of  $1\frac{3}{4}$  per cent. The yield on one-year certificates fluctuated around the discount rate. These short-term rates were determined by the market, without direct intervention by the Federal Reserve, except for some support at times of Treasury refunding or of seasonal strain.

The closer relationship of short-term market rates to the discount rate was an important factor in a greater use of the Federal Reserve discount window in making temporary adjustments of member bank reserve positions. When the Federal Reserve, by refraining from open market purchases of Government securities, limits the availability of reserves through the open market, a member bank that has temporary need for additional reserves has a choice of

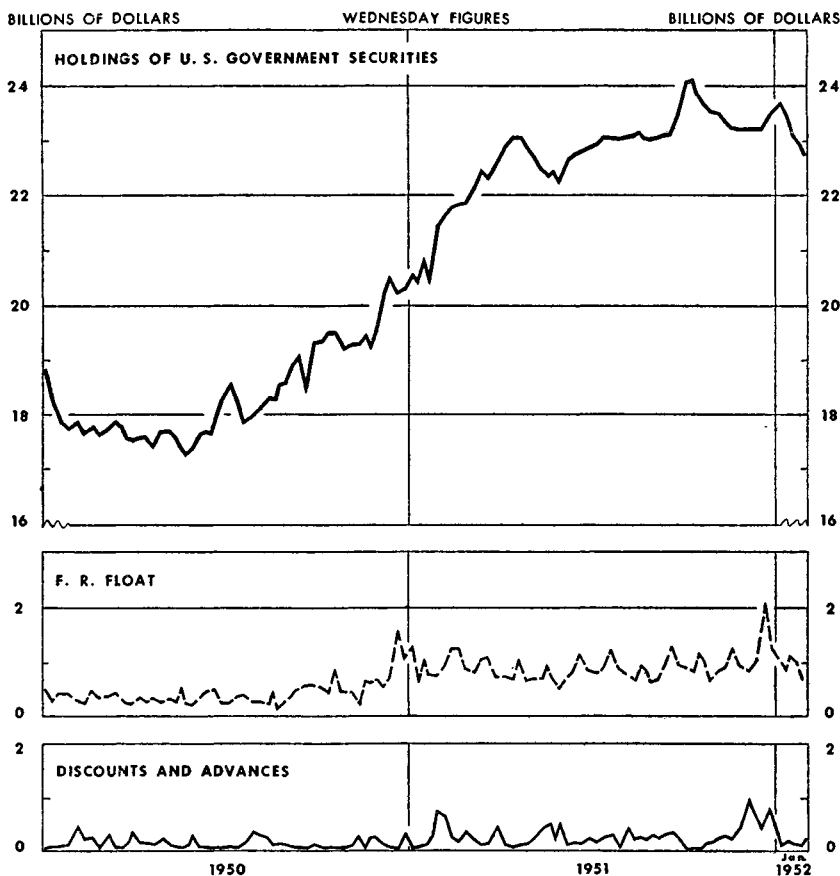


NOTE.—Rate for commercial paper is weekly prevailing rate in New York. Rate for Treasury bills is average discount on new issue during week. Federal Reserve discount rate is for the Federal Reserve Bank of New York.

borrowing from the Federal Reserve at the discount rate or selling Treasury bills or other securities at interest rates determined in the market. Depending on the excess reserve position of other banks, the bank may also have the choice of borrowing such funds through the Federal funds market, at a rate determined in this market. The primary alternative to discounting with the Reserve Banks, however, is the sale of Treasury bills or other securities. Even when the bill rate is somewhat below the discount rate, some banks prefer to borrow for a few days rather than to shift in and out of the bill market. As the year progressed, increasing numbers of member banks elected to borrow from the Federal Reserve in meeting shortages of reserve funds. This development reflected re-establishment of the discount function as a complement to open market operations in Federal Reserve influence on monetary and credit conditions.

In periods of Treasury refinancing, the Federal Reserve acted to steady the market for short-term Government securities. During such a refunding period a substantial volume of securities is shifted in the market. Some holders want to redeem the maturing securities

## FEDERAL RESERVE CREDIT



for cash, while some nonholders want to buy maturing issues at current prices in order to obtain the new issue on exchange. In several of the refunding operations in 1951, demand for the maturing securities for exchange purposes was not equal to the volume of the maturing issue for which holders wanted cash. Under these circumstances, Federal Reserve open market operations, by absorbing securities temporarily in excess of current demand, helped to assure larger exchanges and smaller cash redemptions. More than a billion dollars of securities were purchased by the Federal Reserve in June in this type of operation, and more than half a billion in September and October combined. There was only slight support of refunding operations in December but the Federal Reserve made large pur-

chases late in the month to meet seasonal needs in the money market. In all of these cases, the purchases were either concurrently or subsequently offset by sales of short-term securities from the open market account.

In summary, the accord made it possible to restore the discount function as a complement to open market operations in influencing the availability of credit at member banks. Federal Reserve holdings of Government securities increased from 20.8 billion dollars at the end of 1950 to 22.7 billion at the end of April 1951. Thereafter they were increased temporarily to meet short-run needs of the Treasury and the money market. By the end of January 1952 they had returned to about the April 1951 level.

**Selective credit regulation.** Selective regulations in the areas of consumer, real estate, and stock market credit were generally maintained in 1951.

Following the increase in margin requirements in January, stock market credit declined 9 per cent from the 1.2 billion dollars outstanding at the end of that month and remained near the lower level.

The regulatory limits on consumer instalment credit established under Regulation W in October 1950 continued during the first seven months of 1951. Notwithstanding some increase in the volume of new instalment credit granted, there was a reduction of more than 500 million dollars in outstanding instalment credit. On July 31, the regulation was amended to bring the regulatory limits within the range set by Congress in the Defense Production Act Amendments of 1951, which provided substantial relaxation of terms, especially on household appliances. Down payment requirements on these goods were eased not only by a reduction in the minimum percentages from 25 to 15 per cent but also by liberalization of the trade-in rules. Maximum maturities on regulated durable goods were lengthened from 15 to 18 months, and those on home improvements from 30 to 36 months. Under the relaxed terms, there was a substantial increase in the volume of new credits granted, partly for seasonal reasons, and outstanding instalment credit rose more than 600 million dollars from July to December 1951. The amount outstanding at the end of the year was about the same as a year earlier.

The limitation of terms on real estate construction credit established under the Board's Regulation X and related FHA and VA regulations in the autumn of 1950 operated to reduce the demand for mortgage credit, but its immediate effectiveness was limited by the large volume of loan commitments obtained just before the regulations were adopted. The change in open market policy in March 1951 had an immediate effect upon the supply of mortgage credit. Insurance companies and other institutions, still heavily committed on uncompleted loans, cut down their new commitments for several months beginning in March in order to bring their rate of lending more closely in line with their inflow of repayments and new savings. Under this combination of restraints, together with some reaction from the extraordinary conditions of 1950, the number of houses started declined from the record 1.4 million in 1950 to 1.1 million in 1951, with the consequence that the effective demand for mortgage money was more nearly in equilibrium with the supply of savings currently becoming available for investment in this credit area.

On September 1, 1951 the Board amended Regulation X in accordance with the statutory changes made by the Defense Housing and Community Facilities and Services Act of 1951. The amendment increased the permissible maximum loan and extended the permitted maturities for residences priced at \$12,000 or less. This easing of mortgage credit restraints applied to about two-thirds of all new houses started and came at about the time when a rise in saving increased the volume of investment funds available to the mortgage market.

**Sponsorship of voluntary credit restraint.** Early in 1951, in an endeavor to direct the flow of credit away from nonessential to essential uses, a voluntary credit restraint program was inaugurated. Voluntary credit restraint was provided for in the Defense Production Act of September 1950 and its implementation was delegated through Executive Order of the President to the Board of Governors. Under this authority the Board sponsored a program on the basis of the voluntary cooperation of representatives of banks and other financial institutions. The Board first brought together leaders from the private lending field for the purpose of formulating a program for voluntary credit restraint, and, upon the approval of that program, appointed a National Voluntary Credit Restraint Committee which

selected numerous regional committees and coordinated the work of these committees.

The program for voluntary credit restraint developed general lending standards which undertook to distinguish between financing that contributed to essential production and distribution and financing that served merely to effect transfers of ownership, to permit speculative purchases of property or commodities, or to contribute to increased production of nonessential items. Later, the National Committee promulgated more specific lending standards in several areas in which actual or anticipated expansion of credit was substantial and statutory selective regulation was not applicable, and for which participating financial institutions were major sources of credit.

The voluntary credit restraint program supplemented other measures to limit credit and monetary expansion. It also contributed to a further understanding among lending institutions and borrowers of the problems of credit restraint in a defense emergency. Additional information about the program is given on pages 30-31 of this Report.

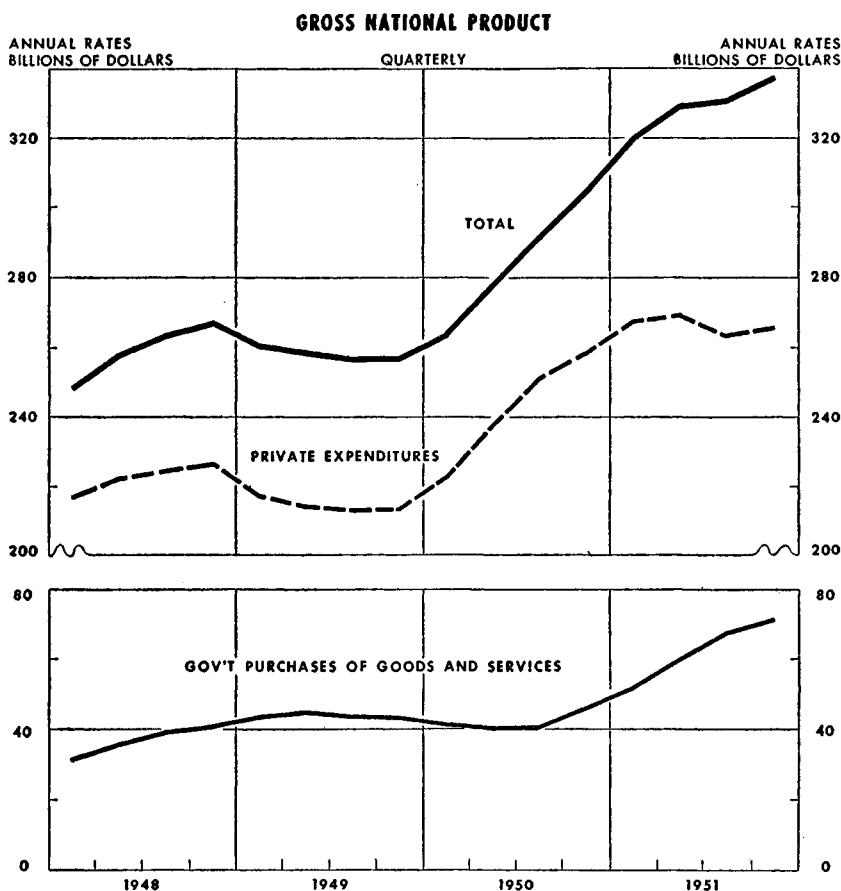
**Congressional inquiry into monetary policy and management of the public debt.** Important supplementary information on Federal Reserve policy in 1951 and other postwar years, as well as the role of monetary and debt management in achieving economic stability, is contained in replies of the Board of Governors to a comprehensive questionnaire sent to the Chairman of the Board in October 1951 by the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report. The Board's replies are included in Part 1 of *Monetary Policy and the Management of the Public Debt; Their Role in Achieving Price Stability and High-Level Employment* (82d Congress, 2d Session, Senate Document No. 123), published in February 1952. The replies of the Federal Reserve Banks to similar questions are presented in Part 2 of the same Senate Document.

#### ECONOMIC FACTORS UNDERLYING PRIVATE CREDIT DEMAND

Credit changes after February 1951 reflected shifts in consumer and business demand as well as the effect of fiscal, credit, and monetary restraints. A high level of production, less emphasis on the accumulation of business inventories after the middle of the

year, and prior satisfaction of many civilian demands for durable goods helped to ease inflationary pressures.

Value of total output continued to rise under the stimulus of increasing defense expenditures and in the fourth quarter of 1951 gross national product was at an annual rate of 337 billion dollars, 10 per cent higher than a year earlier. About half of this rise reflected the higher level of prices. In contrast to the previous period, however, when private expenditures increased very sharply, the greater part of the increase in national product in 1951 resulted from larger purchases by the Federal Government. Federal expenditures for national defense and related purposes increased more than 20 billion dollars, as is shown in the chart.



NOTE.—Department of Commerce estimates adjusted for seasonal variation.

This broad shift in the composition of expenditures was reflected in changes in industrial production—output at factories and mines. Industrial production remained relatively steady at an advanced level as industries associated with the defense program and the closely related business capital expenditures programs expanded considerably, while output of many industries in the consumer goods field declined as demands were reduced.

In non-Federal sectors of the economy, both expansive and contractive forces were at work. Changes in the business inventory situation played an important role in checking inflationary forces. Business inventory accumulation, which had been large in late 1950 and early 1951, reached an unprecedented annual rate of 16 billion dollars in the second quarter of 1951 as deliveries were made of goods ordered earlier by distributors and producers. By the last quarter of the year inventory accumulation slackened to a rate of about 6 billion dollars annually. The large inventories already available in most lines helped to provide assurance against shortages and higher prices. At the end of the year business inventories of consumer goods were still fairly large in relation to sales, despite some liquidation, especially by retailers.

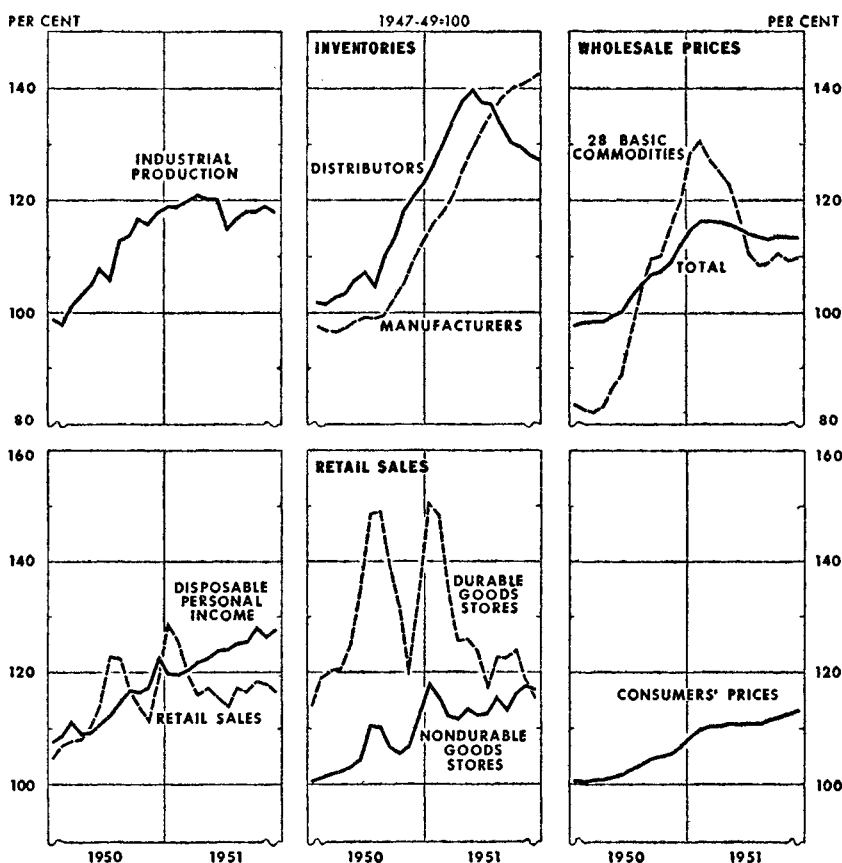
Expenditures for new construction increased somewhat further in 1951 as costs advanced to new record levels. Outlays for defense construction and for private industrial building, taking account of increased seasonal movements, increased sharply during most of the year, but private outlays for commercial and residential construction declined steadily during the last three quarters. These declines reflected limitations on the use of metals for building as well as credit policies. Some tightening of prevailing easy financing arrangements was brought about by open market and discount policy, which affected availability of mortgage funds, as well as by selective restraints on the demand for credit exerted by the Board's Regulation X and companion regulations of the Federal Housing Administration and Veterans Administration.

Expenditures for producers' durable equipment maintained a record level during 1951 and exceeded the total for 1950 by nearly 15 per cent. This high level of expenditure reflected both the Federal program of stimulating expansion of capacity in defense and basic industries, primarily through provision for accelerated amortiza-

tion for tax purposes, and continued strong business demands for capital goods in many other areas.

Consumer demand moderated after the first two months of 1951, although incomes after taxes continued to rise. Consumers saved an unusually large proportion of their incomes throughout the remainder of the year, but by the final quarter they had increased their spending to about the average rate of the first quarter. Restraint in buying after February reflected a number of factors. The military situation in Korea had improved and supplies of practically all consumer goods continued to be ample for existing de-

### SELECTED BUSINESS INDEXES



NOTE.—Monthly series, seasonally adjusted except for prices. Indexes for inventories, retail sales, and disposable personal income (income after taxes) based on Department of Commerce data. Price series from Bureau of Labor Statistics. Latest figures are for December 1951.

mands. Consumer demand was also restrained by the curbs imposed on consumer instalment credit and by existing contractual obligations to repay debt. In the latter part of the year, a further increase in income taxes provided another dampening influence. Underlying the reduced urgency of consumer and business demand was growing confidence in the ability of responsible authorities to restrain prices. As indicated earlier, while consumer prices advanced somewhat further after the spring of 1951, prices in wholesale markets, especially for basic commodities, declined.

### CREDIT AND MONEY

The change in money market conditions under the Treasury-Federal Reserve accord, together with some reaction from the inflationary expansion of credit during the period after mid-1950, helped to modify the lending and investing policies of commercial banks and other financing institutions.

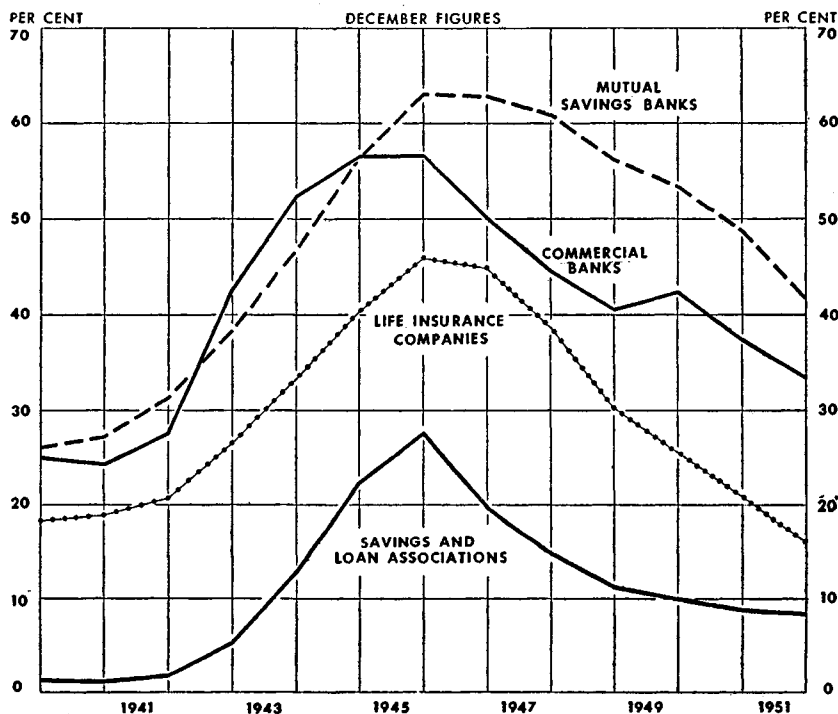
At banks, the sharp reduction in holdings of Government securities during 1950 and early 1951, the increase in reserve requirements in January and February, and the rapid expansion in loans to individuals and businesses over the preceding year had lowered liquidity positions somewhat. As the year progressed, higher yields made Government securities more attractive investments and their lower prices discouraged the sale of existing holdings in order to obtain funds to make loans. The decrease after April in Federal Reserve purchases of Government securities curtailed a source of additional reserve funds for banks. The net effect of these developments was to make banks less willing to expand their portfolios of private loans and investments and more interested in holding short-term Government securities for liquidity reasons.

During April-December 1951 commercial bank credit to borrowers other than the Federal Government increased 4 billion dollars. This amount, although substantial, contrasted sharply with the increase of 11 billion dollars in the nine months preceding April. Through purchases of short-term issues, banks increased their holdings of Government securities almost 3 billion dollars in the April-December 1951 period, compared with a reduction of nearly 7 billion in the preceding nine months.

Lenders other than commercial banks—life insurance companies, mutual savings banks, and savings and loan associations—could no

longer count on supported prices for United States Government securities when they needed funds for extending additional credit to businesses and individuals. The liquidity and risk positions of these lenders had already become less favorable as a result of the substantial postwar decrease in the proportion of their assets held in Federal Government securities, as is shown in the chart. In this situation liquidation of Government securities by these lenders de-

**RATIO OF U. S. GOVERNMENT SECURITIES HOLDINGS TO TOTAL ASSETS  
SELECTED TYPES OF FINANCIAL INSTITUTIONS**



NOTE.—Ratios based on following sources: mutual savings banks and commercial banks, Federal Deposit Insurance Corporation; life insurance companies, Institute of Life Insurance; and savings and loan associations, Federal Home Loan Bank Board.

clined, and their financing activities, which had been very large, slackened moderately. The volume of their private financing became more nearly in line with the amount of investment funds available to them from loan repayments and new savings.

Over-all credit expansion, although somewhat smaller in 1951 than in the preceding year, was larger than in any other postwar year. Slower credit expansion was associated with important shifts

in types of credit extended. The rise in real estate mortgage debt was not quite as large as the record rise in 1950, and the growth of consumer debt virtually ceased. Business indebtedness, particularly for defense and defense-related activities, continued to increase, while the Federal Government debt held by banks and other private investors declined somewhat.

**Expansion of bank credit.** As in other recent years, commercial banks provided a larger amount of additional credit in 1951 than did any other single group of financing institutions. An increase of more than 6 billion dollars in private credit, that is loans and investments other than United States Government securities, accounted for all of the additional credit advanced by commercial banks, as is shown in the accompanying table.

While commercial bank holdings of United States Government securities were about the same at the end of the year as at the beginning, they changed substantially during the year. Banks sharply reduced their holdings in the first quarter of the year, in part to meet the increase in legal reserve requirements for Federal Reserve

### LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS

[In billions of dollars]

| Type of loan or investment          | Out-<br>stand-<br>ing<br>Dec. 31,<br>1951 | Change: |                   |                  |                   |                  |
|-------------------------------------|-------------------------------------------|---------|-------------------|------------------|-------------------|------------------|
|                                     |                                           | Year    | Fourth<br>quarter | Third<br>quarter | Second<br>quarter | First<br>quarter |
| Total loans and investments...      | 132.6                                     | +5.9    | +4.0              | +2.6             | +0.3              | -1.0             |
| U. S. Government securities...      | 61.5                                      | -0.5    | +1.8              | +1.2             | -0.3              | -3.2             |
| Other securities <sup>1</sup> ..... | 13.3                                      | +0.9    | +0.4              | +0.2             | +0.1              | +0.2             |
| Loans, total <sup>2</sup> .....     | 57.7                                      | +5.5    | +1.7              | +1.2             | +0.4              | +2.2             |
| Business.....                       | 25.9                                      | +4.0    | +1.4              | +0.8             | ( <sup>3</sup> )  | +1.8             |
| Real estate.....                    | 14.6                                      | +1.0    | +0.3              | +0.2             | +0.3              | +0.3             |
| Consumer.....                       | 7.8                                       | +0.1    | ( <sup>3</sup> )  | ( <sup>3</sup> ) | +0.2              | -0.1             |
| All other <sup>4</sup> .....        | 10.3                                      | +0.5    | ( <sup>3</sup> )  | +0.2             | ( <sup>3</sup> )  | +0.2             |

<sup>1</sup> Mainly corporate and State and local government bonds.

<sup>2</sup> Total loans are after, and the various types of loans are before, deductions for valuation reserves.

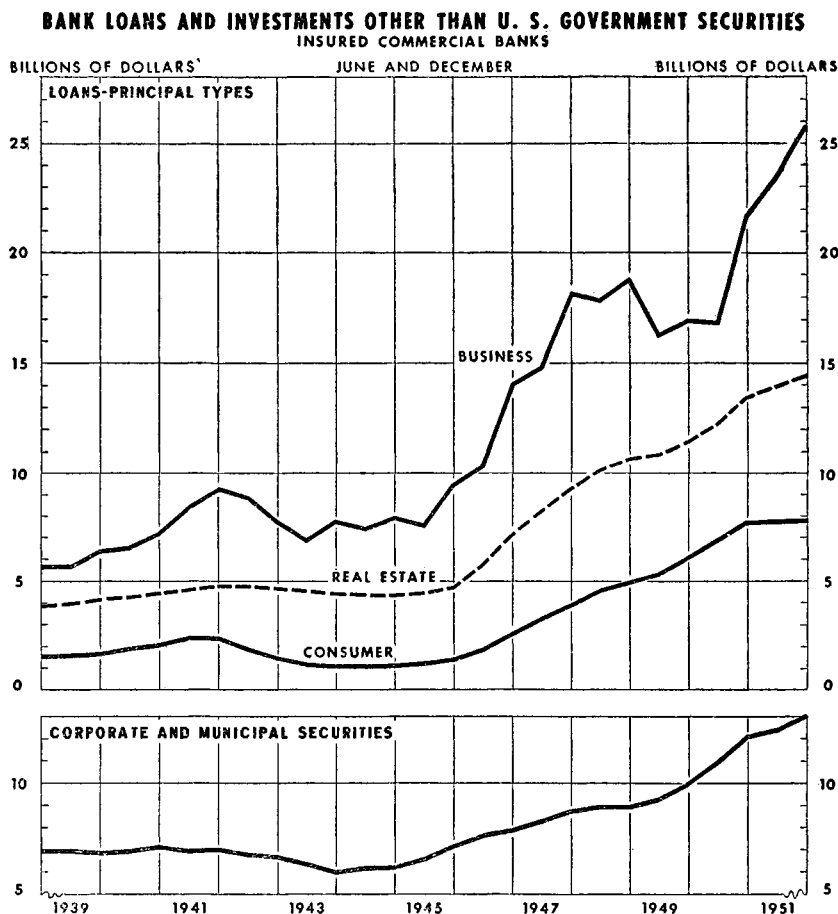
<sup>3</sup> Less than 50 million dollars.

<sup>4</sup> Agricultural loans, loans on securities, loans to banks, and loans of more than \$3,000 to individuals.

NOTE.—Details may not add to totals because of rounding. Figures for security holdings are at book value; totals for U. S. Government securities therefore differ somewhat from the par value figures shown in the table on p. 25.

member banks in January and February, and there was a further small reduction in the second quarter. In the last half of the year bank holdings of Government securities, particularly short-term issues, increased considerably, reflecting in part an effort by banks to strengthen their liquidity positions.

The greater part of the expansion of bank credit in 1951 was in loans, which increased 5.5 billion dollars or about three-fifths as much as in the preceding year. The growth in all major types of loans—business, real estate, and consumer—was smaller in 1951 than in 1950, as is shown in the chart. It was also more evenly distributed



NOTE.—All insured commercial banks in the United States. Business loans include commercial and industrial loans, open market commercial paper, and acceptances. Municipal securities include State and local government obligations.

throughout the year than was true of other postwar years. In part this reflected the fact that restraints on the availability of credit were made much more effective after the first quarter of the year so that loan expansion in the last quarter—usually the season of peak loan demand—was smaller than in the first quarter, which is normally a period of seasonally slack demand for credit.

Bank credit expansion was most marked in the business loan sector. In the first quarter, when bank loans to business normally show a slight decline, business loans expanded almost 2 billion dollars, reflecting heavy business use of bank credit for expanding inventories in anticipation of continuing inflationary pressures. This was followed by little change in the second quarter as credit became less readily available and further price increases seemed less imminent.

During the second half of the year, business loans rose again in response to both defense and seasonal needs. Defense and defense-related businesses like metal and metal products manufacturers and public utility companies were important borrowers during this period, as were also concerns in nondefense lines that customarily borrow in the fall to help move and process the crops, such as commodity dealers and food, liquor, and tobacco manufacturers. The increase in loans for defense purposes was much larger in the latter half of 1951 than in the same period of 1950, while increases for other purposes were smaller.

**Increase in other credit and capital.** Long-term business financing through corporate securities by private placements with life insurance companies as well as public sales was considerably larger in 1951 than in 1950. Corporate security issues for new capital exceeded 7 billion dollars in 1951 as compared with about 5 billion in the preceding year. Life insurance company holdings of business securities rose nearly 3 billion dollars in 1951 compared with about 2 billion in 1950. The proceeds from the year's large volume of corporate security financing were used mainly to finance expansion of plant and equipment and were largely concentrated in defense and defense-related industries.

Outstanding real estate mortgage debt held by all principal types of lenders increased about 7.5 billion dollars in 1951, appreciably less than the record growth of about 9.0 billion in 1950. The slackened growth was most apparent at commercial banks, where real estate loans rose 1 billion dollars or half the expansion in the

preceding year. Since 1948 growth in real estate credit has been less rapid at commercial banks than at other major types of mortgage lending institutions, including life insurance companies, mutual savings banks, and savings and loan associations.

The amount of consumer credit outstanding increased about half a billion dollars last year as compared with 3.3 billion in 1950. The 1951 increase was in charge accounts and other forms of noninstalment credit, which were not subject to regulation. Consumer instalment credit outstanding, which had risen sharply and accounted for most of the increase in total consumer credit in 1950, remained practically unchanged in 1951. Commercial banks, which accounted for about half of the increase in total consumer credit in 1950, expanded these loans very slightly in 1951.

The volume of new financing by State and local governments declined slightly in 1951, reflecting largely the virtual disappearance of veterans' bonus issues. An increased proportion of the financing served such essential purposes as the building of schools and various health facilities such as sewer and water systems. Commercial banks continued to provide a substantial part of the new funds borrowed by State and local governments to finance their development programs.

**Rise in volume and decline in use of money.** The 9 billion dollar increase in the privately held money supply in 1951 was the largest increase since 1946. After a largely seasonal decline of nearly 4.5 billion dollars in the first quarter of 1951, the money supply in the hands of individuals and businesses rose at an accelerating rate. This rise represented in part expansion of balances needed for current transactions and in part increased savings temporarily awaiting investment or spending.

Factors providing for the increase in the money supply in 1951 differed considerably from those underlying the rise a year earlier. In 1950 a significant reduction in banking system holdings of United States Government securities and a sizable outflow of gold from the United States offset in part the expansionary effect of the large increase in bank loans. In 1951, as is shown in the table on the following page, an increase in banking system holdings of Government securities and some gain from foreign operations reinforced the growth in loans in expanding the money supply. As a result, the money supply rose more in 1951 than in 1950 notwithstanding less expansion of bank loans.

As is usual when the money supply rises sharply, the increase was concentrated in demand deposits, but time deposits and currency in the hands of the public also rose significantly. As is shown in the chart on page 21, time deposits began to rise in the second quarter of 1951, following a decline which had continued since the outbreak of hostilities in Korea. In 1951 individuals also increased their savings in other liquid forms, particularly savings and loan association shares. Holdings of savings bonds at current redemption values declined somewhat.

After a moderate but fairly steady decline since the end of 1946, currency in the hands of the public rose fairly sharply in 1951. The growth reflected a variety of factors, including the enlargement and increased movement of the armed forces and civilian personnel

### CHANGES IN THE MONEY SUPPLY, WITH RELEVANT FACTORS

[In billions of dollars]

| Item                                                                      | Change:                                 |                |               |                  |               |
|---------------------------------------------------------------------------|-----------------------------------------|----------------|---------------|------------------|---------------|
|                                                                           | Year                                    | Fourth quarter | Third quarter | Second quarter   | First quarter |
| <i>Money supply</i>                                                       |                                         |                |               |                  |               |
| Total <sup>1</sup> .....                                                  | +9.3                                    | +6.0           | +2.5          | +1.4             | -0.7          |
| U. S. Government deposits.....                                            | +0.2                                    | -2.1           | -0.7          | -0.8             | +3.7          |
| Private.....                                                              | +9.1                                    | +8.1           | +3.2          | +2.2             | -4.4          |
| Demand deposits.....                                                      | +6.0                                    | +6.2           | +3.0          | ( <sup>2</sup> ) | -3.3          |
| Time deposits.....                                                        | +2.2                                    | +0.9           | +0.6          | +0.8             | -0.1          |
| Currency outside banks.....                                               | +0.9                                    | +0.9           | -0.4          | +1.4             | -1.0          |
| <i>Relevant factors affecting the money supply</i>                        | (Sign indicates effect on money supply) |                |               |                  |               |
| Bank holdings of U. S. Government securities.....                         | +1.2                                    | +1.9           | +1.5          | -0.3             | -2.0          |
| Bank loans and investments other than U. S. securities <sup>3</sup> ..... | +8.4                                    | +3.1           | +1.4          | +1.6             | +2.3          |
| Gold and foreign accounts.....                                            | +0.4                                    | +0.9           | +0.4          | -0.1             | -0.9          |
| Bank capital.....                                                         | -0.8                                    | -0.2           | -0.2          | -0.3             | -0.2          |
| Other factors.....                                                        | +0.1                                    | +0.3           | -0.6          | +0.5             | +0.1          |

<sup>1</sup> Excludes interbank deposits, items in process of collection, and bank vault cash.

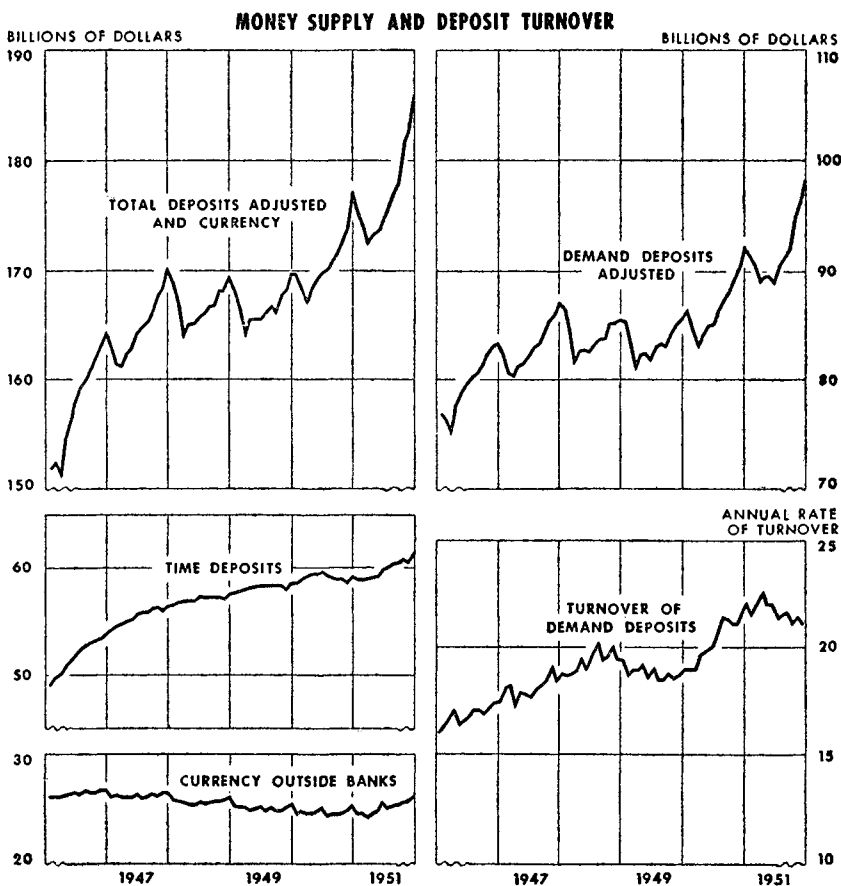
<sup>2</sup> Less than 50 million dollars.

<sup>3</sup> Excludes interbank loans.

NOTE.—Consolidated statement for commercial and mutual savings banks, Federal Reserve Banks, the Postal Savings System, and Treasury currency funds. Details may not add to totals because of rounding.

engaged in defense production as well as increased business activity, incomes, and savings.

The inflationary effect of the substantial increase in the money supply after the first quarter of 1951 was largely neutralized by less active use or turnover of its principal component—demand deposits—as well as by the large part of the growth that was accounted for by time deposits—the least active component of the money supply. Both developments reflected increased confidence in deposits as a store of value.



NOTE.—Figures are partly estimated. Deposits are for all banks in the United States, adjusted to exclude U. S. Government and interbank deposits and items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Currency excludes bank vault cash. Figures are for end of month, 1946; last Wednesday of month, 1947-51, except for June and December call dates.

Turnover data are on a monthly basis, seasonally adjusted, as compiled by the Federal Reserve Bank of New York. Deposits used to compute turnover are averages of demand deposits, except U. S. Government and interbank deposits, as reported weekly by member banks in leading cities outside New York.

**Bank reserves.** Reserve positions of commercial banks were under greater pressure in 1951 than in other postwar years. The higher reserve requirements imposed on member banks early in the year increased their need for reserves by about 2 billion dollars or more than 10 per cent. This increase more than absorbed the additional reserves made available by the post-Christmas return flow of currency and a decline in Treasury deposits at Reserve Banks, as well as those supplied by Federal Reserve purchases in support of Government bond prices. The Federal Reserve purchased Government securities from banks in the early part of the year, thereby supplying additional reserves needed for the adjustment of individual banks to the increased reserve requirements and for meeting the expansion in bank loans. Over the remainder of the year, demands for reserve funds arose from an increase in the volume of currency in circulation, as well as from deposit growth resulting from the increase in bank credit.

On the other hand, the cessation of the gold outflow in the spring of 1951 removed a previous drain on reserves which had been operat-

### CHANGES IN MEMBER BANK RESERVES, WITH RELEVANT FACTORS

[In billions of dollars]

| Item                                                                            | Year<br>1951     | Fourth<br>quarter | Third<br>quarter | Second<br>quarter | First<br>quarter  |
|---------------------------------------------------------------------------------|------------------|-------------------|------------------|-------------------|-------------------|
| <i>Member bank reserves</i>                                                     |                  |                   |                  |                   |                   |
| Total.....                                                                      | +2.4             | +0.7              | +0.3             | ( <sup>1</sup> )  | +1.3              |
| Required.....                                                                   | +3.2             | +0.8              | +0.2             | +0.1              | <sup>2</sup> +2.1 |
| Excess.....                                                                     | -0.8             | -0.1              | +0.1             | -0.1              | -0.7              |
| <i>Principal factors affecting reserves</i> (Signs indicate effect on reserves) |                  |                   |                  |                   |                   |
| Currency in circulation.....                                                    | -1.5             | -1.1              | -0.3             | -0.8              | +0.7              |
| Treasury operations.....                                                        | +0.5             | +0.6              | -0.5             | +0.8              | -0.4              |
| Gold stock and foreign accounts...                                              | +0.4             | +0.9              | +0.4             | -0.1              | -0.9              |
| Federal Reserve Bank credit...                                                  | +2.8             | +0.3              | +0.6             | +0.2              | +1.6              |
| Float.....                                                                      | -0.2             | +0.2              | ( <sup>1</sup> ) | +0.2              | -0.6              |
| U. S. Government securities...                                                  | +3.0             | +0.3              | +0.5             | +0.4              | +1.8              |
| Discounts and advances.....                                                     | ( <sup>1</sup> ) | -0.2              | +0.2             | -0.4              | +0.4              |
| Other factors.....                                                              | +0.2             | ( <sup>1</sup> )  | ( <sup>1</sup> ) | -0.1              | +0.2              |

<sup>1</sup> Less than 50 million dollars.

<sup>2</sup> Includes 2.0 billion due to increase in legal percentages required.

NOTE.—Details may not add to totals because of rounding.

ing since the Korean outbreak. Gold was flowing back into the United States in the third quarter, after little change in the second quarter, and the inflow, as well as the reduction in foreign balances at the Federal Reserve Banks, tended to increase bank reserves, as is shown in the table.

Reduced Federal Reserve buying of Government securities after April was an important factor limiting bank reserve expansion. As bank reserves became less readily available than they had been previously, the level of excess reserves was reduced somewhat and there was a greater amount of interbank transfers of excess reserves through the Federal funds market. Also, a larger number of banks relied on short-term borrowing from the Federal Reserve Banks to meet temporary shortages in reserves, and average daily holdings of discounts and advances at the Federal Reserve Banks totaled 293 million dollars in 1951 as compared with 129 million in the preceding year. Because of the reluctance of banks to remain in debt for long periods of time, indebted banks were under some pressure to use new funds coming to them to pay off their indebtedness as soon as possible rather than to lend or invest.

#### INTEREST RATES

Continued demand for credit and the reduced availability of bank reserves were reflected in a rise in money rates and bond yields in 1951, as was shown in the chart on page 6. Yields on short-term Government securities increased about one-third of a percentage point on the average, following a similar increase in 1950, and showed wider fluctuations than in previous years in response to money market developments. Rates charged by the larger banks on prime loans to customers rose from about 2 per cent in mid-1950 to 3 per cent at the end of 1951. Yields on the longest term Government bonds and on outstanding high-grade corporate bonds rose about one-third of a percentage point to approximately the levels of 1939.

At times during the year a concentration of demand, reflecting tax payments and other factors, resulted in somewhat tighter money market conditions than at other times. In these instances, member bank borrowing at Reserve Banks increased and some funds were supplied by Federal Reserve open market purchases. The Federal Reserve also bought Government securities in order to assure success of Treasury refunding. Federal Reserve purchases for these pur-

poses, made in June, September, and October, were subsequently offset by sales.

In the latter part of December a combination of corporate tax and dividend payments, holiday currency demand, and other end-of-year needs brought considerable pressure on the money market. Notwithstanding some Federal Reserve purchases of Government securities to relieve the pressure, open market yields on short-term paper and bonds, both private and public, rose sharply and bank borrowing from the Federal Reserve increased substantially. The rate on new Treasury bills rose to 1.865 per cent, the highest since 1933, and the yield on long-term Treasury bonds to 2.74 per cent.

Money market conditions eased considerably after the turn of the year, reflecting the return flow of currency from holiday circulation and a seasonal contraction in outstanding bank credit. Yields on securities and some types of short-term paper declined. Member bank borrowings were largely paid off and the Federal Reserve portfolio of Government securities was substantially reduced.

#### **CHANGES IN STRUCTURE AND OWNERSHIP OF UNITED STATES GOVERNMENT DEBT**

The United States Government debt increased 2.7 billion dollars in 1951. Federal agencies and trust funds added 3.1 billion dollars to their holdings, in large part by acquiring special issues but to some extent by purchasing securities in the market. The debt held by the public, including the Federal Reserve Banks, declined slightly. Considerable change in the portfolios of different investor groups reflected individual preferences as well as the type of securities offered by the Treasury.

One of the changes in types of securities available resulted from the exchange by the Treasury of 10.7 billion dollars of bank-restricted marketable bonds held by the public into the convertible investment bonds described on page 4. New money was raised in the second half of the year by issues of Treasury bills totaling 4.5 billion dollars. These included 2.0 billion of regular 91-day bills and 2.5 billion of March 15 and June 15, 1952 tax anticipation bills designed to encourage corporate investment in anticipation of the heavy tax payments on these dates.

The increase in bills held by the public was partly offset by cash redemptions of maturing marketable securities. Except for a five-

## OWNERSHIP OF UNITED STATES GOVERNMENT DEBT

[In billions of dollars, par value, partly estimated]

| Item                                                                          | Dec. 31,<br>1951 | Change:          |                  |               |
|-------------------------------------------------------------------------------|------------------|------------------|------------------|---------------|
|                                                                               |                  | Year<br>1951     | Second<br>half   | First<br>half |
| <b>Total debt outstanding</b> .....                                           | <b>259.5</b>     | <b>+ 2.7</b>     | <b>+ 4.2</b>     | <b>- 1.5</b>  |
| <b>Debt held by Federal agencies and trust funds, total</b> .....             | <b>42.3</b>      | <b>+ 3.1</b>     | <b>+ 1.3</b>     | <b>+ 1.8</b>  |
| Marketable .....                                                              | 3.3              | - 2.0            | + 0.1            | - 2.1         |
| Convertible .....                                                             | 2.9              | + 2.9            | .....            | + 2.9         |
| Nonmarketable .....                                                           | 36.0             | + 2.2            | + 1.3            | + 0.9         |
| <b>Debt held by public, total</b> .....                                       | <b>217.2</b>     | <b>- 0.4</b>     | <b>+ 2.9</b>     | <b>- 3.2</b>  |
| Marketable .....                                                              | 139.4            | - 7.7            | + 4.7            | -12.4         |
| Convertible .....                                                             | 9.2              | + 9.2            | - 1.5            | +10.7         |
| Nonmarketable .....                                                           | 68.6             | - 1.8            | - 0.3            | - 1.5         |
| <b><i>Distribution of debt held by public:</i></b>                            |                  |                  |                  |               |
| <b>Federal Reserve Banks, total</b> .....                                     | <b>23.8</b>      | <b>+ 3.0</b>     | <b>+ 0.8</b>     | <b>+ 2.2</b>  |
| Marketable securities:                                                        |                  |                  |                  |               |
| Bills .....                                                                   | 0.6              | - 0.7            | + 0.1            | - 0.8         |
| Certificates and notes .....                                                  | 17.9             | + 3.0            | + 2.2            | + 0.8         |
| Bank-eligible bonds .....                                                     | 1.7              | + 0.6            | ( <sup>1</sup> ) | + 0.6         |
| Restricted bonds .....                                                        | 2.4              | - 1.1            | ( <sup>1</sup> ) | - 1.1         |
| Convertible bonds .....                                                       | 1.2              | + 1.2            | - 1.5            | + 2.7         |
| <b>Commercial banks, total</b> .....                                          | <b>61.6</b>      | <b>- 0.2</b>     | <b>+ 3.2</b>     | <b>- 3.4</b>  |
| Marketable securities:                                                        |                  |                  |                  |               |
| Bills .....                                                                   | 7.4              | + 3.1            | + 3.4            | - 0.3         |
| Certificates and notes .....                                                  | 19.1             | ( <sup>1</sup> ) | + 0.9            | - 0.9         |
| Bank-eligible bonds .....                                                     | 31.5             | - 3.5            | - 1.2            | - 2.3         |
| Restricted bonds .....                                                        | 0.9              | - 0.1            | ( <sup>1</sup> ) | - 0.2         |
| Convertible bonds .....                                                       | 0.2              | + 0.2            | ( <sup>1</sup> ) | + 0.2         |
| Nonmarketable securities .....                                                | 2.5              | + 0.1            | ( <sup>1</sup> ) | + 0.1         |
| <b>Investors other than Federal Reserve and commercial banks, total</b> ..... | <b>131.8</b>     | <b>- 3.1</b>     | <b>- 1.1</b>     | <b>- 2.0</b>  |
| Marketable securities:                                                        |                  |                  |                  |               |
| Bills .....                                                                   | 10.0             | + 2.0            | + 1.0            | + 1.0         |
| Certificates and notes .....                                                  | 10.5             | - 0.2            | - 1.0            | + 0.8         |
| Bank-eligible bonds .....                                                     | 7.6              | - 0.5            | - 0.6            | + 0.2         |
| Restricted bonds .....                                                        | 29.8             | -10.4            | - 0.2            | -10.3         |
| Convertible bonds .....                                                       | 7.8              | + 7.8            | ( <sup>1</sup> ) | + 7.8         |
| Nonmarketable securities .....                                                | 66.1             | - 1.9            | - 0.3            | - 1.5         |

<sup>1</sup> Less than 50 million dollars.

NOTE.—Includes matured and noninterest-bearing debt as well as guaranteed securities. Details may not add to totals because of rounding.

year note offered to holders of certificates maturing January 1, 1951, all refunding issues during the year were certificates of indebtedness maturing in slightly less than one year. However, 8.5 billion dollars of bonds reaching their first call date in 1951 were retained in the debt structure as a result of the passing of call dates for the first time since 1935.

During the year outstanding savings notes declined 1.1 billion dollars, reflecting a shift by nonfinancial corporations into short-term marketable securities, and the current redemption value of savings bonds declined 400 million, reflecting in large part a considerable decline in purchases of Series F and G bonds and the larger denominations of Series E bonds.

The Federal Reserve Banks increased their holdings of Government securities 3 billion dollars in 1951 while other investors reduced their holdings by 3.4 billion. The net addition reflected purchases in the first quarter of the year to facilitate individual member bank adjustments to reserve requirements and to support the market for restricted bonds, and purchases in the latter part of December to relieve a seasonally tight money market. The Federal Reserve exchanged about 2.7 billion dollars of its restricted bonds for investment bonds and converted about 1.5 billion of the latter into notes, and also made net purchases of certificates and notes and of bank eligible bonds. Bill holdings were reduced further and at the end of the year the System held only 600 million dollars of bills compared with a peak of 15.7 billion in early 1947.

In the early months of 1951 commercial banks continued to sell Government securities, as they had during 1950, and their holdings declined to a new postwar low. These sales were largely offset by purchases later in the year, and by the year-end commercial bank holdings were only slightly smaller than a year earlier. The major factor underlying sales in the early months of the year was the pressure on reserves when legal requirements were increased and the gold outflow was heavy, but banks also continued to shift from Government securities into higher yielding private loans and investments. In the spring banks became increasingly concerned about improving their liquidity positions and, as yields on short-term issues rose, expanded their purchases of Treasury bills considerably, including both regular and, in the last quarter, tax anticipation issues.

Mutual savings banks and life insurance companies continued to

liquidate holdings of Government securities in order to invest in real estate mortgages and, in the case of life insurance companies, in business securities. About two-thirds of the 3.5 billion dollar reduction came in the first half of the year. These two investor groups together exchanged more than 4 billion dollars of restricted bonds for the new issue of investment bonds.

Among investor groups other than banks and insurance companies, further reduction in holdings by individuals was more than offset by increases in holdings by nonfinancial corporations, State and local governments, and miscellaneous investors. Individual investors, including personal trusts and unincorporated business enterprises, reduced their holdings for the second consecutive year. Holdings of both savings bonds and marketable securities were reduced. Nonfinancial corporations added somewhat to their portfolios but the amount was smaller than in the two preceding years. Treasury bill holdings were increased while savings notes were reduced. The growth in State and local government holdings of Federal securities, which had been in process for some years, continued and reflected further investment of pension and retirement funds.

#### INTERNATIONAL MOVEMENT OF GOLD AND DOLLARS

The gold stock of the United States at the end of 1951 amounted to 22.9 billion dollars, approximately the same amount as at the beginning of the year. A gold outflow of 0.9 billion dollars in the first half of the year, largely in the early months, was followed by an inflow of 1.0 billion in the last half. Gold movements accounted for practically all changes in the combined gold and dollar holdings of foreign countries, as aggregate foreign dollar balances fluctuated only moderately during the year. There were significant fluctuations in the distribution of foreign gold and dollar holdings as between countries and types of holders.

Foreign purchases of gold from the United States were largely in the first quarter when foreign monetary authorities continued, as in late 1950, to acquire dollars and to convert them into gold and also in some cases to draw down for that purpose previously accumulated dollar balances. The desire to hold reserves in gold rather than dollars largely reflected foreign concern over inflationary tendencies in the United States. This development came to a halt in March,

following the change in Federal Reserve open market policies. The marked change in foreign expectations regarding price movements in the United States was reflected in the sharp contraction of foreign gold purchases from the United States in the second quarter of the year.

Net foreign sales of gold to the United States took place entirely in the second half of the year, which was characterized by a sharp increase in United States exports of goods and services, a decline in imports, and a moderate contraction of foreign economic assistance.

#### NET FOREIGN PURCHASES<sup>a</sup> OF GOLD FROM THE UNITED STATES, 1951

[In millions of dollars]

| Area and country        | Year | Fourth<br>quarter | Third<br>quarter | Second<br>quarter | First<br>quarter |
|-------------------------|------|-------------------|------------------|-------------------|------------------|
| United Kingdom.....     | -470 | -630              | -320             | 80                | 400              |
| Continental Europe..... | 185  | -66               | 20               | 24                | 201              |
| Western Hemisphere..... | 136  | -26               | -12              | -63               | 237              |
| Other countries.....    | 81   | 7                 | 16               | 16                | 42               |
| Total.....              | -68  | -715              | -290             | 57                | 880              |

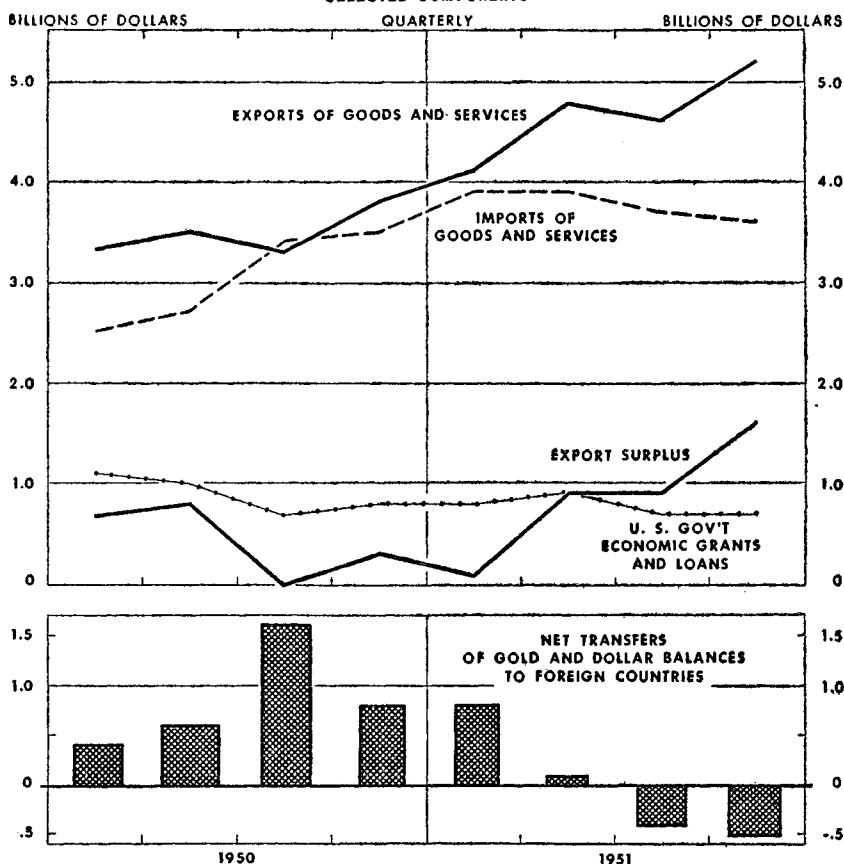
NOTE.—Minus sign indicates net sale to the United States.

The rise in the export surplus, to the extent that it was not offset by United States Government aid or by an outflow of private capital and donations, was currently reflected in the inflow of foreign gold and the decline in dollar balances, as the lower section of the chart shows.

Transactions of the United Kingdom dominated changes in foreign monetary reserves throughout the year; the large gold inflow to the United States in the second half reflected a sharp deterioration in the external position of the sterling area. By the end of the year this area had lost about half of the gold that had been added to its reserves in the period from the devaluation of 1949 to the spring of 1951. Offsetting these losses by the sterling area, and further gold and dollar losses by the Latin American countries, were increases for continental European countries, Canada, and Asia.

The combined gold and dollar holdings of foreign countries (excluding holdings by the U.S.S.R.) totaled 19.2 billion dollars at year-end 1951, slightly more than at the end of 1950. There were significant movements of gold and dollars among Western European countries, mainly reflected in settlements effected through the Euro-

# **BALANCE OF PAYMENTS OF THE UNITED STATES** **SELECTED COMPONENTS**



NOTE.—Net transfers of gold and dollar balances include net foreign purchases of gold from United States plus net increase in foreign dollar balances; Federal Reserve data. Other data from Department of Commerce. Exports of goods and services are net after deduction of military aid. U. S. Government economic grants and loans exclude miscellaneous unilateral transfers and short-term capital.

pean Payments Union. This institution, established in 1950, provides for the clearing of intra-European payments and for settlement each month in gold and dollars of a portion of each country's net deficit or surplus with the Union. Over the year as a whole Belgium, Germany, and Italy received the largest sums of gold and dollars from EPU, while the United Kingdom and France made the largest net gold and dollar payments.

There was also a shift of some 600 million dollars in dollar holdings from official foreign accounts to private foreign accounts.

This was partly the result of heavy movement of investment capital from the United States to Canada throughout the year. Speculation against the pound sterling and the French franc in the summer and autumn also probably contributed to the accumulation of dollar balances in private foreign accounts. The decline in official balances was partly reflected in the withdrawal of 370 million dollars from foreign deposits held with Federal Reserve Banks, but in addition there was some sale by foreign monetary authorities of United States Government securities. Net additions to private balances were in large part held in deposits with the commercial banks and to some extent invested in United States Government securities.

#### VOLUNTARY CREDIT RESTRAINT BY LENDERS

Under Section 708 of the Defense Production Act of 1950 the President was authorized to consult with representatives of industry, business, finance, agriculture, labor, and other groups with a view to encouraging the making by such persons of voluntary agreements which would further the objectives of the Act. Section 708 further provided that, after such agreements had been approved by designated public officials, actions taken by participants in accordance with them would be exempt from the provisions of the anti-trust laws.

The authority granted to the President, so far as it related to the field of financing, was delegated to the Board of Governors by Executive Order No. 10161, dated September 9, 1950, and the Board thereafter cooperated actively with representatives of banks, investment banking houses, and life insurance companies in the preparation of a program for voluntary credit restraint. The Board then consulted with the Attorney General and the Chairman of the Federal Trade Commission, as prescribed by the Act, following which the Attorney General approved a request by the Board to all financing institutions in the United States to act and refrain from acting pursuant to the provisions of the program. This request was issued by the Board on March 9, 1951, and together with the program was published in the March 1951 issue of the *Federal Reserve Bulletin*. Certain minor amendments to the program, relating principally to procedural matters, were approved in the manner prescribed by law, effective April 20, 1951.

In accordance with the provisions of the program the Board appointed a National Voluntary Credit Restraint Committee consisting of representatives of the lending groups which had participated in the preliminary discussions, with a member of the Board as chairman. The Committee, which later was expanded to include representatives of mutual savings banks and savings and loan associations, met periodically throughout the year following its initial meeting on March 14-15, 1951. Its principal functions included the general direction of the program, appointment of the subcommittees referred to below, and interpretation of the principles of the program in their application to particular credit areas. Six interpretive bulletins were issued by the Committee. These consisted of Committee recommendations as to standards for lending in the fields of inventory loans, financing of business capital expenditures, borrowing by State and local governments, loans on real estate, international financing, and loans on securities. In addition, for the guidance of participating institutions, the Committee distributed numerous informal memoranda containing its views on problems which arose in the course of the program.

A total of 43 regional subcommittees, consisting of representatives of the various groups of lending institutions represented on the National Committee, were established to consider inquiries from financing institutions as to whether particular applications for credit were in accordance with the standards set forth in the program.

#### LOAN GUARANTEES FOR DEFENSE PRODUCTION

The Defense Production Act of 1950 provided for the guarantee of loans made by commercial banks and other private financing institutions to contractors, subcontractors, and others engaged in the performance of Government defense contracts for the purpose of expediting production and deliveries or services for the defense program. The original Executive Order No. 10161, issued September 9, 1950, named as guaranteeing agencies the Departments of the Army, Navy, Air Force, Commerce, Agriculture, Interior, and the General Services Administration. During 1951 the Atomic Energy Commission and the Defense Materials Procurement Agency were designated by Executive Order to act as guaranteeing agencies.

The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies in these transactions and the procedure is governed by

Regulation V of the Board of Governors, as revised September 27, 1950.

During the early part of 1951 some defense contractors were unable to obtain necessary financing for the performance of their defense contracts because of the reluctance of banks to make loans on the security of the assignment of proceeds under Government contracts. The reluctance of banks to provide such financing arose from the fact that certain rulings of the Comptroller General of the United States under the Assignment of Claims Act of 1940 made it hazardous for private financing institutions to accept assigned contracts as collateral for loans. This situation created a serious impediment to the success of the guaranteed loan program, and in order to meet this problem the Board of Governors, together with other interested Government agencies, recommended an amendment to the Assignment of Claims Act of 1940 designed to remove the deterrent to participation by banks in the financing of defense contractors. By Act of Congress dated May 15, 1951, the recommended amendment was approved, and following the passage of this Act there was a substantial increase in the number of applications for guaranteed loans.

Pursuant to the Board's Regulation V, and after consultation with the guaranteeing agencies, the Board announced a schedule of guarantee fees and the establishment of a maximum rate of interest of 5 per cent on guaranteed loans and a maximum commitment fee of  $\frac{1}{2}$  of one per cent per annum. The matter of rates and fees has been under constant review by the Board and the guaranteeing agencies but developments in 1951 did not indicate the need for any changes.

During 1951 the Federal Reserve Banks received 879 applications for guarantees of loans aggregating 1,411 million dollars. The guaranteeing agencies authorized the issuance of guarantee agreements covering loans amounting to 1,364 million. On December 31, 1951, credit available, including loans outstanding, to borrowers under guarantee agreements in force amounted to 1,148 million dollars. On the same date there were outstanding loans aggregating 675 million. Approximately 75 per cent of the number of loans authorized involved concerns employing fewer than 500 people each and approximately 60 per cent involved concerns employing fewer than 250 people. Only about 5 per cent of the loans authorized were

for concerns employing more than 2,500 people, but these generally involved larger contracts and greater amounts of credit. They accounted for approximately half of the total funds involved. It is estimated that loans authorized to the end of 1951 were to defense contractors holding contracts aggregating between 8 and 9 billion dollars.

### BANKING OPERATIONS AND STRUCTURE

**Bank earnings and profits.** Net current earnings of member banks, before income and excess profits taxes, increased during 1951. The increase was, however, more than offset by an increase in provision for income and excess profits taxes and an increase in net losses, charge-offs, and transfers to valuation reserves. Net profits after profit and loss adjustments and taxes amounted to 756 million dollars, about 3 per cent lower than in 1950.

Net current earnings before income taxes advanced to 1,437 million dollars, an increase of 192 million. The most important factor in the increase was earnings on loans, resulting from both larger average holdings and a somewhat higher average rate of return. This increase of 369 million dollars in earnings on loans more than offset somewhat lower earnings on United States Government securities and an increase of 212 million dollars in total expenses before income taxes.

Net losses, charge-offs, and transfers to valuation reserves were 95 million dollars higher in 1951 and provision for taxes was 122 million higher, with the result that net profits after taxes and profit and loss adjustments, despite higher net current earnings, declined from 781 to 756 million dollars.

Net profits were 7.6 per cent of average capital accounts as compared with 8.3 per cent in 1950. The upward trend of the ratio of net current earnings before income taxes to total capital accounts continued, and the ratio reached 14.4 per cent.

About 49 per cent, or 371 million dollars, of 1951 profits were distributed as dividends, representing a return equal to 3.7 per cent on average total capital accounts; this ratio was unchanged from 1950, but the amount distributed and the proportion of net profits were higher. Profits retained to strengthen capital accounts amounted to 385 million dollars as compared with 435 million in 1950.

**Bank earning assets.** Earning assets of member banks amounted to 112 billion dollars at the end of the year, 5 billion more than at the end of 1950. The increase in loans was also about 5 billion dollars, and an increase in holdings of State and local government securities of about 900 million dollars was offset by decreases of about 750 million in holdings of United States Government obligations and about 150 million in holdings of other securities.

About three-fourths of the loan increase was in commercial loans. Statistics gathered since April 1951 from a sample of the larger member banks indicate that about half of the increase was for defense purposes. By industry group, the most substantial increase was in loans to manufacturers of metals and metal products (including machinery and transportation equipment); net decreases were reported for only two groups—manufacturers of textiles, apparel, and leather, and the construction industry.

**Capital accounts.** Capital accounts of member banks amounted to 10.2 billion dollars at the end of 1951, an increase of about half a billion during the year. Retention of profits accounted for about three-fourths of the increase; proceeds from sales of common stock amounting to 186 million dollars were offset to the extent of 47 million dollars by the retirement of preferred stock and reductions in capital accounts incident to mergers and changes in Federal Reserve membership.

The ratio of average total capital accounts to average total assets for all member banks was 6.9 per cent, somewhat lower than the 7.0 per cent for 1949 and 1950. The ratio of average total capital accounts to average so-called "risk" assets (total assets less United States Government securities and cash assets) continued to decline and dropped to 16.7 per cent, as compared with 18.9 for 1950. This reflected the increased proportion of earning assets held in the form of loans and securities other than those of the United States Government.

**Number of banking offices.** The number of banking offices in the United States continued to increase during 1951, for the eighth consecutive year. There were 19,842 offices at the end of the year, as compared with 19,584 the preceding year. There was a decrease of 32 in the number of banks to 14,618, but the number of branches increased by 290 to 5,224. All of these figures exclude banking facilities at military and other Government establishments,

of which there were 159 at the end of 1951, an increase of 37 during the year.

The number of banks (head offices) continued to decline, following the pattern of the three preceding years. During the year 63 new banks opened for business. This increase was more than offset, however, by a decrease of 97 banks as a result principally of the conversion of 59 banks into branches and the consolidation or absorption of 24 other banks. Table 18 on page 76 shows increases and decreases in the number of banks by class of bank.

The increase of 290 in the number of branches and additional offices, exclusive of banking facilities at military and other Government establishments, was the largest since the early twenties; the next largest annual increase was 250 during 1950. Most of the increase in 1951 was represented by the 251 *de novo* branches. New York had the largest branch increase with 51, and increases occurred in practically all branch banking States. Over half of the increase in branches during the year was in head-office cities; such offices constitute about 45 per cent of the total.

**Changes in Federal Reserve membership.** As a result principally of consolidations and conversions of banks into branches, the number of member banks in the Federal Reserve System continued to decrease during 1951. The number of offices of member banks continued to increase, however, due to the establishment of branches and additional offices.

On December 31, 1951, there were 6,840 member banks, of which 4,939 were national and 1,901 were State member banks, a decline of 33 for the year. Eleven newly organized banks became members, of which 9 were national banks and 2 State members. Ten non-member banks, with deposits of about 105 million dollars, were admitted to membership; 8 of these were operating as insured banks prior to admission to membership. Table 18 shows all increases and decreases in the number of member banks and their branches.

The 6,840 member banks in operation at the end of 1951 accounted for 49 per cent of the number and held 86 per cent of the deposits of all commercial banks in the country. State member banks accounted for 21 per cent of the number and held 66 per cent of the deposits of all State commercial banks. These relationships have remained practically unchanged during recent years.

**Par and nonpar banks.**<sup>1</sup> During 1951 a total of 83 banks were added to the Federal Reserve Par List, 1 withdrew, and 86 banks formerly on the list terminated existence. Of these 86 banks, 76 were absorbed by other par banks (including 55 that were converted into branches), 7 were liquidated, and 3 (noninsured banks) suspended.

At the end of 1951 there were 12,158 par-remitting and 1,829 nonpar banks, as compared with 12,162 and 1,853 respectively at the beginning of the year. The nonpar banks represent 13 per cent of the banks on which checks are drawn, but they hold a much smaller proportion of the deposits of all commercial banks in the country. There were 4,843 par-remitting and 302 nonpar branches and offices (including banking facilities) of commercial banks as compared with 4,534 and 290 respectively at the beginning of the year.

All banks in 29 States and the District of Columbia were on the Federal Reserve Par List at the end of the year. In each of 5 other States the number of nonpar banks was less than 10. Practically all of the banks not on the Par List were in the following 14 States: Minnesota 411; Georgia 285; Mississippi 161; Arkansas 121; North Carolina 109; Louisiana 104; South Dakota 98; Alabama 97; North Dakota 88; Tennessee 84; South Carolina 82; Missouri 64; Florida 56; and Texas 52.

Table 19 on page 77 shows these statistics by States and Federal Reserve districts.

**Designation of reserve cities.** Acting in accordance with the rule regarding classification of central reserve and reserve cities which was adopted by the Board on December 19, 1947,<sup>2</sup> on February 20, 1951, the Board of Governors of the Federal Reserve System took action as follows with respect to the classification of Reserve cities, effective March 1, 1952:

(1) The City of Washington, D.C., and every city except New York and Chicago in which there is situated a Federal Reserve Bank or Branch of a Federal Reserve Bank were continued as reserve cities.

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<sup>1</sup> This section refers only to banks on which checks are drawn and their branches and offices, including "banking facilities" at military posts and other Government establishments. 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 Federal Reserve Banks for payment, and also such nonmember banks as have agreed to do so.

<sup>2</sup> The rule appears in the Board's *Annual Report* for 1947, pp. 86-87.

(2) On the basis of official call reports of condition in the two-year period ending on June 30, 1950, the following cities met the standard prescribed in paragraph (2) of subsection (b) of the Board's rule, and, therefore, such cities also were continued as reserve cities:

Columbus, Ohio; Des Moines, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; National City (National Stock Yards), Illinois; St. Paul, Minnesota; Tulsa, Oklahoma; Wichita, Kansas; and Fort Worth, Texas.

(3) On the basis of written requests from the member banks in such cities, in accordance with paragraph (3) of subsection (b) of the Board's rule, the following cities also were continued as reserve cities:

Toledo, Ohio; Cedar Rapids, Iowa; Dubuque, Iowa; Sioux City, Iowa; Kansas City, Kansas; Lincoln, Nebraska; Pueblo, Colorado; St. Joseph, Missouri; and Topeka, Kansas.

(4) The following cities did not meet the requirements of either paragraph (2) or (3) of subsection (b) of the Board's rule, and, consequently, the designation of such cities as reserve cities was terminated:

Peoria, Illinois; Galveston, Texas; and Waco, Texas.

**Check routing symbols.** Pursuant to the program inaugurated by the American Bankers Association and the Federal Reserve System in June 1945, further progress was made during 1951 in the use of routing symbols on checks to facilitate their sorting and routing, and thus speed up their collection. A survey made late in the year revealed that 85 per cent of the checks handled at the Reserve Banks had the check routing symbol printed in the approved location, the upper right-hand corner. This compares with 76 per cent in 1950 and 67 per cent in 1949.

#### **BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM**

**Examination of Federal Reserve Banks.** The Board's Division of Examinations examined each of the 12 Federal Reserve Banks and their 24 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 conduct 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. In order to avoid duplication and to minimize inconven-

ience 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 1951 program for the examination of State member banks was practically completed.

**Bank holding companies.** During 1951 the Board authorized the issuance of three voting permits for general purposes and four permits for limited purposes to holding company affiliates of member banks.

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. In accordance with established practice, a number of 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.

**Trust powers of national banks.** During 1951, 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 5 banks which previously had been granted certain trust powers. Trust powers of 14 national banks were terminated, 12 by voluntary liquidation or merger and 2 by voluntary surrender. At the end of 1951, there were 1,772 national banks holding permits to exercise trust powers.

**Acceptance powers of member banks.** One application by a member bank for increased acceptance powers, made pursuant to the provisions of Section 13 of the Federal Reserve Act, was received during the year and approved by the Board.

**Foreign branches and banking corporations.** Under the provisions of Section 25 of the Federal Reserve Act, the Board approved during 1951 three applications made by member banks for permission to establish branches in foreign countries or in dependencies or insular possessions of the United States. Member banks opened six such branches in 1951: three in Cuba, one in Japan, and two in Puerto Rico. Four of the six branches so established had been authorized in 1950. One branch in China discontinued active operations during the year.

At the end of 1951, seven member banks had in active operation a total of 100 branches in 23 foreign countries and possessions of the United States. Of the 100 branches, four national banks were operating 94 and three State member banks were operating 6. The foreign branches in active operation were distributed geographically as follows:

|                           |           |                                  |            |
|---------------------------|-----------|----------------------------------|------------|
| <b>Latin America</b>      | <b>52</b> | <b>England</b>                   | <b>10</b>  |
| Argentina .....           | 10        | <b>Far East</b>                  | <b>19</b>  |
| Brazil .....              | 9         | Hong Kong .....                  | 1          |
| Chile .....               | 2         | India .....                      | 2          |
| Colombia .....            | 3         | Japan .....                      | 9          |
| Cuba .....                | 19        | Philippines .....                | 5          |
| Mexico .....              | 2         | Singapore .....                  | 1          |
| Panama .....              | 4         | Thailand .....                   | 1          |
| Peru .....                | 1         |                                  |            |
| Uruguay .....             | 1         |                                  |            |
| Venezuela .....           | 1         |                                  |            |
|                           |           | <b>United States Possessions</b> | <b>14</b>  |
| <b>Continental Europe</b> | <b>5</b>  | Canal Zone .....                 | 4          |
| Belgium .....             | 1         | Guam .....                       | 1          |
| France .....              | 1         | Puerto Rico .....                | 9          |
| Germany .....             | 3         | <b>Total</b>                     | <b>100</b> |

There was no change in 1951 in the list of 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 investment by member banks in the stock of corporations engaged principally in international or foreign banking. Of the four corporations in operation, one has no subsidiaries or foreign branches, one operates a branch each in England and France, one operates a branch in France, and one has an English fiduciary affiliate.

At the end of 1951 there were in operation two banking corporations organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. The head offices of these corporations are located in New York City and both were examined during the year by the Board's Division of Examinations. One such institution operates a branch in France and has a fiduciary affiliate in England; a branch formerly operated in Hong Kong was closed during the year. During 1951 the other foreign banking corporation opened a branch in

Germany, after having obtained the Board's approval for the establishment of such branch.

In 1951, examiners for the Board of Governors examined two European branches of a foreign banking corporation operating under agreement with the Board of Governors pursuant to the provisions of Section 25, the Paris branch of a foreign banking corporation organized and operating under the provisions of Section 25(a), and, jointly and in cooperation with examiners for the Banking Department of the State of New York, the six European branches of the three State member banks operating foreign branches and the Paris branch of another foreign banking corporation operating under agreement with the Board of Governors.

#### CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

**Loans to member banks.** In order to facilitate operations under the program of guaranteed loans authorized by the Defense Production Act of 1950, the Board, effective March 21, 1951, amended its Regulation A, relating to discounts for and advances to member banks by Federal Reserve Banks, so as to exempt paper representing such guaranteed loans, ordinarily referred to as V-loan paper, from the negotiability requirements of the regulation.

**Trust powers of national banks.** The Board's Regulation F, relating to trust powers of national banks, was amended effective February 5, 1951, so as to increase from \$50,000 to \$100,000 the amount of funds of an individual trust which a national bank may invest in a common trust fund. At the same time, certain footnotes to the regulation were amended so as to eliminate the applicability of the requirements of Section 24 of the Federal Reserve Act to a single real estate loan in which the funds of two or more trusts may be invested collectively.

**Margin requirements for purchasing securities.** The Board's Regulation T, relating to the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges, and Regulation U, relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange, were amended effective January 17, 1951, to increase the margin requirements from 50 per cent to 75 per cent, for credit extended by brokers and banks to finance purchases of stock

exchange securities. The increased margins also apply to short sales.

Effective September 3, 1951, two minor technical changes in Regulation T were adopted so as to excuse brokers from obtaining margin in margin accounts when the amount to be obtained for transactions on a given day does not exceed \$100, and so as to broaden the exemption already contained in the regulation for certain capital contribution loans to members of securities exchanges. Also, an amendment to Regulation T, effective September 17, 1951, clarified and strengthened the rules regarding the withdrawal of dividends that are received on securities in undermargined accounts.

**Consumer credit.** The Board's Regulation W, relating to consumer credit, was amended effective February 26, 1951, so as to exempt from the down payment and amortization requirements, certain short-term, nonrenewable leases which neither extended beyond three months nor involved a delivery in connection with subsequent leasing or sale arrangements.

Effective May 15, 1951, two technical changes were made in the exemption provisions of Regulation W. One related to the method to be used by a Federal Reserve Bank in designating disaster areas, and the other, dealing with rental agreements, permitted the continuation of certain rental arrangements in effect during 1950.

Effective July 31, 1951, Regulation W was amended in accordance with the Defense Production Act Amendments of 1951 to lengthen the maximum maturity applicable to instalment credit for automobiles, household appliances, radio and television sets, and furniture from 15 to 18 months, and for home repair and improvements from 30 to 36 months. Longer maximum maturities also were provided for consumer instalment loans for other purposes. Also, in accordance with the new legislation, down payment requirements for household appliances and radio and television sets were reduced from 25 per cent to 15 per cent. The down payments could be made in cash, trade-in, or combination of cash and trade-in and the 10 per cent down payment formerly required prior to completion of home repair and improvements could be made upon completion of the work. In addition, the Board exempted any instalment credit required for the installation of sewerage and other related facilities, including plumbing and plumb-

ing fixtures, where a householder was required to make such installations by local State or Federal health and sanitary regulations.

Effective December 31, 1951, Regulation W was amended to provide in substance that the maximum amount of money that could be loaned for the purchase of a listed article could not be more than the specified percentage of the cash price, but in no event more than that percentage of the maximum retail price established by Federal authorities. The amendment was designed to conform the provisions of the regulation to certain regulations of the Office of Price Stabilization, including Ceiling Price Regulation 94, which established maximum retail prices for used automobiles.

**Real estate credit.** The Board's Regulation X, relating to real estate credit, was amended and reissued, effective January 12, 1951, so as to make it applicable to credit in connection with three- and four-unit residences and multi-unit residential property. The value used in determining the maximum amount of credit permitted by the regulation was shifted from a structure to a family-unit basis. The provisions of the regulation relating to one- and two-family residences also were amended in some respects.

Effective February 15, 1951, Regulation X was again amended and reissued so as to make it applicable to credit in connection with nonresidential property. Maximum loans were limited to 50 per cent of the value of the nonresidential property, and maturities were limited to 25 years with amortization requirements. Several minor clarifying changes covering residential property also were made.

Effective March 5, 1951, Regulation X was amended to permit terms different from those prescribed by the regulation to apply to specific new construction necessary to the national defense.

Effective March 21, 1951, Regulation X was amended to permit builders or other persons who had made substantial commitments or undertakings with respect to certain contemplated multi-unit and nonresidential construction to apply before April 15, 1951, to a Federal Reserve Bank for a hardship exemption from the regulation. Credit extended with respect to certain new construction begun before the regulation applied to the construction was exempted if extended prior to a date 32 days after the construction is completed.

Effective April 4, 1951, credit extensions by State and local gov-

ernments were exempted from Regulation X if in connection with the construction of nonresidential facilities.

Effective April 16, 1951, Regulation X was amended so as to exempt credit extended solely to finance the purchase or construction of a structure to be used in substitution for a similar structure of which the borrower had been deprived by eminent domain or condemnation proceedings.

Effective May 11, 1951, Regulation X was amended so as to require every person engaged in the business of extending real estate credit to register with a Federal Reserve Bank or branch thereof.

Effective September 1, 1951, the restrictions of Regulation X on housing credit affecting one- to four-family housing were revised in conformity with provisions of the Defense Housing and Community Facilities and Services Act of 1951. Provision was made for the suspension of real estate credit restrictions on certain new sale and rental housing in critical defense housing areas included in programs to be announced and supervised by the Housing and Home Finance Agency. An exemption also was provided for certain essential nonresidential defense construction.

Effective November 19, 1951, Regulation X was amended so as to authorize the Federal Reserve Banks to grant six months' exemption for secondary borrowing in connection with the purchase of a new house when a person moving from one part of the country to another is temporarily delayed in obtaining the proceeds of the sale of his old home. Also, the maximum period specified in connection with exempt loans for materials, articles, and services used in new construction was changed from 30 to 36 months.

Effective December 31, 1951, Regulation X was amended so as to exempt leases of nonresidential properties, with certain exceptions, from the down payment and maturity requirements of the regulation. Concurrently, the National Voluntary Credit Restraint Committee amended Bulletin No. 4 so as to include leasing arrangements involving new construction of commercial and industrial property as well as leasing arrangements involving existing construction of all types. Leases on new residential construction continued to be subject to Regulation X.

As required by law, the various amendments to Regulation X affecting residential properties were made with the concurrence of the Housing and Home Finance Administrator.

**Administrative procedure rules.** In order to make certain clarifying changes with respect to the issuance of subpoenas and the payment of fees to witnesses, the Board's Rules of Practice for Formal Hearings were amended effective June 28, 1951.

#### HEARINGS, ENFORCEMENT, AND LITIGATION

**Transamerica Corporation.** Requested findings and briefs were filed with the Hearing Officer in the Transamerica Clayton Act proceeding on April 2, 1951. On June 13, 1951 the Hearing Officer filed his recommended decision. Thereafter briefs were filed, and the matter was argued orally before the Board on December 10 and 11, 1951.

**Regulation W enforcement.** Pursuant to authority contained in Section 604 of the Defense Production Act of 1950, the Board up to December 31, 1951 had obtained 13 injunctions in United States District Courts enjoining further violations of Regulation W. Up to that date the Board had suspended for temporary periods the licenses of two registrants to extend instalment credit subject to the Regulation. The Board had also issued orders for investigation pursuant to which subpoenas were issued in 19 cases. By December 31, 1951 the Board had referred 24 cases to the Department of Justice for such criminal proceedings as the Department might deem appropriate.

**Regulation X enforcement.** Four orders for investigation were issued to obtain access to the books and records of persons subject to Regulation X. In three of these cases subpoenas were issued. In all cases access to the books and records was thereafter granted without the necessity for court action.

#### LEGISLATION

**Assignment of claims against the Government.** The Assignment of Claims Act of 1940 was amended by an Act approved May 15, 1951, so as to clarify the rights of financing institutions taking assignments of Government contracts as security for loans to defense contractors. Financing institutions had been reluctant to make loans secured by assignments of Government contracts either with or without guarantees of such loans under the V-loan program and, consequently, many contractors had been unable

to obtain the necessary financing for the performance of their defense contracts.

**Defense Production Act.** The Defense Production Act of 1950 which, among other things, contains authority for the guarantee of defense production loans, the regulation of consumer credit, the regulation of real estate credit, and the Voluntary Credit Restraint Program, would have expired June 30, 1951, but was extended for an additional month by an Act approved June 30, 1951.

By Act approved July 31, 1951, the Defense Production Act of 1950 was extended until July 1, 1952. The amendatory Act restricted the Board's authority with respect to the control of consumer credit by specifying certain limits on the down payments and maturities which might be prescribed by the Board with respect to various types of instalment financing and by providing that down payments might be by trade-in or exchange of property, as well as cash, in most cases. In addition, the Act of July 31, 1951, made certain amendments to the Housing and Rent Act of 1947, one of which authorized the President to establish rent controls in critical defense housing areas and provided for the relaxation of real estate construction credit controls in such areas.

**Defense Housing Act.** The Defense Housing and Community Facilities and Services Act of 1951, approved September 1, 1951, among other things, altered the residential credit restrictions of the Defense Production Act of 1950, as amended, by providing for (1) the suspension and relaxation of real estate credit restrictions in critical defense housing areas for housing programmed by the Housing and Home Finance Agency, (2) limitations on maximum down payment requirements for veterans' loans on houses having a sales price of \$12,000 or less, and (3) limitations on minimum down payment requirements in connection with the financing of houses for all other purchasers where the transaction price was \$12,000 or less. The law also provided that the maturity of any such loans for houses priced at \$12,000 or less might not be required to be less than 25 years.

**Real estate loans by national banks.** The Act approved September 1, 1951, also amended Section 24 of the Federal Reserve Act relating to real estate loans by national banks, so as to make certain limitations and restrictions upon such loans inapplicable to mortgage loans insured by the Federal Housing Administration under Title IX

of the National Housing Act with respect to certain new units in critical defense housing areas.

This Act also amended Section 24 of the Federal Reserve Act so as to provide that the restrictions and limitations of this section shall not apply to loans by national banks for the construction of prefabricated houses in which the Housing and Home Finance Administrator cooperates or purchases a participation.

#### RESERVE BANK OPERATIONS

**Volume of operations.** Table 5 on page 61 discloses pronounced changes in some of the principal Reserve Bank operations during the year. Discounts and advances in 1951 were larger in number than in any year since 1938; Federal Reserve discount facilities were used by 1,168 banks as compared with 899 in 1950.

Industrial loans, although in the relatively small amount of 5 million dollars at the end of the year, were at an all-time high in number and the largest in amount since 1943. Commitments to make industrial loans, both in number and amount, were the largest since 1943. The increase in loan activity under the provisions of Section 13b of the Federal Reserve Act reflects increased production under the national defense program.

The number of pieces of paper currency received and counted and the aggregate dollar value thereof established new highs during 1951. On the other hand, the number of coins received and counted and their aggregate value declined substantially and reflected the acute coin shortage during the last half of the year. A new peak also was established in checks handled. The number and amount of issues, redemptions, and exchanges of Government securities were approximately the same as in 1950.

The number of transfers of funds continued the upward trend begun in 1941 and the amount of such transfers set an all-time high, with an increase of 29 per cent over 1950.

Acting in their capacity as fiscal agents of the United States, on July 1, 1951 the Reserve Banks began processing punch card postal money orders, using specially designed equipment. They handled approximately 175 million money orders during the last six months of the year.

**Earnings and expenses.** Current earnings, current expenses, and the distribution of net earnings of each Federal Reserve Bank during

1951 are shown in detail in Table 6 on pages 62-63, and a condensed historical statement for all Reserve Banks is shown in Table 7 on pages 64-65. The table below summarizes the earnings and expenses and the distribution of net earnings for 1951, as compared with 1950.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF  
FEDERAL RESERVE BANKS, 1951 AND 1950

[In thousands of dollars]

| Item                                                           | 1951               | 1950                |
|----------------------------------------------------------------|--------------------|---------------------|
| Current earnings.....                                          | 394,656            | 275,839             |
| Current expenses.....                                          | 95,469             | 80,572              |
| Current net earnings.....                                      | 299,187            | 195,267             |
| Additions to current net earnings.....                         | 388                | <sup>1</sup> 36,969 |
| Deductions from current net earnings.....                      | <sup>1</sup> 2,516 | 675                 |
| Net deductions (-) or net additions.....                       | -2,128             | 36,294              |
| Net earnings before payments to U. S. Treasury.....            | 297,059            | 231,561             |
| Paid U. S. Treasury (interest on outstanding F. R. notes)..... | 254,874            | 196,629             |
| Dividends.....                                                 | 13,865             | 13,083              |
| Transferred to surplus (Sec. 7).....                           | 28,320             | 21,849              |

<sup>1</sup> Includes \$36,896,000 net profits (1950) and \$1,586,000 net losses (1951) on sales of U. S. Government securities.

Current earnings amounted to 394 million dollars in 1951, 43 per cent more than in 1950, largely because of a substantial increase in the average daily holdings of United States Government securities and a higher average rate of interest received. Current expenses amounted to 95 million dollars and were 15 million or 18 per cent larger than in 1950, reflecting the cost of a larger operating staff combined with the full effect of late 1950 upward adjustments in wage structures, increased postal and express rates, increased public demands for currency, and growth of operations in general. As a result of the foregoing changes, current net earnings in 1951 amounted to 299 million dollars, an increase of 104 million or 53 per cent.

After allowing for profit and loss additions and deductions from current net earnings, net earnings amounted to 297 million dollars, an increase of 65 million over 1950.

Payments to the United States Treasury as interest on outstanding Federal Reserve notes amounted to 255 million dollars in 1951 and surpassed any previous distribution of earnings to the Treasury, either in this form or in the form of a franchise tax. A total of 887 million dollars has been paid to the Treasury as interest on Federal Reserve notes since the policy of making such payments was begun in 1947. Dividends to member banks amounted to 14 million dollars in 1951, an increase of nearly 1 million over 1950. The remaining net earnings of 28 million dollars were added to surplus account.

**Holdings of loans and securities.** Federal Reserve Bank holdings of United States Government securities averaged 22,748 million dollars in 1951, 4,343 million more than in 1950. The average rate of interest received from holdings of United States Government securities rose to 1.71 per cent, the highest in 10 years. Holdings of discounts and advances, and the earnings thereon, were more than twice those in 1950. The table below shows a comparison of average daily holdings, earnings, and average interest rates on loans

### RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1947-51

[Dollar amounts in thousands]

| Item and year                                   | Total        | Dis-<br>counts<br>and<br>advances | Accept-<br>ances<br>pur-<br>chased | U. S.<br>Govern-<br>ment<br>securities | In-<br>dus-<br>trial<br>loans |
|-------------------------------------------------|--------------|-----------------------------------|------------------------------------|----------------------------------------|-------------------------------|
| <b>Average daily holdings:<sup>1</sup></b>      |              |                                   |                                    |                                        |                               |
| 1947.....                                       | \$22,552,491 | \$218,755                         | \$384                              | \$22,331,740                           | \$1,612                       |
| 1948.....                                       | 21,841,623   | 330,706                           | .....                              | 21,509,321                             | 1,596                         |
| 1949.....                                       | 19,804,711   | 231,201                           | .....                              | 19,572,664                             | 846                           |
| 1950.....                                       | 18,536,551   | 129,081                           | .....                              | 18,405,083                             | 2,387                         |
| 1951.....                                       | 23,045,707   | 292,770                           | 81                                 | 22,748,210                             | 4,646                         |
| <b>Earnings:</b>                                |              |                                   |                                    |                                        |                               |
| 1947.....                                       | 157,823      | 2,195                             | 4                                  | 155,564                                | 60                            |
| 1948.....                                       | 303,316      | 4,371                             | .....                              | 298,903                                | 42                            |
| 1949.....                                       | 315,754      | 3,472                             | .....                              | 312,241                                | 41                            |
| 1950.....                                       | 275,066      | 2,034                             | .....                              | 272,916                                | 116                           |
| 1951.....                                       | 394,473      | 5,139                             | 1                                  | 389,125                                | 208                           |
| <b>Average rate of interest<br/>(per cent):</b> |              |                                   |                                    |                                        |                               |
| 1947.....                                       | 0.70         | 1.00                              | 1.01                               | 0.70                                   | 3.75                          |
| 1948.....                                       | 1.39         | 1.32                              | .....                              | 1.39                                   | 2.64                          |
| 1949.....                                       | 1.59         | 1.50                              | .....                              | 1.60                                   | 4.85                          |
| 1950.....                                       | 1.48         | 1.58                              | .....                              | 1.48                                   | 4.85                          |
| 1951.....                                       | 1.71         | 1.75                              | 1.75                               | 1.71                                   | 4.49                          |

<sup>1</sup> Based on holdings at opening of business.

and securities held by the Reserve Banks during each of the past five years.

**Foreign and international accounts.** Continuing the rise which had been in evidence since the latter part of 1947, total dollar and gold holdings held by the Federal Reserve Banks for foreign account increased to an all-time high of 7.5 billion dollars in March 1951. By the end of the year, however, the total had declined to about 6 billion dollars, or 1.2 billion below the level of a year earlier. This net decrease occurred largely in holdings of earmarked gold and dollar deposits, which declined by 685 million and 369 million dollars respectively. Total dollar and gold holdings by the Federal Reserve Bank of New York for the International Bank for Reconstruction and Development and the International Monetary Fund increased slightly. Combined holdings for foreign and international accounts amounted to about 9.2 billion dollars at the end of the year.

Demand for loans on gold by foreign central banks was very small. While new credits to two central banks were arranged, only one found it necessary to request advances. All of the 11 million dollars actually advanced was repaid during the year and for the second consecutive time there were no foreign loans on gold outstanding at year-end. The policy with respect to loans on gold has remained unchanged, that is, in general, this type of short-term accommodation is made available to foreign central banks to meet temporary dollar requirements of the borrower, subject to such conditions as may be appropriate.

Four regular accounts for foreign central banks were opened during the year, one of which was for the successor of a bank whose account was closed simultaneously. One other regular account was closed.

The Federal Reserve Bank of New York handled a variety of operations for the International Bank for Reconstruction and Development and the International Monetary Fund and, as fiscal agent of the United States, continued to operate the United States Stabilization Fund in accordance with authorizations and instructions from the Treasury Department and to act on behalf of the Treasury Department in the administration of the regulations relating to the blocking in this country of the assets of Communist China and North Korea.

**Bank premises.** There was no change in the Board's policy, mentioned in the Annual Report for 1950, of approving the preparation of plans for needed building construction but authorizing only construction of an emergency nature. The Federal Reserve Bank of Philadelphia, late in 1951, was authorized to proceed with its program for a small addition to its building and for certain improvements including installation of air-conditioning equipment.

The new buildings of the Seattle and Portland Branches of the Federal Reserve Bank of San Francisco were occupied on January 2 and April 27, 1951, respectively. It is hoped that the construction programs at the Federal Reserve Banks of Boston and Richmond and the Jacksonville Branch of the Federal Reserve Bank of Atlanta (all authorized in 1950), as well as that at the Detroit Branch of the Federal Reserve Bank of Chicago (authorized in 1949), will be completed before the close of 1952. The need for larger quarters at many of the other head offices and branches should be met when conditions permit.

In 1951 the Federal Reserve Bank of Atlanta acquired a building site adjoining the head-office building for possible future expansion.

Cost and net book value of Federal Reserve Bank premises are presented in Table 9 on page 68.

#### BOARD OF GOVERNORS—INCOME AND EXPENSES

The following table shows the income and expenses of the Board for the year 1951:

|                                                          |               |               |
|----------------------------------------------------------|---------------|---------------|
| OPERATING SURPLUS, January 1, 1951.....                  | \$ 220,554.99 |               |
| Adjustment in 1951 applicable to preceding years..       | 1,069.48      | \$ 221,624.47 |
| <hr/>                                                    |               |               |
| INCOME:                                                  |               |               |
| Assessments on Federal Reserve Banks.....                | 4,095,500.00  |               |
| Sale of <i>Federal Reserve Bulletin</i> .....            | 12,248.83     |               |
| Sale of other publications.....                          | 14,520.15     |               |
| Miscellaneous.....                                       | 4,325.15      | 4,126,594.13  |
|                                                          |               | <hr/>         |
|                                                          |               | 4,348,218.60  |
| <br>EXPENSES:                                            |               |               |
| Salaries.....                                            | 2,715,538.53  |               |
| Retirement contributions—regular.....                    | 216,152.36    |               |
| Retirement contributions—supplemental death benefit..... | 29,810.23     |               |
| Traveling expenses.....                                  | 208,643.64    |               |
| Postage and expressage.....                              | 10,229.67     |               |
| Telephone and telegraph.....                             | 85,296.55     |               |
| Printing and binding.....                                | 176,927.65    |               |
| Stationery and supplies.....                             | 34,959.43     |               |
| Furniture and equipment, including rental.....           | 64,018.55     |               |

## EXPENSES OF BOARD OF GOVERNORS—Cont.

## EXPENSES—Cont.

|                                                             |              |            |               |
|-------------------------------------------------------------|--------------|------------|---------------|
| Books and subscriptions.....                                | 14,551.42    |            |               |
| Heat, light, and power.....                                 | 34,506.50    |            |               |
| Repairs and alterations (building and grounds) ..           | 36,612.40    |            |               |
| Repairs and maintenance (furniture and equip-<br>ment)..... | 8,170.82     |            |               |
| Medical service and supplies.....                           | 1,637.56     |            |               |
| Insurance.....                                              | 4,230.14     |            |               |
| All other:                                                  |              |            |               |
| Surveys of Consumer Finances<br>and of House Purchases..... | \$208,120.70 |            |               |
| Cafeteria (net).....                                        | 39,480.99    |            |               |
| Legal and consultant fees and ex-<br>penses.....            | 23,539.60    |            |               |
| Borrowed Federal Reserve Bank<br>personnel.....             | 33,953.31    |            |               |
| Official dinners, receptions, etc....                       | 6,846.68*    |            |               |
| Miscellaneous.....                                          | 23,780.03    | 335,721.31 | 3,977,006.76  |
| OPERATING SURPLUS, December 31, 1951.....                   |              |            | \$ 371,211.84 |

\* Includes expenditures of \$3,754.25, contributed by Board of Governors for dinner and luncheons at meetings of Treasury Department savings bond program workers.

In addition to the foregoing, the Board made certain expenditures on a reimbursable basis for which it received reimbursements in 1951 as follows:

|                                                                                   |                |
|-----------------------------------------------------------------------------------|----------------|
| Printing Federal Reserve notes.....                                               | \$7,137,592.97 |
| Leased wire service (telegraph).....                                              | 101,257.11     |
| Leased telephone lines.....                                                       | 9,681.17       |
| Federal Reserve Issue and Redemption<br>Division (Comptroller of the Currency) .. | 126,794.78     |
| Miscellaneous.....                                                                | 17,915.70      |

The accounts of the Board for the year 1951 were audited by the Auditor of the Federal Reserve Bank of Boston, who certified them to be correct.

## FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met in Washington on January 31, February 6-8, March 1-2, March 8, May 17, October 4, and November 14, 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 95-109 of this Report.

Conferences of the Chairmen of the Federal Reserve Banks were held on May 7-8 and December 3-4, and were attended by members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on March 7-8, May 16, and September 27-29, and the Board of Governors met with the Presidents on March 9, May 18, and October 4.

Meetings of the Federal Advisory Council were held on February 18-20, May 13-15, September 16-18, and November 18-20. The Board of Governors met with the Council on February 20, May 15, September 18, and November 20. 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.

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

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In 1952 the national economy set new records in national output, employment of manpower and physical resources, and personal income and consumption. These records were achieved without further inflation despite the continued heavy requirements of the defense program and increases in private spending for consumption and capital investment. Wholesale and consumer prices were generally stable.

Monetary policy, together with debt management policy, played a significant role in these economic developments. The objective was to encourage the use of an increased volume of current saving to meet demand for credit, and thus to restrict bank credit and monetary expansion to the growth needs of the economy. Too great an expansion of bank credit would have been conducive to resumption of inflationary pressures; too little would have handicapped business and the defense program.

The Federal Reserve System followed a policy of restraining the pace of credit expansion by making it necessary for member banks to borrow in order to obtain reserves. This put them under pressure to restrict expansion of their loans and investments. Thus discount operations at the Reserve Banks again became an effective instrument of credit policy, a further realization of the purposes envisaged by the Treasury-Federal Reserve accord of March 1951.

Demand for credit was vigorous but the supply of savings was large. Nonbank investors absorbed large amounts of mortgages and also of government and corporate securities issued to raise new money. The increase in bank credit resulted in a smaller expansion of demand deposits and currency—active elements in the money supply—than in either of the two preceding years.

Many adjustments accompanied the high level of activity. Some prices and costs rose while others declined. Employment was at a record high, but the supply of labor was adequate to meet most needs. Inventories were reduced in some lines and increased in others, and for the economy as a whole accumulation was moderate.

Beginning in May, consumer spending accelerated. Growth in private indebtedness, notably consumer and mortgage debt, was rapid. However, there was little tangible evidence of speculative developments in commodities or securities.

Abroad as at home, the year marked further progress in building the military strength of the Western World as well as achievement of a better balanced economic situation. As in this country, improved economic balance was due in part to stronger fiscal and monetary measures. It also reflected attainment of easier supply conditions for primary commodities and many industrial materials and products.

There are many similarities between developments in this country following abatement of inflationary pressures in the spring of 1951 and what occurred in the sterling area in 1952. In both cases inventory accumulation gave way to inventory liquidation in major consumer goods industries as expectations of further price pressures receded. In both cases the liquidation was accompanied by some slackening in the pace of industrial activity. Evidences of renewed expansion of activity became apparent in the United States in the late spring of 1952 and were paralleled abroad before the end of the year.

One factor underlying the price stability that accompanied the very high level of activity in this country at the close of 1952 was the greater availability of goods in world markets. With imports remaining large and foreign purchases from the United States reduced, the stage was set for a strengthening of foreign holdings of monetary reserves. The period as a whole demonstrated the usefulness of freer markets in facilitating necessary economic adjustments.

#### FEDERAL RESERVE CREDIT POLICY

Federal Reserve credit policy in 1952 was designed to limit bank credit expansion to amounts consistent with the requirements of a growing economy operating at a high level without inflation. Under the conditions prevailing, this had the effect of permitting underlying forces of demand and supply to determine major trends in the money market. The selection of instruments for influencing credit, the timing of their use, and their application to temporary disturbances of the market were within this general framework.

In the early months of the year, when demand for bank credit slackened somewhat, the System reduced its holdings of United States Government securities. In the last half of the year the substantial volume of new Federal financing, as well as the unusually large credit demand from businesses and consumers, pressed more heavily against the available supply of funds. Member bank borrowing increased substantially and continued at a high level after the year-end. At times in this period, the Federal Reserve purchased Government securities in the market. In order to assure that funds provided to aid the market during occasions of temporary strain would be automatically and quickly withdrawn, the Federal Reserve increased its use of repurchase agreements under which dealers who sold securities to the Federal Reserve undertook to buy them back within a short time. In this way temporary tightness was relieved without permanently enlarging the reserve base for credit expansion.

**Open market operations.** The greater part of the System's open market purchases of United States Government securities in 1952 occurred during Treasury refunding operations in February, June, August, and September. The Treasury offered new securities in exchange for about 30 billion dollars of maturing or called securities, mostly certificates. In order to facilitate market adjustments during the offerings, the Federal Reserve made outright purchases of called and maturing securities and, on occasion, of other short-term Government securities. Large outright purchases in February were offset by sales of other securities from the System's portfolio, while somewhat smaller purchases in June were only partly offset by concurrent sales of other issues. In August and September a large part of the funds supplied was left in the market in view of seasonal credit and currency needs. No purchases of maturing securities were made during the refunding of the December certificates.

Other open market operations to moderate temporary excesses and stringencies of funds in the money market were carried out mostly at the beginning and the end of the year. The return of currency from circulation from Christmas of 1951 through January 1952 exceeded one billion dollars, and the reserve funds thus made available were about offset by a sharp reduction in Federal Reserve holdings of Government securities. Conversely, the Federal Reserve added one billion dollars of securities to its portfolio in the eight

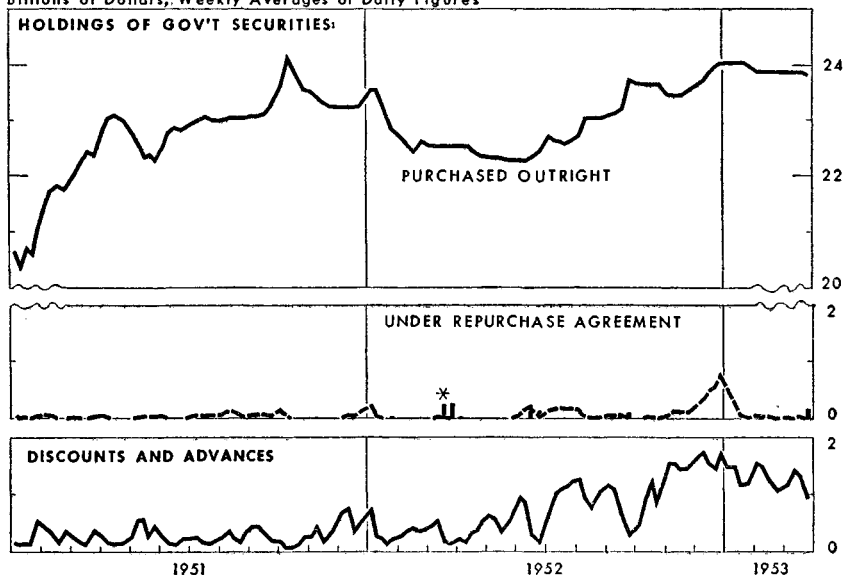
weeks preceding Christmas 1952, when an outflow of more than one billion dollars of currency was a major factor in money market stringency. More than half of this increase represented securities taken under repurchase contracts with security dealers. Federal Reserve holdings of Government securities under repurchase agreements reached a peak for the year of 900 million dollars on December 29, which compared with a peak of 300 million reached on December 27, 1951. Soon after the end of 1952 all of these holdings had been repurchased by the dealers, as is shown in the chart.

Additional reserves were temporarily supplied to the market around quarterly tax-payment dates when large Treasury receipts and disbursements did not synchronize. Most of this supply of reserves represented direct purchases from the Treasury of special certificates. Purchases of marketable securities during these periods related more to assisting any refunding operations than to alleviating unusually stringent money conditions.

Federal Reserve holdings of Government securities acquired by outright purchase increased about half a billion dollars in 1952. This increase provided the banking system with some of the funds needed to meet the public's demand for a larger volume of currency.

### FEDERAL RESERVE CREDIT

Billions of Dollars, Weekly Averages of Daily Figures



\* Direct purchases of special certificates from Treasury.

NOTE.—Excludes Federal Reserve float, industrial loans, and acceptances.

**Discounts and advances.** Under the Federal Reserve policy pursued in 1952, member banks greatly increased their discounting at the Reserve Banks. An increasing number of banks also replenished their reserves temporarily by borrowing reserves from other banks in the Federal funds market.

Borrowing from the Reserve Banks fluctuated widely from week to week, especially at reserve city and central reserve city banks, but at both city and country banks the total rose fairly steadily. The general level of bank borrowing increased from less than half a billion dollars in the first half of 1952 to more than a billion during the last half of the year. Average borrowing in December, at 1.6 billion dollars, was the largest since 1921.

The discount mechanism, while supplying reserve funds temporarily, tends to discourage undue expansion of bank credit. While banks are in debt, they are under pressure to repay and hence are likely to be conservative in expanding their own loans. Even when the total borrowing of all member banks is constant, a changing group of individual banks will be borrowing and will be feeling the need to restrict credit in order to adjust reserves. The restrictive influence of this pressure spreads beyond individual requests for bank credit and affects the attitudes of businesses and consumers throughout the community.

**Discount rate.** The Federal Reserve discount rate remained at  $1\frac{3}{4}$  per cent during 1952, the rate in effect since August 1950. It was raised to 2 per cent on January 16, 1953 at most Federal Reserve Banks and in the following week at the remaining Reserve Banks.

The increase in the discount rate served to provide an additional deterrent to bank borrowing at the Reserve Banks. In its effect on bank attitudes toward lending, the raising of the discount rate was a further step in making the discount mechanism more effective as an instrument of restraint.

**Regulation of consumer instalment and real estate construction credit.** Selective regulation of consumer instalment credit and real estate construction credit, authorized for temporary periods under the Defense Production Act, was suspended in 1952.

In March and April of 1952, in the interest of simplifying the administration of Regulation W, the Board of Governors removed the down-payment requirement applying to home repair and moderni-

zation credits and exempted from the down-payment requirement all listed articles costing less than \$100. Effective May 7 the Board suspended the regulation. Amendments to the Defense Production Act, approved June 30, 1952, repealed the Board's authority for regulation of consumer credit. At the end of April 1952, according to Federal Reserve revised estimates, outstanding instalment credit totaled 14.7 billion dollars, which was about 0.7 billion dollars more than a year earlier. Between April 30 and December 31, 1952 this type of credit increased 3.9 billion dollars or about one-fourth.

With one minor exception in January, limitations on terms of real estate construction credit established under the Board's Regulation X and related FHA and VA regulations continued until June 1952 as modified in September 1951 in accordance with the statutory changes made by the Defense Housing and Community Facilities and Services Act of 1951. Effective June 11, 1952 the Board of Governors amended Regulation X, principally to ease the credit terms for conventionally financed one- to four-family houses and also the down-payment requirements for multi-family houses. The Housing and Home Finance Administrator authorized similar easing for FHA-insured and VA-guaranteed mortgages.

Effective September 16, 1952 the Board suspended Regulation X. This action was taken in the light of the 1952 amendments to the Defense Production Act, which required the announcement of a period of real estate credit control relaxation when residential housing starts for three consecutive months, as certified by the Secretary of Labor, were below a seasonally adjusted annual rate of 1.2 million units. The Housing and Home Finance Administrator also acted to relax the terms for Government-aided real estate credit, but did not fully restore maximum statutory mortgage loan terms.

**Regulation of stock market credit.** The 75 per cent margin requirement on stock market credit, put into effect in January 1951 to discourage possible speculative developments, remained in effect throughout 1952. This requirement was reduced to 50 per cent, effective February 20, 1953, as the need for extreme measures diminished.

During most of 1952, common stock prices fluctuated around the level reached near the end of 1951 and outstanding stock market credit remained near 1.3 billion dollars, a level which had prevailed since the spring of 1951. In November and December stock

prices rose to new postwar highs, but credit for purchasing or carrying stocks rose only slightly.

**Suspension of voluntary credit restraint.** For about 14 months ending in May 1952, private financial organizations cooperated in a voluntary credit restraint program sponsored by the Federal Reserve System, under authority of the Defense Production Act, to help assure adequate financing for defense and defense-related activities and to curtail credit for nonessential or deferable purposes. During this period the program supplemented other measures to limit credit and monetary expansion.

In April, at the request of the President, the financial actions of State and local governments were removed from the restrictions of the program. On May 12, 1952, operations under the program were discontinued and the voluntary credit restraint organization was placed on a standby basis. On June 30, authority for the program was terminated by amendments to the Defense Production Act.

#### GROWTH OF CREDIT AND CAPITAL

Expansion of credit and capital was greater in 1952 than in any other postwar year. Businesses, consumers, and governments all increased their borrowing, but the rising volume of individual saving flowing into financial channels permitted higher rates of economic activity without inflationary pressures.

Business financing through corporate security issues reached a postwar high in 1952, as expenditures for new plant and equipment expanded further. Some corporations used the proceeds of security issues to refund short-term debt to commercial banks; the net increase in bank loans to business was substantially less than in either of the two preceding years. As the table on the following page shows, corporate security issues, less retirements, totaled 8.3 billion dollars or about 30 per cent more than the net amount in 1951. Bonds accounted for 64 per cent of the growth in outstanding corporate securities, a somewhat larger proportion than in the preceding year.

Real estate mortgage credit outstanding increased considerably further in 1952, although somewhat less than in 1951 or 1950. Gross new mortgage lending on small nonfarm properties was at a new record level, but repayment of previously written debt also increased substantially. Mortgage debt on multi-family and commercial properties expanded slightly less than in either of the two preceding years;

the increase in farm mortgage debt was about the same as in 1951 and larger than in earlier postwar years.

Short- and intermediate-term borrowing by consumers increased sharply beginning in May, after more than a year of little change. Most of the 4.2 billion dollar growth in consumer credit outstanding was in instalment credit associated with purchases of durable goods.

### GROWTH IN MAJOR TYPES OF CREDIT AND CAPITAL

[Net increase in amounts outstanding, in billions of dollars]

| Distribution of growth by—                                | 1952 <sup>p</sup> | 1951        | 1950        |
|-----------------------------------------------------------|-------------------|-------------|-------------|
| <b>Major types, total</b> .....                           | <b>31.6</b>       | <b>22.9</b> | <b>25.3</b> |
| Corporate security issues <sup>1</sup> .....              | 8.3               | 6.4         | 3.7         |
| Bank loans to business.....                               | 2.0               | 4.0         | 4.9         |
| Real estate mortgages.....                                | 8.7               | 9.3         | 10.0        |
| Consumer credit.....                                      | 4.2               | .7          | 3.7         |
| State and local government obligations.....               | 3.6               | 3.2         | 3.0         |
| Federal Government cash borrowing, net <sup>2</sup> ..... | 3.4               | -1.2        | -.9         |
| Other bank credit <sup>3</sup> .....                      | 1.4               | .5          | .9          |
| <b>Principal sources, total</b> <sup>4</sup> .....        | <b>31.6</b>       | <b>22.9</b> | <b>25.3</b> |
| Commercial banking system <sup>5</sup> .....              | 9.9               | 8.9         | 8.4         |
| Mutual savings banks.....                                 | 1.7               | .9          | .9          |
| Savings and loan associations.....                        | 3.1               | 2.0         | 2.1         |
| Life insurance companies.....                             | 4.4               | 3.5         | 3.6         |
| Other institutional investors <sup>6</sup> .....          | 2.4               | 3.0         | 2.5         |
| Federal, State, and local governments.....                | 2.3               | 1.8         | .8          |
| Other lenders <sup>7</sup> .....                          | 7.8               | 2.8         | 7.0         |

<sup>p</sup> Preliminary.

<sup>1</sup> Includes both bond and stock issues of all domestic corporations, net of retirements.

<sup>2</sup> Net cash borrowing or repayment of borrowing (-) from the public. Excludes investments in public debt by Federal agencies, discount accruals on savings bonds, and other minor changes in the public debt, but includes all net borrowing through Federal agency security issues.

<sup>3</sup> Includes agricultural loans, loans for purchasing and carrying securities, and miscellaneous bank loans.

<sup>4</sup> Net amounts of major types of credit and capital supplied by specified lender groups.

<sup>5</sup> Includes the following net additions to Federal Reserve holdings of Government securities: 1952, 0.9 billion dollars; 1951, 3.0 billion; and 1950, 1.9 billion.

<sup>6</sup> Fire, casualty, and marine insurance companies, fraternal orders, nonprofit organizations, credit unions, and miscellaneous farm credit organizations.

<sup>7</sup> Consumers, corporations, noncorporate businesses, and foreign investors.

State and local governments borrowed a net amount of 3.6 billion dollars in 1952, most of it to help finance their large expenditures for construction of schools, highways, and other public facilities.

The Federal Government was a substantial borrower after mid-1952, principally to finance defense expenditures at a time of sea-

sonally low tax receipts. Federal net cash borrowing from the public totaled 3.4 billion dollars for the year. About 1.8 billion of this borrowing was used to augment Treasury balances and the remainder to cover the deficit resulting from an excess of cash expenditures over cash income.

The proportion of long-term credit demand financed through savings supplied directly or indirectly by individuals was larger in 1952 than in 1951. The growth in individuals' savings through deposits at mutual savings banks, shares in savings and loan associations, and life insurance company reserves provided these financial organizations with a large volume of funds to invest in 1952. These institutions were thus able to provide more funds for private borrowers with a smaller reduction in their holdings of Federal Government securities than in 1951. Individuals invested a substantial amount of their savings in 1952 directly in corporate and municipal securities, and also added considerably to their time deposits at commercial banks. The lending and investing activities of commercial banks are considered in a subsequent section.

#### CHANGES IN STRUCTURE AND OWNERSHIP OF UNITED STATES GOVERNMENT DEBT

The United States Government debt increased 8.0 billion dollars in 1952. The part of the debt held by the public (including Federal Reserve Banks) rose 4.4 billion, and the remaining 3.6 billion reflected net investments of Federal agencies and trust funds. About two-fifths of the net new borrowing from the public served to build up Treasury cash balances while the remainder was required to finance the Government's cash deficit for the calendar year and to cover discount accruals on savings bonds and other miscellaneous charges. Commercial banks and the Federal Reserve Banks combined took 2.7 billion, an amount corresponding to the increase in Treasury cash balances and to about half of the deficit, and nonbank investors took the remainder.

A major part of new Treasury borrowing was effected through the first cash offering since 1945 of intermediate-term marketable securities. On July 1, in its largest borrowing operation of the year, the Treasury issued 4.2 billion dollars of  $2\frac{3}{8}$  per cent marketable bonds maturing in June 1958. Debt management operations in the short-term market were substantial, but new issues were about offset by redemptions of maturing securities and of savings notes. In the

second quarter of the year there was an increase of 1.6 billion in regular 91-day bills and toward the end of the year there were two issues of tax anticipation bills maturing in March and June 1953 and totaling 4.5 billion dollars. These additions to the short-term marketable debt were partly offset by the maturity of 2.5 billion dollars of tax anticipation bills in the first half of 1952 and by cash redemptions of 1.8 billion dollars in the refunding of six maturing certificate issues. Only one small bond refunding took place during the year, and the call option was passed on five additional bond issues.

In June 1952 the Treasury made an additional offering of the  $2\frac{3}{4}$  per cent investment series bonds of 1975-80, which were first offered in April 1951. These bonds are convertible at the holder's option into five-year  $1\frac{1}{2}$  per cent marketable notes. Cash subscriptions to the new offering could be supplemented by limited exchanges of the four longest term issues of restricted bonds. Subscriptions by the public amounted to 1.2 billion dollars, of which slightly more than 0.3 billion dollars represented cash subscriptions.

The most striking change in the composition of the debt held by the public was an increase from 13.8 to 31.8 billion dollars of bank-eligible bonds maturing after five years. Most of the increase reflected the attainment of eligibility dates by four bond issues formerly restricted as to commercial bank ownership. Roughly one-fourth of the increase was due to the cash issuance of new bonds, and a small part to the offering of an intermediate-term bond in a refunding operation. Restricted bonds held by the public declined 14.0 billion dollars, largely owing to the change in eligibility status of some issues and in small part to exchanges for convertible bonds.

Holdings of nonmarketable savings securities continued to decline during 1952. Outstanding savings notes declined 1.8 billion dollars as nonfinancial corporations shifted into short-term marketable securities with more attractive yields. The current redemption value of savings bonds increased almost 400 million dollars in contrast to last year's decline of similar magnitude. Purchases of savings bonds restricted to individuals increased; there was an improvement of terms on Series E bonds in May 1952 and an offering of a new current income bond, Series H, in June. Purchases of types of savings bonds open to institutions as well as individuals continued to decline, despite improvement in terms.

The Federal Reserve Banks increased their holdings of Govern-

ment securities 900 million dollars in 1952 through net purchases of short-term securities. About half of the increase represented larger year-end holdings of securities acquired under contracts with dealers stipulating repurchase within short periods. Federal Reserve net market purchases consisted of bills and short-term bank-eligible bonds, while certificates were sold on balance. There were virtually no transactions in intermediate- and long-term securities. The System converted into marketable notes its remaining holdings of  $2\frac{3}{4}$  per cent investment series bonds, amounting to 1.2 billion dollars.

Commercial banks increased their holdings of Government securities 1.8 billion dollars. Starting in May they took advantage of the increasing supply of bank-eligible intermediate-term bonds to purchase more than 4 billion dollars of such issues. Bond purchases reached a peak in July, when banks acquired through the market substantial amounts of the newly issued Treasury bonds to supplement their original allotments. Total acquisitions of these newly issued bonds amounted to almost 3 billion dollars during the year. Other bonds purchased during the year consisted mainly of issues which attained eligibility status in May and June. As commercial bank reserve positions tightened, bond purchases were offset to a considerable extent by sales of shorter term securities including bonds, notes, and certificates. Bank holdings of bills declined during the first and third quarters and rose in the fourth quarter. On balance, there was some increase in holdings during the year. Changes in the first and last quarters largely reflected the role of commercial banks in the distribution of tax anticipation bills.

Life insurance companies and mutual savings banks reduced their holdings of Government securities by 1.2 billion dollars, about one-third as much as in the preceding year. A greater inflow of individual savings and, in the case of life insurance companies, considerably less investment in real estate mortgages, reduced the pressure for selling Government securities. Fire, casualty, and marine insurance companies expanded their holdings of Government securities by 400 million dollars.

Investors other than banks and insurance companies increased their holdings of Government securities about 2.5 billion dollars. In large part these purchases were attributable to foreign accounts and to State and local governments. Foreign countries increased

both their dollar reserves and the proportion of these held in the form of Government securities. Continuing purchases of Government securities by State and local governments probably reflected

### OWNERSHIP OF UNITED STATES GOVERNMENT DEBT

[Par value, in billions of dollars. Figures are partly estimated]

| Item                                                                          | Dec.<br>31,<br>1952 | Change:          |                  |                  |
|-------------------------------------------------------------------------------|---------------------|------------------|------------------|------------------|
|                                                                               |                     | Year             | Second<br>half   | First<br>half    |
| <b>Total debt outstanding</b> .....                                           | <b>267.4</b>        | <b>+8.0</b>      | <b>+8.3</b>      | <b>-.3</b>       |
| <b>Debt held by Federal agencies and trust funds, total</b> .....             | <b>45.9</b>         | <b>+3.6</b>      | <b>+1.6</b>      | <b>+2.1</b>      |
| Marketable.....                                                               | 3.2                 | -.2              | +.1              | -.3              |
| Convertible.....                                                              | 3.4                 | +.5              | .....            | +.5              |
| Nonmarketable.....                                                            | 39.3                | +3.2             | +1.4             | +1.8             |
| <b>Debt held by public, total</b> .....                                       | <b>221.6</b>        | <b>+4.4</b>      | <b>+6.7</b>      | <b>-2.4</b>      |
| Marketable.....                                                               | 145.5               | +6.1             | +8.0             | -2.0             |
| Convertible.....                                                              | 9.1                 | -.1              | -.6              | +.5              |
| Nonmarketable.....                                                            | 67.0                | -1.6             | -.7              | -.9              |
| <b><i>Distribution of debt held by public:</i></b>                            |                     |                  |                  |                  |
| <b>Federal Reserve Banks, total</b> .....                                     | <b>24.7</b>         | <b>+.9</b>       | <b>+1.8</b>      | <b>-.9</b>       |
| Marketable securities:                                                        |                     |                  |                  |                  |
| Bills.....                                                                    | 1.3                 | +.7              | +1.0             | -.2              |
| Certificates and notes.....                                                   | 18.8                | +1.0             | +1.4             | -.5              |
| Bank-eligible bonds.....                                                      | 3.3                 | +1.6             | +.9              | +.7              |
| Restricted bonds.....                                                         | 1.2                 | -1.2             | -.8              | -.4              |
| Convertible bonds.....                                                        | .....               | -1.2             | -.7              | -.5              |
| <b>Commercial banks, total</b> .....                                          | <b>63.4</b>         | <b>+1.8</b>      | <b>+2.2</b>      | <b>-.4</b>       |
| Marketable securities:                                                        |                     |                  |                  |                  |
| Bills.....                                                                    | 7.9                 | +.5              | +1.5             | -1.1             |
| Certificates and notes.....                                                   | 17.5                | -1.5             | -1.6             | ( <sup>1</sup> ) |
| Bank-eligible bonds.....                                                      | 34.8                | +3.3             | +2.5             | +.8              |
| Restricted bonds.....                                                         | .5                  | -.5              | -.3              | -.2              |
| Convertible bonds.....                                                        | .2                  | ( <sup>1</sup> ) | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| Nonmarketable securities.....                                                 | 2.5                 | ( <sup>1</sup> ) | ( <sup>1</sup> ) | ( <sup>1</sup> ) |
| <b>Investors other than Federal Reserve and commercial banks, total</b> ..... | <b>133.5</b>        | <b>+1.7</b>      | <b>+2.7</b>      | <b>-1.0</b>      |
| Marketable securities:                                                        |                     |                  |                  |                  |
| Bills.....                                                                    | 12.4                | +2.4             | +2.0             | +.4              |
| Certificates and notes.....                                                   | 10.6                | +.1              | -.3              | +.3              |
| Bank-eligible bonds.....                                                      | 19.7                | +12.1            | +6.7             | +5.4             |
| Restricted bonds.....                                                         | 17.4                | -12.4            | -5.1             | -7.3             |
| Convertible bonds.....                                                        | 8.9                 | +1.1             | +.1              | +1.0             |
| Nonmarketable securities.....                                                 | 64.5                | -1.6             | -.7              | -.9              |

<sup>1</sup> Less than 50 million dollars.

NOTE.—Includes matured and noninterest-bearing debt as well as guaranteed securities. Details may not add to totals because of rounding.

temporary investment of the proceeds from some large security issues as well as long-term investment of retirement funds. Individuals and nonfinancial corporations appear to have changed their holdings relatively little over the year. Nonfinancial corporations reduced their holdings about 1.5 billion dollars in the first half of the year, when the major part of their income taxes was due, but purchased Government securities in the second half.

#### BANK CREDIT AND MONEY

Total loans and investments of commercial banks (excluding interbank loans) increased 9 billion dollars in 1952 to a total of 141 billion. A considerable part of the expansion represented investment of savings and time deposits. The active elements of the money supply—demand deposits and currency—increased less than in 1951, and there was little change in the rate of turnover of demand deposits.

**Bank credit.** The expansion in bank loans and investments came in the last nine months of the year, following a moderate decline in the early months. Underlying the demand for credit was an expansion of economic activity that began with a pick-up of consumer buying in the spring and spread to various lines of business after settlement of the steel strike in August. Federal Government demand for credit reflected deficit operations beginning in July.

A substantial part of the expansion of bank credit in 1952 reflected consumer borrowing beginning in May. "Other loans to individuals," which are mainly consumer loans, rose rapidly. The increase for the year was 2.2 billion dollars or more than 20 per cent, the largest for any type of bank loan. Banks also made funds available to consumers indirectly through loans to finance companies and distributors; the increase in such loans was particularly large in the closing months of the year.

Bank loans to businesses increased 2 billion dollars in 1952, much less than in either of the two preceding years when expansion of inventories was especially large. Most of the growth came in the last quarter of the year, when loans expanded considerably more than usual in November and December. A seasonal rise in business loans in the latter part of the year is usually a major factor in the expansion of bank credit. For such business groups as food, liquor, and tobacco manufacturers, commodity dealers, and trade concerns, borrowing in the latter part of 1952 reflected seasonal needs. Sales

finance, petroleum, and chemical companies also increased their borrowing during the period, and borrowing by such defense groups as manufacturers of metals and related products and public utilities increased only moderately.

Banks also added about 2.0 billion dollars to their holdings of real estate mortgages and corporate and State and local government securities, thus providing funds to meet the demand for long-term credit.

Commercial bank investment in United States Government securities increased 1.8 billion dollars in 1952 to a total of 63.3 billion. The increase in bank holdings of Government securities during the year was about the same as the increase in Treasury balances.

At times of new Treasury financing, commercial banks bought securities directly from the Treasury and in the market, and also increased their loans to customers to finance purchases of Government securities. After the offerings, security loans were repaid and in addition banks sold some Government securities to nonbank

### LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS

[In billions of dollars]

| Type of loan or investment          | Out-<br>stand-<br>ing<br>Dec. 31,<br>1952 | Increase, or decrease (—) |                  |             |                  |                  |
|-------------------------------------|-------------------------------------------|---------------------------|------------------|-------------|------------------|------------------|
|                                     |                                           | Year                      | 1st<br>qtr.      | 2nd<br>qtr. | 3rd<br>qtr.      | 4th<br>qtr.      |
| Loans and investments, total...     | 141.5                                     | 9.0                       | —0.3             | 2.2         | 2.1              | 5.0              |
| U. S. Govt. securities.....         | 63.3                                      | 1.8                       | —0.4             | 0.1         | 0.4              | 1.7              |
| Other securities <sup>1</sup> ..... | 14.1                                      | 0.8                       | 0.3              | 0.4         | 0.3              | —0.2             |
| Loans, total.....                   | 64.0                                      | 6.4                       | —0.2             | 1.7         | 1.4              | 3.5              |
| Business.....                       | 27.9                                      | 2.0                       | —0.1             | —0.5        | 0.8              | 1.8              |
| Real estate.....                    | 15.7                                      | 1.1                       | 0.1              | 0.3         | 0.4              | 0.3              |
| Agricultural.....                   | 3.9                                       | 0.5                       | ( <sup>2</sup> ) | 0.3         | 0.3              | ( <sup>2</sup> ) |
| Security.....                       | 3.2                                       | 0.6                       | —0.3             | 0.8         | —0.6             | 0.7              |
| Other loans to individuals..        | 12.7                                      | 2.2                       | 0.1              | 0.8         | 0.6              | 0.7              |
| Other.....                          | 1.6                                       | ( <sup>2</sup> )          | —0.1             | 0.1         | ( <sup>2</sup> ) | 0.1              |

<sup>1</sup> Mainly State and local government bonds.

<sup>2</sup> Less than 50 million dollars.

NOTE.—Table excludes interbank loans. Total loans are after, and types of loans are before, deductions for valuation reserves. Figures for security holdings are at book value and in this respect holdings of U. S. Government securities differ somewhat from the par value figures shown in the table on p. 12. Another point of difference is that banks in territories and possessions of the United States are excluded in this table and included in the table on p. 12. All figures are partly estimated for all dates except Dec. 31, 1951 and June 30 and Dec. 31, 1952. Details may not add to totals because of rounding.

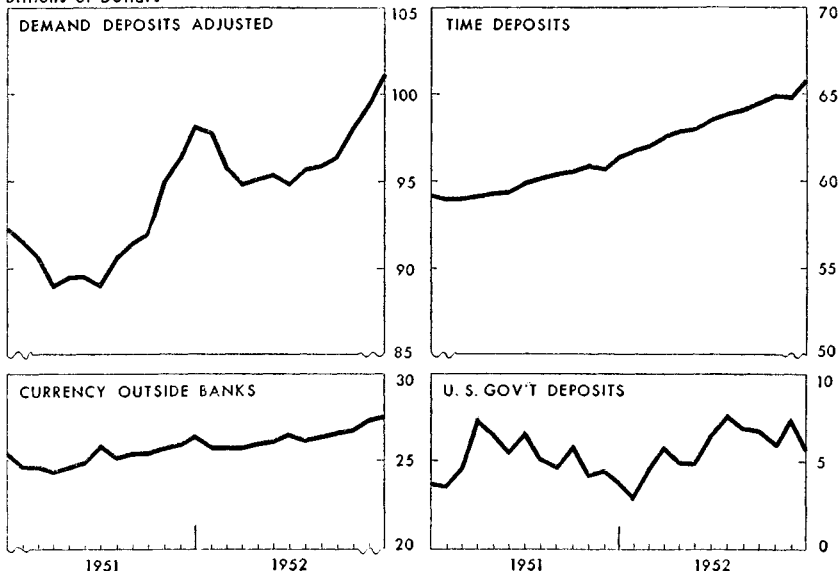
investors. Security loans also increased in November and December as dealers borrowed in order to buy Government securities that banks were selling in order to meet heavy credit demands.

Practically all the increase in commercial bank holdings of Government securities occurred in the last quarter of the year. In the first half holdings had declined somewhat. A substantial increase in late June and July, when banks subscribed to the new issue of intermediate-term Treasury bonds and purchased securities in the market, was followed by some decline in August and September as city banks sharply reduced their holdings of short-term Government securities. Treasury offerings of tax anticipation bills in early October and late November were originally taken up almost entirely by commercial banks, which later sold the major portion of their takings to non-bank investors. The distribution had not been completed by the year-end.

**Deposits and currency.** Growth in total deposits and currency in 1952 was made up of further increases in savings and in the working balances of businesses, consumers, and Government. Time

### DEPOSITS AND CURRENCY

Billions of Dollars



NOTE.—Figures are partly estimated. Deposits are for all banks in the United States. Demand and time deposits are adjusted to exclude U. S. Government and interbank deposits. Demand deposits are also adjusted to exclude items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Figures are for last Wednesday of month except for June and December call dates.

deposits at commercial and mutual savings banks, which are a principal form of individual saving, increased 4.5 billion dollars, or 8 per cent. This was the largest gain since 1946, when the high war-time rate of savings began to slacken. Privately held demand deposits and currency, which are particularly significant from the standpoint of spending in the economy, increased 4.5 billion or 4 per cent. This was a slower rate than in either 1950 or 1951. Demand deposits declined in the first quarter, in large part seasonally, and then increased, as is shown in the chart on the preceding page. Currency holdings rose fairly steadily throughout the year.

The rate of use or turnover of demand deposits changed little in 1952. As measured by demand deposits at banks in leading cities outside New York, the rate fluctuated near  $21\frac{1}{2}$  times a year, which was the average for 1951.

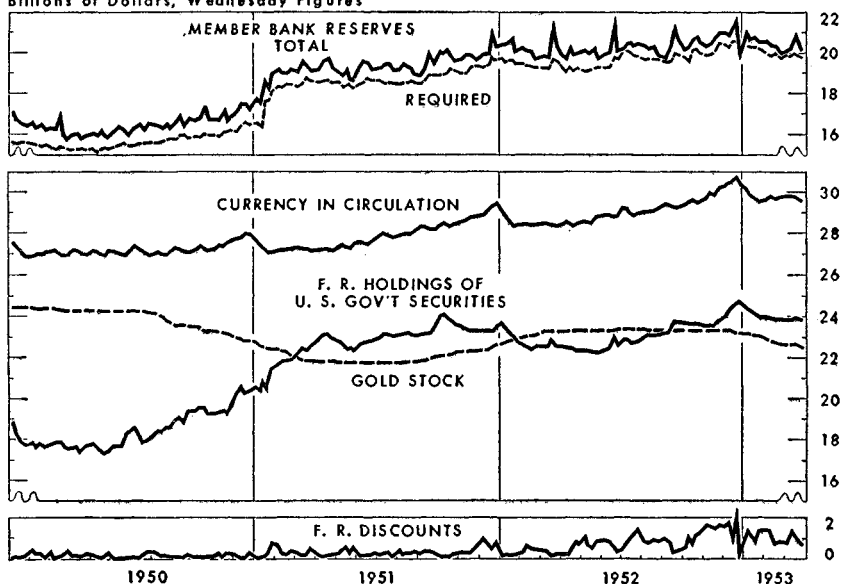
Federal Government deposits increased almost 2 billion dollars or by more than one-third, reflecting the new financing after midyear. The ultimate effect of this financing on privately held deposits will be determined when the funds are disbursed by the Treasury and become available for private spending or saving.

**Bank reserves.** During the first quarter of 1952 the contraction of deposits released some member bank reserves, and banks also obtained additional reserves from a gold inflow and the return of currency from circulation. The Federal Reserve absorbed a large part of these reserves by reducing its holdings of Government securities, as is shown in the chart. In the second quarter the gold inflow virtually ceased and currency in circulation increased again. These developments, together with a resumption of bank credit expansion in June and other factors, put pressure on reserve positions. Member banks obtained additional reserves largely through borrowing at the Reserve Banks. In June the Federal Reserve portfolio of Government securities was about the same as it had been at the end of January, when the year-end seasonal adjustments were completed, but member bank borrowing was 400 million dollars larger.

During the last half of 1952 pressure on reserves increased steadily as currency in circulation increased further and bank lending expanded at a rapid rate. Need for additional reserves was accentuated in early July, October, and November by bank investment in new Treasury issues, and in December by the year-end shortage of funds in the market. Reserves were supplied through Federal Reserve

**MEMBER BANK RESERVES AND RELATED ITEMS**

Billions of Dollars, Wednesday Figures



credit. From June to December average member bank borrowings at Federal Reserve Banks increased about a billion dollars and System holdings of Government securities increased 1.8 billion. Federal Reserve credit was reduced shortly after the end of the year, when repurchase agreements on securities were terminated and member banks repaid part of their borrowing.

For 1952 as a whole, the amount of required reserves needed to support deposit growth increased 1 billion dollars, and an outflow of currency absorbed 1.4 billion of reserves. About half a billion dollars of the needed reserves were supplied by an inflow of gold and reduction in foreign deposits at the Reserve Banks. The remaining 2 billion were supplied by an increase in Federal Reserve credit that consisted of about half a billion dollars of outright purchases of Government securities, about half a billion of securities bought under repurchase agreements with dealers, and a billion dollar increase in member bank borrowings from the Reserve Banks.

Additions to bank reserves from foreign operations resulted mainly from a gold inflow early in the year. The movement of gold into the United States which began in the third quarter of 1951 continued to be sizable through the first quarter of 1952, reflecting in part

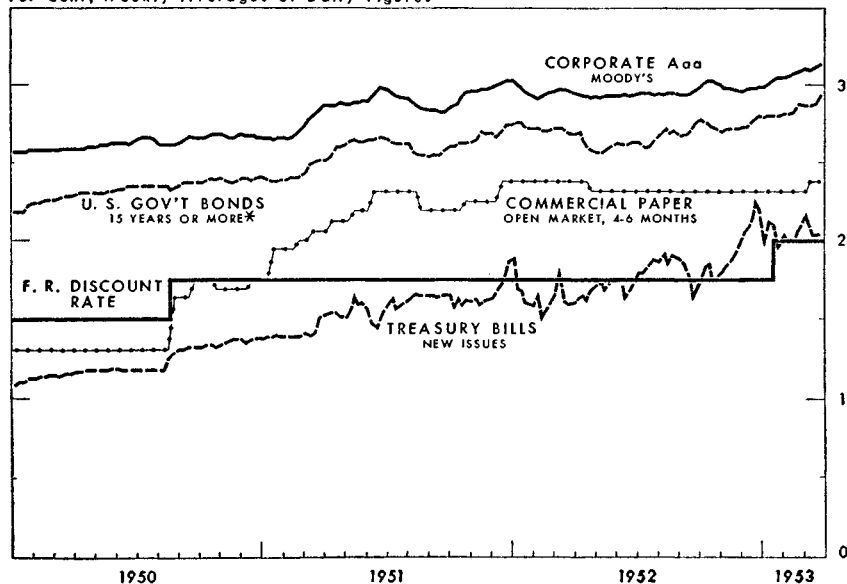
international payments due this country on current account and in part an increase in foreign funds held in this country. Thereafter the nation's gold stock was relatively stable until the last month of the year.

**Interest rates.** Easier credit conditions brought about by seasonal and other temporary factors in early 1952 were accompanied by a downward drift in interest rates. Subsequently, as demand for credit pressed more heavily against the supply of funds, interest rates rose.

The changing situation was reflected chiefly in the Treasury bill rate, the most sensitive money market rate. In the early part of the year the bill rate was generally below the Federal Reserve discount rate of  $1\frac{3}{4}$  per cent, as is shown in the chart. After midyear, when member bank borrowing reached a higher level, the bill rate rose above the discount rate, and at one time near the year-end reached  $2\frac{1}{4}$  per cent. As in 1951, the Treasury bill rate fluctuated fairly widely in response to short-term changes in money market conditions.

## MONEY RATES

Per Cent, Weekly Averages of Daily Figures



\* Callable in 12 years or more beginning Apr. 1, 1952.

NOTE.—Rate for commercial paper is weekly prevailing rate in New York. Rate for Treasury bills is average discount on new issue during week. Federal Reserve discount rate is for the Federal Reserve Bank of New York.

Other interest rates changed moderately. Open market rates on commercial paper were unchanged after a slight easing early in the year. Bank rates on short-term loans to businesses rose about a fourth of a percentage point early in the year.

Upward pressure on long-term rates was moderated by the large volume of savings seeking investment. Average yields on high-grade corporate bonds remained just under 3 per cent during most of the year. New offerings of State and local government obligations were unusually heavy late in the year, and yields on high-grade municipal securities advanced about a third of a percentage point to 2.40 per cent. Long-term Treasury yields showed declining tendencies until July, then stiffened somewhat. At both the beginning and the end of the year they averaged 2.75 per cent.

### ECONOMIC CONDITIONS

Economic activity continued to expand and output, employment, and income all reached new high levels toward the end of 1952. Prices remained relatively stable, easing moderately throughout the year in wholesale markets and slightly at the end of the year in consumer markets. Farm prices declined considerably in the last half of the year.

**Production.** Total output in 1952 was valued at 346 billion dollars or 17 billion more than in 1951. The rise in output was made possible in part by increases in the labor force and employment and in the average number of hours worked per week. There was also a further rise in output per man-hour as new and more efficient plant capacity was brought into operation.

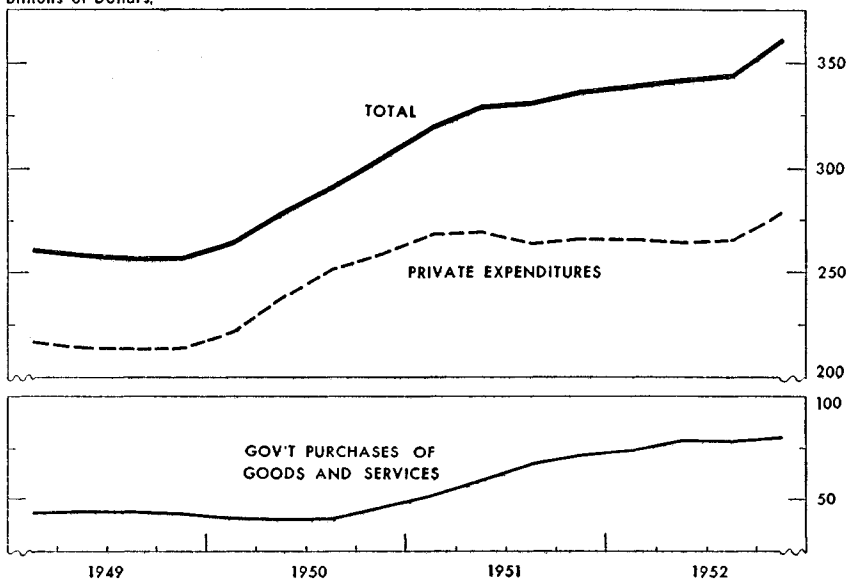
Expansion in output for the year as a whole was stimulated largely by a higher level of outlays for national security purposes and by larger consumer expenditures for nondurable goods and services. Business investment in new plant and equipment increased slightly and State and local government outlays rose. Business inventory accumulation was substantially below the record rate of 1951 and consumer purchases of durable goods were moderately lower. Expenditures for new housing continued at a high level.

These changes for the year as a whole reflect diverse movements during the year. National security outlays changed little after rising sharply through the second quarter. On the other hand, private expenditures changed little in the first three quarters and rose sharply

in the fourth, as is shown in the chart. At that time inventories were being accumulated in large volume and consumer purchases of automobiles and other durable goods as well as of nondurable goods and services were expanding at a rapid rate. Total retail sales in the fourth quarter were 8 per cent larger than a year earlier, and most of the rise reflected larger physical volume.

### GROSS NATIONAL PRODUCT

Billions of Dollars.



NOTE.—Department of Commerce quarterly estimates at annual rates, adjusted for seasonal variation.

Production expanded sharply following settlement of the steel strike at the end of July. By the year-end the Board's index of industrial production had risen to 235 per cent of the 1935-39 average as compared with about 220 in the spring and at the end of 1951. Production increases were general, but the major expansion was in consumer lines. Nondurable goods output began to rise in June, following a period of production curtailment initiated early in 1951. Consumer durable goods output, although limited in the spring by Federal restrictions on the use of some metals for civilian purposes and in the summer by the steel strike, picked up sharply as metal supplies became more readily available in the fall. By the year-end the rate of output of major consumer durable goods was about one-third higher than in the spring.

Business inventories declined somewhat from early 1952 through the summer. Expansion on a substantial scale after August, despite rapidly rising sales, reflected to a large extent replenishment of depleted stocks of steel and steel products as well as efforts to bring inventory holdings into line with expanding sales, production needs, and prospective continued high levels of activity. At the year-end, business inventories were moderately larger than at the end of 1951.

In the housing market, output and activity remained high throughout the year and costs and prices of real estate were relatively stable. For the year as a whole 1.1 million new housing units were started and nearly as many completed. This was about the same number as in 1951 and compares with a record of 1.4 million in 1950.

At the end of 1952 the gross national product was at an annual rate of 360 billion dollars, or 23 billion larger than in the fourth quarter of 1951. Of this rise, about one-half was accounted for by larger consumer outlays and one-third by increased expenditures for national security purposes. The remainder represented larger outlays by State and local governments and increases in business inventory accumulation, residential construction, and fixed capital investment.

**Employment.** Employment expanded along with production and sales. It rose to new high levels at nonfarm establishments and, in manufacturing at least, average hours of work increased. At the end of the year, total nonagricultural employment was 1.2 million larger than it had been a year earlier while unemployment, at 1.4 million, was smaller. Farm employment declined, continuing the general downward drift which has been evident for many years.

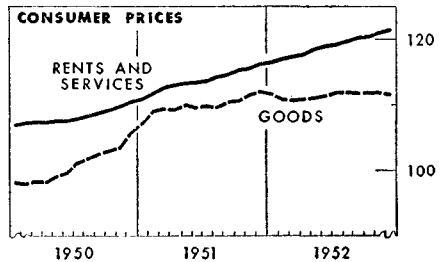
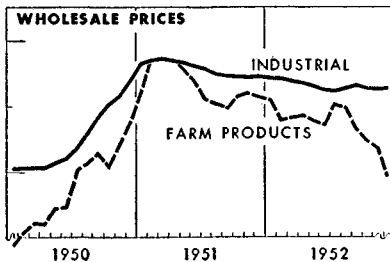
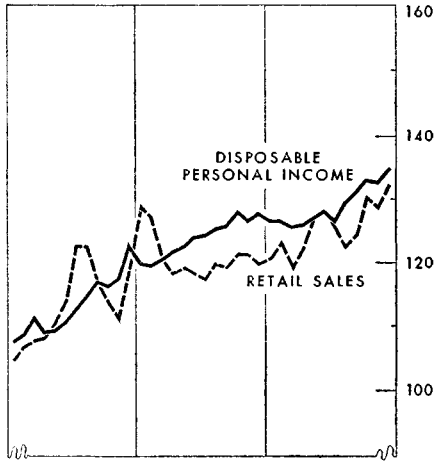
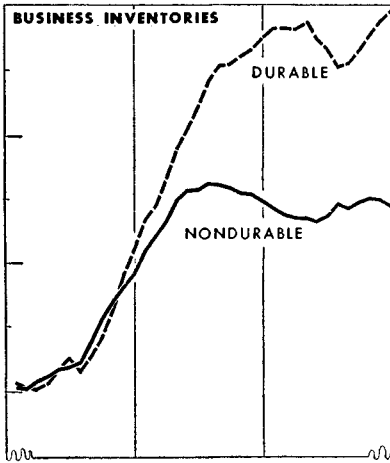
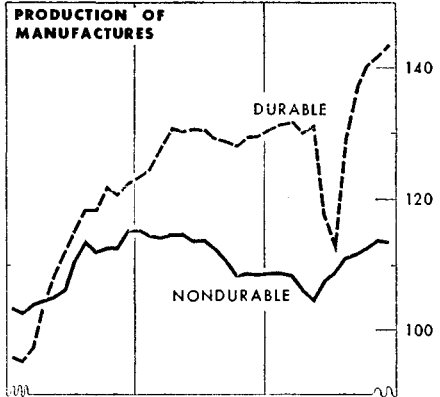
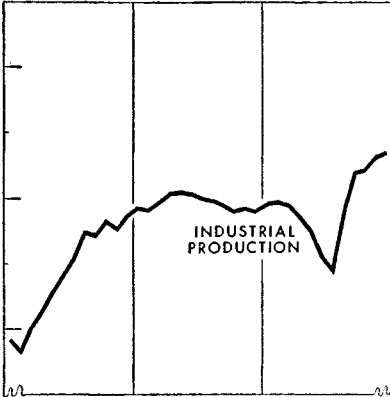
**Prices.** In sharp contrast to the shortages and rapid price advances after the outbreak of war in Korea, supplies of most materials except certain metals were ample to meet current needs in 1952. Prices of such materials consequently eased and, with farm prices declining, the general level of wholesale prices gradually moved downward. Prices of finished goods changed little over the year, however, at either wholesale or retail. Wage rates rose at about the same rate as in 1951. Changes in capital values were moderate. Urban real property values and farm land values were generally maintained and common stock prices rose somewhat toward the end of the year.

Consumer prices were about 1 per cent higher at the end of 1952

than a year earlier. The change mainly reflected higher rents and prices for services; food prices were slightly lower. Wholesale prices were 3 per cent lower than a year earlier, with especially sharp

### SELECTED BUSINESS INDEXES

Per Cent., 1947-49 = 100



NOTE.—Monthly series, seasonally adjusted except for prices. Indexes for inventories, retail sales, and disposable personal income based on Department of Commerce data. Price indexes based on Bureau of Labor Statistics data.

reductions in cotton, corn, and livestock. Many farm products were at support levels and Government expenditures for price support operations were large. Domestic demand for cotton improved somewhat but export demand declined sharply. The number of cattle on farms continued the rise of the preceding three years and reached a new high. Cattle marketings expanded rapidly after midyear and beef prices started to decline sharply late in the year. Prices of some industrial materials declined further during the year. A few materials increased in price but not sufficiently to prevent the index of basic commodity prices from declining considerably. Prices of most finished goods remained exceptionally stable throughout the year.

**Income and personal saving.** Average wage and salary rates rose about 5 per cent over the year, compared with a rise of 1 per cent in consumer prices. For production workers in manufacturing, average hourly earnings increased 6 per cent, reflecting in part more premium pay for overtime work, and average weekly earnings advanced from \$67 to \$72.

Incomes of unincorporated nonfarm proprietors and professional groups also increased during the year, but incomes of farm proprietors were generally lower than in the latter part of 1951. To a large extent, however, the effect on farm income of declines in prices of farm products was offset by expansion in the physical volume of marketings. The decline in farm prices and income was accompanied by a decline in farm purchases of machinery and equipment from the record levels reached in 1951.

Total personal income was 17 billion dollars larger in December than a year earlier, but disposable income was only 13 billion dollars larger owing to larger personal tax payments in 1952. Notwithstanding higher taxes and slightly higher consumer prices, there was a modest increase in per capita real income after allowance for a 1.7 per cent increase in population.

Personal saving continued in large volume in 1952. It averaged nearly 8 per cent of disposable income, which was about the same as in the last three quarters of 1951 but more than double the rate in the first quarter of 1951. A large part of personal saving took the form of additions to holdings of financial assets, such as time deposits and building and loan shares.

Corporate profits were moderately lower in 1952 than in 1951.

They amounted to 40 billion dollars before taxes and 17 billion after taxes. The amount after taxes was about 1.5 billion less than in 1951 and 4.0 billion below the peak in 1950, when corporate tax rates were raised at midyear. With expenditures for new plant and equipment at record levels in 1952, corporations floated a record volume of new securities in the capital markets.

At the year-end, there was an exceptionally high rate of utilization of both an expanding industrial capacity and a growing labor force, and corporate profits were again rising. At the same time, there was little evidence of a resumption of inflationary price trends; in some areas, such as farming, prices had declined from earlier advanced levels. Supplies were generally ample and Federal emergency restraints were being relaxed in many fields.

#### WORLD ECONOMIC AND FINANCIAL DEVELOPMENTS

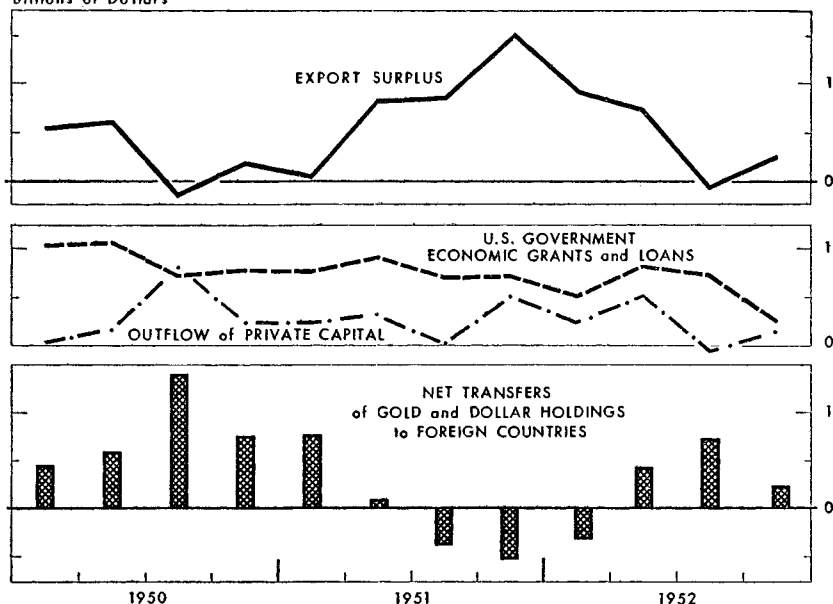
For many countries the maintenance or restoration of balance in international payments continued to be a major concern of policy in 1952. With inflationary pressures checked, readjustments of supply and demand involved some decline in world trade. Progress toward equilibrium was reflected in a decline in the export surplus of the United States. Although considerable reliance for balancing international accounts was still placed on direct restrictions on imports and on substitutes for normal commercial exports, such as the receipt of international grants of aid, increasing emphasis was placed in many countries on steps toward a freer and more normal system of world trade.

The general shrinkage of world commerce through the spring and summer of 1952 reflected two main forces. One was the slackening of inventory demand, which started in 1951 in the United States and occurred in other industrial countries with varying lags. The second was a sharp curtailment of import purchases by certain countries that produce raw materials and foodstuffs.

In some industrial nations, the timing of events followed a pattern not greatly different from that in the United States. Industrial production at the beginning of 1952 was generally below the trend of recent years, but by the end of the year output was again making new records in some countries. Although their exports fell below earlier trends or actually declined during part of the year, several important nations maintained a surplus position in the balance of

**UNITED STATES BALANCE OF PAYMENTS****SELECTED COMPONENTS**

Billions of Dollars



NOTE.—Quarterly data. Net transfers of gold and dollar holdings, compiled by Federal Reserve, include net foreign purchases of gold from United States plus net increase in foreign dollar holdings. Other data are derived from U. S. Department of Commerce statistics. Export surplus is the excess of exports of goods and services (minus military aid) over imports of goods and services (plus private gifts, Government pensions, etc.). U. S. Government loans and outflow of United States private capital are on a net basis and include short-term funds.

international payments. These countries included Canada, Germany, the Netherlands, Belgium, Sweden, and Japan.

Germany, Belgium, and the Netherlands found it possible to relax the tighter credit conditions that had been enforced by central bank action in 1951. In Canada, interest rates continued to rise.

In the United Kingdom and France, where great market pressures had been built up during 1951 by export sales, rearmament, and domestic consumption and investment, the peak in wholesale prices was not reached until early 1952. As expectations of further inflationary pressures gave way and demand for certain consumer goods declined, there was some slackening in the pace of industrial activity. In Britain, restriction of credit to private borrowers and a decline in exports of consumer goods to the overseas sterling area contributed to this development.

British exports to markets outside the sterling area were well maintained throughout the year. The decline in total export sales was more than matched by a reduction of import purchases, partly forced by official controls, partly the result of decreased demand in the United Kingdom. Prospects for balanced trade thus improved considerably over the course of the year.

Import restrictions by certain countries such as Australia, South Africa, Argentina, and Brazil played a significant part in reducing demands on the industrial economies. In these countries internal inflation, aggravated by inflation due to export earnings in the 1950-51 boom, had spilled over into large purchases of imports at a time when export sales were falling. Serious drains on reserves of foreign exchange had resulted and severe restrictions were placed on import transactions in 1952. Inflationary credit expansion continued in 1952 in some South American countries.

In the general readjustment of supply and demand last year, United States exports of agricultural and other products declined significantly. Exports of metals and machinery, however, continued to be large.

Increased availability of imports facilitated the maintenance of activity in the United States at a high level and without upward pressure on prices. Imports of nonferrous metals increased, paving the way for termination of price controls on the major metals. While the price of rubber fell and purchases of some other materials declined in the first part of the year, the total value of United States imports throughout the year was not greatly below the record rate of early 1951. Toward the end of 1952 there was a general advance in the volume of imports, helping to stimulate production in other countries and to relieve balance-of-payment stresses.

The United States assisted in rebuilding military strength elsewhere by exports of goods and services under military grant aid, amounting to 2.6 billion dollars for the year, as compared with 1.5 billion in 1951.

Economic grant aid and Government loans totaling 2.4 billion dollars (net of repayments) were smaller than in 1951. The net outflow of private capital also declined; while the movement of permanent investment capital to Canada continued, the appreciation of the fluctuating Canadian dollar attracted some types of capital away from Canada to this country. The total supply of dollars to

all countries, however, was almost as large as in 1951, and, with foreign buying in this country reduced, gold reserves and dollar holdings of other countries increased 1.2 billion dollars. This increase, which is shown in the upper part of the table, occurred mainly in the second half of the year.

**NET CHANGE IN FOREIGN GOLD RESERVES AND  
DOLLAR HOLDINGS, 1952**

[In millions of dollars]

| Item and area                                                                            | Year         | 2nd<br>half | 1st<br>half |
|------------------------------------------------------------------------------------------|--------------|-------------|-------------|
| <b>Net increase in total gold reserves and dollar holdings of foreign countries.....</b> | <b>1,202</b> | <b>957</b>  | <b>245</b>  |
| United Kingdom and other sterling area countries...                                      | -494         | 145         | -639        |
| Continental Western Europe.....                                                          | 1,255        | 719         | 536         |
| Canada.....                                                                              | 305          | 66          | 239         |
| Latin America.....                                                                       | -4           | 56          | -60         |
| Asia (nonsterling area).....                                                             | 187          | 6           | 181         |
| Other countries.....                                                                     | -47          | -35         | -12         |
| <b>Net foreign purchases of gold from United States<br/>    (sales, -).....</b>          | <b>-394</b>  | <b>269</b>  | <b>-663</b> |
| United Kingdom and other sterling area countries...                                      | -451         | 80          | -531        |
| Continental Western Europe.....                                                          | 115          | 148         | -33         |
| Canada.....                                                                              | -7           | -           | -7          |
| Latin America.....                                                                       | -58          | 39          | -97         |
| Asia (nonsterling area).....                                                             | 7            | 2           | 5           |

United States payments on current transactions (including purchases of goods and services and also gifts other than Government aid) totaled 16.3 billion dollars as compared with 15.5 billion in 1951, while exports of goods and services (except those covered by military aid) were 18.1 billion, somewhat below the 18.8 billion total of the previous year. The export surplus based on these figures was less than 2 billion, as compared with 5 billion in 1948 and more than 3 billion in 1951. In the second half of the year the export surplus, on an annual rate basis, was only 400 million dollars.

The additions to foreign gold reserves and dollar holdings shown in the table include a small amount from new production of gold. Additions to dollar holdings in the latter half of the year largely took the form of investments in United States Government securities. Toward the end of the year and in the early part of 1953 foreign

countries purchased gold from the United States with dollars recently or currently obtained. (Such purchases of gold in the second half of 1952 amounted to 269 million dollars, as shown in the lower part of the table.) This development involved a drain on member bank reserves which contributed to the tightening of bank credit in the United States.

#### LOAN GUARANTEES FOR DEFENSE PRODUCTION

The Defense Production Act of 1950 provided for the guarantee of loans made by private financing institutions to contractors, sub-contractors, and others engaged in the performance of Government contracts for the purpose of expediting production and deliveries or services for the defense program.

The Departments of the Army, Navy, Air Force, Commerce, Agriculture, and Interior, as well as the General Services Administration, the Atomic Energy Commission, and the Defense Materials Procurement Agency have, by Executive Orders, been designated as guaranteeing agencies.

The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies in these transactions, and the procedure is governed by Regulation V of the Board of Governors, as revised September 27, 1950. Pursuant to this regulation, and after consultation with the guaranteeing agencies, the Board announced a schedule of guarantee fees and the establishment of a maximum rate of interest of 5 per cent on guaranteed loans and a maximum commitment fee of  $\frac{1}{2}$  of 1 per cent per annum. This schedule of fees and rates was reviewed from time to time by the Board and the guaranteeing agencies.

Regulation V loans outstanding on December 31, 1952 totaled 979 million dollars, of which 803 million, or 82 per cent on the average, was guaranteed. On the same date an additional 586 million was available to borrowers under guarantee agreements in force.

From the beginning of the program in September 1950 through December 1952, 1,159 loans totaling 2,124 million dollars were authorized by the nine procurement agencies that may guarantee loans. The accompanying table gives the percentage distribution of authorizations classified by size of loan and number of employees of borrower. Nineteen per cent of the number and approximately one per cent of the amount of loans authorized consisted of loans of less than \$100,000, while 57 per cent of the number and 6 per cent of

the amount were less than \$500,000. Approximately 74 per cent of the number and 20 per cent of the amount of loans authorized were to borrowers having less than 500 employees, including employees of any affiliated concerns under common ownership or control.

### V LOANS AUTHORIZED, SEPT. 27, 1950-DEC. 31, 1952

[Percentage distribution, by size of loan and number of employees of borrower <sup>1</sup>]

| Size of loan                     | Percentage of loans authorized |        | Cumulative percentage distribution |        |
|----------------------------------|--------------------------------|--------|------------------------------------|--------|
|                                  | Number                         | Amount | Number                             | Amount |
| Under \$100,000.....             | 18.9                           | .6     | 18.9                               | .6     |
| \$100,000-\$499,999.....         | 38.2                           | 5.6    | 57.1                               | 6.2    |
| \$500,000-\$999,999.....         | 15.9                           | 6.3    | 73.0                               | 12.5   |
| \$1,000,000-\$4,999,999.....     | 20.7                           | 26.3   | 93.7                               | 38.8   |
| \$5,000,000-\$9,999,999.....     | 3.1                            | 12.7   | 96.8                               | 51.5   |
| \$10,000,000 and over.....       | 3.2                            | 48.5   | 100.0                              | 100.0  |
| <hr/>                            |                                |        |                                    |        |
| Number of employees <sup>2</sup> |                                |        |                                    |        |
| Under 50.....                    | 18.9                           | 1.5    | 18.9                               | 1.5    |
| 50-99.....                       | 16.3                           | 2.4    | 35.2                               | 3.9    |
| 100-499.....                     | 38.6                           | 16.0   | 73.8                               | 19.9   |
| 500-2,499.....                   | 16.9                           | 24.5   | 90.7                               | 44.4   |
| 2,500 and over.....              | 5.2                            | 53.7   | 95.9                               | 98.1   |
| Not available.....               | 4.1                            | 1.9    | 100.0                              | 100.0  |

<sup>1</sup> Distributions are of 1,159 loans authorized in an aggregate amount of 2,124 million dollars.

<sup>2</sup> Includes employees of affiliated concerns under common ownership or control.

### BANKING OPERATIONS AND STRUCTURE

**Bank earnings and profits.** Net current earnings of member banks, before income and excess profits taxes, increased during 1952. Net losses, charge-offs, and transfers to valuation reserves declined somewhat, but there was an increase in provision for taxes based on income. As a result, net profits after taxes and profit and loss adjustments amounted to 829 million dollars, about 10 per cent more than in 1951. The ratio of net profits to average capital accounts was 7.9 per cent as compared with 7.6 per cent in 1951.

Net current earnings before income taxes amounted to 1,619 million dollars, an increase of 182 million. Accompanying larger average holdings and higher average rates of return, earnings on both United States Government securities and loans were larger

than in 1951. Earnings on Government securities amounted to 929 million dollars, a 97 million increase, and earnings on loans aggregated 2,306 million, which was 303 million more than in the preceding year. Total current earnings increased by 451 million dollars, and total current expenses by 269 million.

The accompanying table shows selected earnings data for all member banks in 1952 and 1951.

EARNINGS, EXPENSES, PROFITS, AND DIVIDENDS OF  
ALL MEMBER BANKS, 1952 AND 1951

[In millions of dollars]

| Item                                                                          | 1952  | 1951  |
|-------------------------------------------------------------------------------|-------|-------|
| Earnings.....                                                                 | 4,120 | 3,669 |
| On U. S. Government securities.....                                           | 929   | 832   |
| On loans <sup>1</sup> .....                                                   | 2,306 | 2,003 |
| All other.....                                                                | 885   | 834   |
| Expenses.....                                                                 | 2,501 | 2,232 |
| Net current earnings before income taxes.....                                 | 1,619 | 1,437 |
| Net losses, charge-offs, and transfers to valuation reserves <sup>2</sup> ... | 181   | 190   |
| Profits before income taxes.....                                              | 1,437 | 1,247 |
| Taxes on net income.....                                                      | 608   | 491   |
| Net profits.....                                                              | 829   | 756   |
| Cash dividends declared <sup>3</sup> .....                                    | 390   | 371   |

<sup>1</sup> Includes charges on loans other than interest.

<sup>2</sup> Excludes losses charged and recoveries credited to valuation reserves.

<sup>3</sup> Includes interest on capital notes and debentures.

Net losses, charge-offs, and transfers to valuation reserves were 9 million dollars smaller than in 1951, but provisions for taxes were 117 million larger. The net increase in such charges was less than the growth in net current earnings, with the result that net profits after taxes and profit and loss adjustments increased 73 million dollars to 829 million.

About 47 per cent of 1952 profits, or 390 million dollars, was distributed as dividends. This represented a return of 3.7 per cent on average total capital accounts; although the amount distributed was larger than in the previous two years the percentage was unchanged. Profits retained to strengthen capital accounts amounted to 439 million dollars as compared with 385 million in 1951.

**Bank earning assets.** Earning assets of member banks amounted to 119.5 billion dollars at the end of 1952, an increase of 7.3 billion during the year. Of this increase, 5.5 billion dollars was in loans, 1.1 billion in holdings of United States Government obligations, and 0.7 billion in holdings of other securities.

About a third of the loan increase was in commercial and industrial loans and another third in "other loans to individuals," which are largely consumer loans. According to sample data by industry groups, more than half the commercial and industrial loan expansion in 1952 was to manufacturers of metals and metal products (including machinery and transportation equipment). Net decreases in loans were reported for only three groups—manufacturers of food, liquor and tobacco; manufacturers of textiles, apparel, and leather; and the public utility industry (including transportation).

**Capital accounts.** Capital accounts of member banks amounted to 10.8 billion dollars at the end of 1952, an increase of about half a billion during the year. Retention of profits accounted for most of the increase. Proceeds from sales of common stock amounting to 128 million dollars were offset to the extent of 25 million net by other changes in capital accounts, including the retirement of preferred stock and the effects of mergers and changes in Federal Reserve membership.

The ratio of average total capital accounts to average total assets for all member banks was 6.9 per cent, the same as in 1951, and 0.1 point below 1949 and 1950. The ratio of average total capital accounts to total assets less cash assets and United States Government securities continued to decline, reaching 16.2 per cent as compared with 16.7 per cent in 1951 and 18.9 in 1950. The decline reflected the increasing proportion of earning assets held in the form of loans and investments other than United States Government securities.

**Number of banking offices.** The number of banking offices in the United States increased to 20,095 during 1952 from 19,842 at the beginning of the year. This was the ninth consecutive year of growth. The number of banks declined by 43 to 14,575, but the number of branches increased by 296 to 5,520. All of these figures exclude banking facilities at military and other Government establishments, of which there were 191 at the end of 1952, an increase of 32 during the year.

The number of banks (head offices) continued to decline, following the pattern of the four preceding years. There were 73 new banks opened for business during the year, but this increase in head offices was more than offset by a decrease of 116 resulting principally from the consolidation or absorption of 100 banks, 82 of which were converted into branches. Table 20 on page 74 shows increases and decreases in the number of banks by class of bank.

The increase of 296 in the number of branches and additional offices, exclusive of banking facilities at military and other Government establishments, was the largest since the early twenties; the next largest annual increase was 290 during 1951. Most of the increase in 1952 was in de novo branches, of which there were 237. New York and Pennsylvania had the largest branch increases, with 38 each; smaller increases occurred in practically all other States that permit branch banking. More than half the increase in branches during 1952 was in places outside head-office cities; such branches now constitute about 55 per cent of the total of all branches as compared with 40 per cent in 1933.

**Changes in Federal Reserve membership.** As a result principally of consolidations and absorptions, the number of member banks in the Federal Reserve System continued to decline during 1952. The total number of member bank offices continued to increase, however, owing to the establishment of de novo branches and to the conversion of most of the absorbed banks into branches.

On December 31, 1952, there were 6,798 member banks. Of these, 4,909 were national banks and 1,889 were State member banks, which had declined in number by 30 and 12 respectively during the year.

Nineteen newly organized banks became members, of which 15 were national banks and 4 were State chartered. Twelve insured nonmember banks, with deposits of about 113 million dollars, were admitted to membership. Four of these had previously withdrawn from the System in order to establish branches outside the city of the head office; they applied for membership and were readmitted under the terms of the legislation enacted in July 1952 (see page 39 of this Report). One national bank converted to a State member bank during the year.

The 6,798 member banks in operation at the end of 1952 accounted for 48 per cent of the number and held 85 per cent of the deposits

of all commercial banks in the country. State member banks accounted for 21 per cent of the number and held 66 per cent of the deposits of all State commercial banks. These relationships have remained practically unchanged during recent years.

Table 20 on page 74 summarizes the increases and decreases in the number of member banks and their branches.

**Par and nonpar banks.**<sup>1</sup> During 1952 a total of 73 banks were added to the Federal Reserve Par List, and 106 were deleted. Of the 73 additions, 13 were nonpar banks that chose to go on the Par List, 58 were newly organized banks, and 2 were banks that previously did not handle checking accounts. Of the 106 deletions, 2 were banks that withdrew from the Par List; nearly all of the remainder were absorbed by other par banks, and most of them were converted into branches.

The number of par-remitting and nonpar banking offices at the end of 1952 is shown below:

|                                                                             | On<br>Par List | Not on<br>Par List |
|-----------------------------------------------------------------------------|----------------|--------------------|
| Banks (head offices).....                                                   | 12,122         | 1,820              |
| Branches .....                                                              | 4,962          | 303                |
| Banking facilities at military and other Government<br>establishments ..... | 190            | 1                  |
| Total .....                                                                 | 17,274         | 2,124              |

The par-remitting banks, representing 87 per cent of the banks on which checks are drawn, hold all but 2 per cent of the deposits of all commercial banks in the country.

All banks in 29 States and the District of Columbia were on the Federal Reserve Par List at the end of the year; and in each of 5 other States the number of nonpar banks was less than 10. Practically all of the banks not on the Par List were in 14 States, as is indicated by the following distribution:

|                      |     |                      |    |
|----------------------|-----|----------------------|----|
| Minnesota .....      | 410 | Alabama .....        | 96 |
| Georgia .....        | 284 | North Dakota .....   | 92 |
| Mississippi .....    | 160 | Tennessee .....      | 84 |
| Arkansas .....       | 118 | South Carolina ..... | 81 |
| North Carolina ..... | 107 | Missouri .....       | 65 |
| Louisiana .....      | 104 | Florida .....        | 54 |
| South Dakota .....   | 98  | Texas .....          | 50 |

<sup>1</sup> This section refers only to banks on which checks are drawn and their branches and offices, including "banking facilities" at military and other Government establishments. 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 Federal Reserve Banks for payment, and also such nonmember banks as have agreed to do so.

Table 21 on page 75 shows these statistics by States and Federal Reserve districts.

#### BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM

**Examination of Federal Reserve Banks.** The Board's Division of Examinations examined each of the 12 Federal Reserve Banks and their 24 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 conduct 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. 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 1952 program for the examination of State member banks was practically completed.

**Bank holding companies.** During 1952 the Board authorized the issuance of one voting permit for general purposes and four permits for limited purposes to holding company affiliates of member banks.

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. In accordance with established practice, a number of 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.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of Section 23A of the Federal Reserve Act, any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. During the year the Board made such determinations with respect to seven organizations.

**Trust powers of national banks.** During 1952, 14 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 6 banks which previously had been granted certain trust powers. One additional national bank acquired trust powers as a result of consolidation. Trust powers of 23 national banks were terminated, 22 by voluntary liquidation, consolidation, merger, or conversion, and one by voluntary surrender. At the end of 1952, there were 1,758 national banks holding permits to exercise trust powers.

**Acceptance powers of member banks.** During the year the Board approved the applications of three member banks, pursuant to the provisions of Section 13 of the Federal Reserve Act, for permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors.

**Foreign branches and banking corporations.** Under the provisions of Section 25 of the Federal Reserve Act, the Board approved during 1952 four applications made by member banks for permission to establish branches in foreign countries or in dependencies or insular possessions of the United States. Member banks opened five such branches in 1952: one each in Brazil, Colombia, England, France, and Japan. One of the five branches so established had been authorized in 1950 and another in 1951. One branch in England was closed during the year.

At the end of 1952, seven member banks had in active operation a total of 104 branches in 23 foreign countries and possessions of the United States. Of the 104 branches, four national banks were operating 98 and three State member banks were operating 6. The foreign branches in active operation were distributed geographically as follows:

|                      |           |                           |           |
|----------------------|-----------|---------------------------|-----------|
| <b>Latin America</b> | <b>54</b> | <b>Continental Europe</b> | <b>6</b>  |
| Argentina .....      | 10        | Belgium .....             | 1         |
| Brazil .....         | 10        | France .....              | 2         |
| Chile .....          | 2         | Germany .....             | 3         |
| Colombia .....       | 4         |                           |           |
| Cuba .....           | 19        | <b>England</b>            | <b>10</b> |
| Mexico .....         | 2         |                           |           |
| Panama .....         | 4         | <b>Far East</b>           | <b>20</b> |
| Peru .....           | 1         |                           |           |
| Uruguay .....        | 1         | Hong Kong .....           | 1         |
| Venezuela .....      | 1         | India .....               | 2         |

| Far East, cont.   |    | United States Possessions |  | 14  |
|-------------------|----|---------------------------|--|-----|
| Japan .....       | 10 | Canal Zone .....          |  | 4   |
| Philippines ..... | 5  | Guam .....                |  | 1   |
| Singapore .....   | 1  | Puerto Rico .....         |  | 9   |
| Thailand .....    | 1  | Total                     |  | 104 |

There was no change in 1952 in the list of 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 investment by member banks in the stock of corporations engaged principally in international or foreign banking. Of the four corporations in operation, one has no subsidiaries or foreign branches; one operates a branch in England (also an agency at the New York International Airport which was established during the year); one operates a branch in France; and one has an English fiduciary affiliate. One branch in France was closed in 1952 after the transfer of its business to the newly established branch of its parent member bank.

At the end of 1952 there were in operation two banking corporations organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. The head offices of these corporations are located in New York City and both were examined during the year by the Board's Division of Examinations. One such institution operates a branch in Germany and the other has a branch in France and a fiduciary affiliate in England.

#### CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

**Payment of interest on deposits.** The Board's Regulation Q, relating to the payment of interest on deposits, was amended effective July 1, 1952, to liberalize the provisions of the regulation regarding allowance of grace periods in the computation by member banks of interest on savings deposits in order to accommodate these provisions to banking practices and State laws and regulations.

**Membership of State banks.** The Board's Regulation H, relating to membership of State banking institutions in the Federal Reserve System, was amended effective September 1, 1952. Such amendment brought the regulation into conformity with changes in the law relating to capital requirements for admission of State banks to membership and to capital requirements for the establishment of

branches by State member banks. The changes in the law, approved July 15, 1952, are outlined on pages 39-40 of this Report.

**Consumer credit.** Effective May 7, 1952, the Board suspended its Regulation W, relating to consumer credit, following a review of developments in the economy generally and in the markets directly affected by the regulation. The authority for the regulation contained in the Defense Production Act of 1950, as amended, was repealed effective June 30, 1952. Previously, the regulation had been amended, effective January 2, 1952, to exempt therefrom prewar model automobiles; effective March 24, 1952, to remove the down payment and maximum loan value requirements in connection with home modernization and repairs; and, effective April 8, 1952, to extend to articles costing less than \$100 the exemption from the down payment and maximum loan value provisions that previously had exempted articles costing less than \$50.

**Real estate credit.** The Board's Regulation X, relating to real estate credit, was amended effective January 9, 1952, to liberalize under specified conditions the requirements of the regulation in the case of veterans and other persons financing the purchase of homes through conventionally financed secondary loans which were to be combined with loans made, insured, or guaranteed by a department or agency of the United States Government.

Effective June 11, 1952, Regulation X was amended to permit more liberal credit terms for conventionally financed one- to four-family housing and multi-unit housing. At the same time two technical amendments were announced. One of these provided special assistance for tenants and home owners whose homes had been destroyed or damaged in areas where major disasters had occurred, and the other provided for longer term sale agreements where properties being purchased would not be occupied or used by prospective owners until the financing terms complied with the regulation.

The Board of Governors suspended Regulation X effective September 16, 1952. This action was taken following receipt by the Board from the Secretary of Labor of information that the seasonally adjusted annual rate of residential construction starts in each of the months of June, July, and August of 1952 had been less than 1,200,000 units. The 1952 amendments to the Defense Production Act provided that when housing starts had fallen below this specified rate

for three consecutive months a period of real estate credit relaxation should be announced during which the maximum down payment prescribed with respect to residential property could not exceed 5 per cent. Simultaneously with the suspension of Regulation X, the Housing and Home Finance Administrator acted to provide a relaxation of terms for Government-aided real estate credit.

As required by executive order, the amendments to Regulation X affecting residential properties were made with the concurrence of the Housing and Home Finance Administrator.

#### LITIGATION AND ENFORCEMENT

**Transamerica Corporation.** The Board, on March 27, 1952, adopted its Findings as to the Facts, Conclusion, and Orders in the Transamerica Clayton Act proceeding. These were printed in the Federal Reserve *Bulletin* for April 1952, beginning at page 368. On May 27, 1952, Transamerica Corporation filed in the United States Court of Appeals for the Third Circuit its petition to review and set aside the orders of the Board, and an application for leave to adduce additional evidence. The case was argued before the Court of Appeals on March 16, 1953.

**Regulation W enforcement.** The Board during 1952 obtained three injunctions in United States District Courts enjoining further violations of Regulation W, and suspended for temporary periods the licenses of five registrants to extend instalment credit subject to the regulation. Since the regulation was put into effect in September 1950, a total of 80 cases have been referred to the Department of Justice for such criminal proceedings as the Department might deem appropriate. As of April 10, 1953, 70 of these cases had been referred to United States Attorneys for prosecution, of which 33 had been disposed of by convictions.

**Regulation X enforcement.** During the year 1952, one injunction enjoining further violations of Regulation X was issued by a United States District Court, and the Board issued one Order for Investigation pursuant to which subpoenas were served.

**Removal of bank officers.** Following the receipt of a certificate from the Comptroller of the Currency pursuant to the provisions of Section 30 of the Banking Act of 1933, the Board issued an order for a hearing to determine whether the president and certain other officers and directors of a national bank should be removed from office

because of violations of law and unsafe and unsound practices in the conduct of the affairs of the bank. However, before the date set for the hearing, a majority of the stock of the bank was sold and the president and certain other directors were replaced. As a consequence, the hearing was not held.

### LEGISLATION

**Purchase of Government obligations by Federal Reserve Banks.** By Act of Congress approved June 23, 1952 the limited authority of the Federal Reserve Banks under Section 14(b) of the Federal Reserve Act to purchase and sell direct or fully guaranteed obligations of the United States directly from or to the United States was extended until June 30, 1954. This authority would otherwise have expired on June 30, 1952.

**Defense Production Act amendments of 1952.** The Defense Production Act of 1950, which would have expired June 30, 1952, was amended and extended by Act of Congress approved June 30, 1952.

The amendments repealed Section 601 of the Defense Production Act, which contained authority for control of consumer credit. It was also provided that no voluntary program or agreement for the control of credit should be approved or carried out under Section 708 of the Defense Production Act. While the new law continued the authority for regulation of real estate credit until June 30, 1953, it provided that, if estimated residential construction starts for three consecutive months should be below a seasonally adjusted annual rate of 1,200,000 units, no down-payment requirement in excess of 5 per cent should be imposed.

**Capital requirements of member banks.** A law was approved on July 15, 1952 amending Section 9 of the Federal Reserve Act and Section 5155 of the Revised Statutes of the United States relating to requirements for admission of State banks to membership in the Federal Reserve System and to requirements for the establishment of branches by national and State member banks. The new law permits a State bank to become a member of the Federal Reserve System when it has capital stock and surplus adequate in the judgment of the Board of Governors in relation to its assets and to its deposit liabilities, except that if the bank does not have capital stock and surplus equal to that required for the establishment of a national

bank it must be an insured bank or must first obtain approval for deposit insurance under the Federal Deposit Insurance Act.

The new law also eliminated the requirement that in order for a national or State member bank to have an out-of-town branch it had to have a capital stock of at least \$500,000. Such a bank, however, must still have capital equal to the total amount which would be required for the establishment of a national bank in each of the various places where its offices are located and must have the capital stock and surplus required by State law in like circumstances.

In addition, under the new law, a State member bank may not reduce its capital stock without the consent of the Board of Governors. Also, the Board's approval is required for the establishment of any new branch of a State member bank in the head-office city, whereas formerly approval was required only for out-of-town branches.

**Bank dealing in obligations of Central Bank for Cooperatives.** By Act of Congress approved April 9, 1952, the last sentence of Paragraph Seventh of Section 5136 of the Revised Statutes of the United States was amended so as to permit national banks to deal in and underwrite obligations issued by the Central Bank for Cooperatives. Such transactions remain subject to the limitation of 10 per cent of the national bank's capital and surplus. Subject, of course, to any applicable provision of State law, the provision also applies to all State member banks of the Federal Reserve System, since Section 9 of the Federal Reserve Act makes Section 5136 applicable to State member banks.

#### RESERVE BANK OPERATIONS

**Volume of operations.** Table 5 on page 57 discloses pronounced changes in some of the principal Reserve Bank operations during the year.

Discounts and advances were more numerous in 1952 than in any other year since 1938. Federal Reserve discount facilities were used by 1,286 banks in 1952 as compared with 1,168 in the preceding year. The largest amount of discounts and advances outstanding during the year was 2,364 million dollars on December 27 as compared with the all-time peak of 2,860 million on November 1, 1920.

Industrial loans were fewer in number than in 1951, but the amount of 31 million dollars disbursed was the largest since 1943.

Commitments to make industrial loans declined and were less than one-half the commitments executed in 1951.

Both the number and the amount of pieces of paper currency received and counted established new highs during 1952. On the other hand, the number of coins received and counted and their aggregate value continued the decline begun in the last half of 1951, reflecting a carryover of the acute coin scarcity that year.

New peaks were established in the number and amount of checks handled and in the amount of issues, redemptions, and exchanges of Government securities.

Postal money orders appear in the table for the first time. As noted in the Annual Report for 1951, the Reserve Banks began processing punch card postal money orders, using specially designed equipment, on July 1, 1951. The number of money orders handled during the last six months of that year was approximately 175 million and during the year 1952 it was approximately 371 million.

The number of transfers of funds continued the upward trend begun in 1941, and the amount of such transfers set an all-time high, with a 17 per cent increase over 1951.

**Earnings and expenses.** Current earnings, current expenses, and the distribution of net earnings of each Federal Reserve Bank during 1952 are shown in detail in Table 6 on page 58, and a condensed historical statement for all Reserve Banks is shown in Table 7 on page 60. The table on page 42 summarizes the earnings and expenses and the distribution of net earnings for 1952 and 1951.

Current earnings amounted to 456 million dollars in 1952, 16 per cent more than in 1951, largely because of a higher average rate of interest received on holdings of United States Government securities. Earnings from discounts and advances were almost three times those of 1951. Current expenses were 10 per cent larger than in 1951, reflecting the effect of 1952 increases in wage structures, together with further growth of operations. As a result of these changes, current net earnings in 1952 were 351 million dollars, an increase of 17 per cent.

After allowing for profit and loss additions and deductions from current net earnings, net earnings amounted to 353 million dollars, an increase of 19 per cent over 1951.

Payments to the United States Treasury as interest on Federal Reserve notes amounted to 292 million dollars in 1952 and surpassed

# EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1952 AND 1951

[In thousands of dollars]

| Item                                                | 1952               | 1951               |
|-----------------------------------------------------|--------------------|--------------------|
| Current earnings.....                               | 456,060            | 394,656            |
| Current expenses.....                               | 104,694            | 95,469             |
| Current net earnings.....                           | 351,366            | 299,187            |
| Additions to current net earnings.....              | <sup>1</sup> 2,195 | 388                |
| Deductions from current net earnings.....           | 611                | <sup>1</sup> 2,516 |
| Net additions or net deductions (—).....            | 1,584              | —2,128             |
| Net earnings before payments to U. S. Treasury..... | 352,950            | 297,059            |
| Paid U. S. Treasury (interest on F. R. notes).....  | 291,934            | 254,874            |
| Dividends.....                                      | 14,682             | 13,865             |
| Transferred to surplus (Sec. 7).....                | 46,334             | 28,320             |
|                                                     |                    |                    |

<sup>1</sup> Includes \$1,992,000 net profits (1952) and \$1,586,000 net losses (1951) on sales of U. S. Government securities.

any previous year's distribution of earnings to the Treasury, either in this form or in the form of a franchise tax. A total of 1,178 million dollars has been paid to the Treasury as interest on Federal Reserve notes since the policy of making such payments was begun in 1947. Dividends to member banks at the statutory rate amounted to 15 million dollars in 1952, an increase of nearly one million over 1951, reflecting the increased paid-in capital of the Federal Reserve Banks because of increased capital and surplus of member banks. The remaining net earnings of 46 million dollars were added to surplus account.

**Holdings of loans and securities.** Federal Reserve Bank holdings of United States Government securities averaged 23,127 million dollars in 1952, which was very near the peak of 23,250 million established in 1946. The average rate of interest received from holdings of United States Government securities rose to 1.91 per cent, the highest since 1930. Holdings of discounts and advances, and earnings thereon, were nearly three times those in 1951. The table on page 43 shows a comparison of average daily holdings, earnings, and average interest rates on loans and securities held by the Reserve Banks during each of the past three years.

**RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1950-52**  
[Dollar amounts in thousands]

| Item and year                           | Total <sup>1</sup> | Dis-<br>counts<br>and<br>advances | U. S.<br>Govern-<br>ment<br>securities | In-<br>dus-<br>trial<br>loans |
|-----------------------------------------|--------------------|-----------------------------------|----------------------------------------|-------------------------------|
| Average daily holdings: <sup>2</sup>    |                    |                                   |                                        |                               |
| 1950 .....                              | \$18,536,551       | \$129,081                         | \$18,405,083                           | \$2,387                       |
| 1951 .....                              | 23,045,707         | 292,770                           | 22,748,210                             | 4,646                         |
| 1952 .....                              | 23,933,643         | 802,334                           | 23,126,674                             | 4,635                         |
| Earnings:                               |                    |                                   |                                        |                               |
| 1950 .....                              | 275,066            | 2,034                             | 272,916                                | 116                           |
| 1951 .....                              | 394,473            | 5,139                             | 389,125                                | 208                           |
| 1952 .....                              | 455,898            | 14,083                            | 441,629                                | 186                           |
| Average rate of interest (per<br>cent): |                    |                                   |                                        |                               |
| 1950 .....                              | 1.48               | 1.58                              | 1.48                                   | 4.85                          |
| 1951 .....                              | 1.71               | 1.75                              | 1.71                                   | 4.49                          |
| 1952 .....                              | 1.90               | 1.75                              | 1.91                                   | 4.01                          |

<sup>1</sup> Figures for 1951 include small amounts of acceptances purchased and earnings thereon.

<sup>2</sup> Based on holdings at opening of business.

**Foreign and international accounts.** During the year 1952 there was an increase of slightly more than one billion dollars in the total of earmarked gold, dollar deposits, United States Government securities, and miscellaneous holdings for foreign account by the Federal Reserve Banks. The total at year-end amounted to 7.1 billion dollars, a figure near the all-time high of 7.5 billion dollars reached in March 1951. The rise during the year was in contrast to the marked down-trend in the second half of 1951 which resulted in a net decrease of 1.2 billion dollars for that year as a whole. Holdings of United States Government securities, principally Treasury bills, rose by 773 million dollars, while earmarked gold increased by 213 million and dollar deposits by 24 million. There was little change during the year in the holdings for the International Bank for Reconstruction and Development and the International Monetary Fund.

Activity in loans on gold to foreign central banks continued at a comparatively low level. As in the previous year, only one central bank was a borrower; its maximum indebtedness during the year was 45 million dollars, which by year-end had been reduced to 29.5 million dollars.

Accounts were opened for two recently established central banks

which took over the central banking functions formerly performed by essentially commercial banks, the accounts of which were subsequently closed. An account was also opened for a foreign government, while an account of a central bank nature was closed.

The Federal Reserve Bank of New York continued to perform a number of operations for the International Bank for Reconstruction and Development and the International Monetary Fund and, pursuant to authorization and instructions of the Treasury Department, to operate the United States Stabilization Fund. Furthermore, as fiscal agent of the United States it administered for the Treasury Department the blocking regulations affecting assets and transactions in this country of Communist China and North Korea and their nationals.

**Bank premises.** There was no change in the Board's policy, established in 1950 because of the enlarged defense program, of continuing to approve the preparation of plans for needed construction of Federal Reserve buildings, but of authorizing only construction of an emergency nature.

The Federal Reserve Bank of Cleveland was authorized to air-condition the Cincinnati Branch building, and near the year-end the Federal Reserve Bank of San Francisco was authorized to obtain bids for an addition to its Los Angeles Branch.

The new building of the Jacksonville Branch of the Federal Reserve Bank of Atlanta was occupied during 1952, as were additions to the Federal Reserve Banks of Boston and Richmond and the Detroit Branch of the Federal Reserve Bank of Chicago. The Detroit project had been authorized in 1949 and the other three in 1950. Extensive alterations to the existing buildings of the Federal Reserve Bank of Boston and the Detroit Branch of the Federal Reserve Bank of Chicago were undertaken in connection with the additions.

During the year the Federal Reserve Bank of Atlanta acquired a building site adjoining its Birmingham Branch for an addition, and property in Nashville as a site for a new building to house the Nashville Branch. The Federal Reserve Bank of Dallas acquired a site for a new building for its San Antonio Branch.

#### STUDY OF CHECK COLLECTION SYSTEM

During the past 10 years there has been a tremendous increase in the volume of checks handled by the banking system. Tens of

millions of checks flow through check collection channels daily. Although the volume is large, each check must be handled—listed and sorted—as an individual item. This frequently involves repeated listings and sortings of the same check. As a consequence of the increased volume, the check collection process has presented increasing problems to the banking system. Depositors are directly concerned with the efficient and rapid collection of checks and with delays in the collection process.

In June 1952 a comprehensive study of the nation's check collection system was undertaken jointly by representatives of the American Bankers Association, the Association of Reserve City Bankers, and the Federal Reserve System. The objective of the study, which was still in progress at the end of the year, is to suggest ways in which the present difficulties may be overcome, the efficiency of bank operations increased, and service to depositors improved. The interest of the Federal Reserve Banks and the Board of Governors in the study is the improvement of the check collection service for the benefit of the entire national business and financial community.

#### **BOARD OF GOVERNORS—INCOME AND EXPENSES**

The accounts of the Board for the year 1952 were audited by the public accounting firm of Arthur Andersen & Co., whose certificate follows:

To the Board of Governors  
of the Federal Reserve System:

We have examined the statement of income and expenses of the Board of Governors of the Federal Reserve System for the year ended December 31, 1952, and cash balance as of December 31, 1952. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement presents fairly the income and expenses of the Board of Governors of the Federal Reserve System for the year ended December 31, 1952, and the cash balance as of that date.

Arthur Andersen & Co.

Washington, D. C.,  
March 3, 1953.

## [STATEMENT]

## INCOME:

|                                                 |                |
|-------------------------------------------------|----------------|
| Assessments against Federal Reserve Banks ..... | \$4,121,600.00 |
| Bulletin sales .....                            | 12,122.36      |
| Other publications sales .....                  | 15,341.37      |
| Miscellaneous receipts .....                    | 3,389.96       |
|                                                 | <hr/>          |
|                                                 | \$4,152,453.69 |

## EXPENSES:

|                                                                       |                |
|-----------------------------------------------------------------------|----------------|
| Salaries (Note 2) .....                                               | \$2,866,266.11 |
| Retirement contributions (Note 2) .....                               | 230,712.07     |
| Traveling expenses .....                                              | 188,171.01     |
| Postage and expressage .....                                          | 12,044.67      |
| Telephone and telegraph, including leased wire operations (net) ..... | 71,943.91      |
| Printing and binding .....                                            | 175,192.18     |
| Stationery and supplies .....                                         | 34,262.69      |
| Furniture and equipment .....                                         | 57,130.88      |
| Books and subscriptions .....                                         | 15,111.98      |
| Heat, light, and power .....                                          | 36,855.31      |
| Repairs, maintenance, and alterations .....                           | 20,575.54      |
| Insurance .....                                                       | 7,086.86       |
| Consumer Finances Survey .....                                        | 152,620.49     |
| Corporate Financial Trends .....                                      | 5,000.00       |
| Legal and consultant fees and expenses .....                          | 11,520.82      |
| Borrowed Federal Reserve Bank personnel .....                         | 12,771.28      |
| Audit expenses applicable to Board's accounts .....                   | 6,165.45       |
| Loss from operation of cafeteria (net) .....                          | 41,646.59      |
| Other .....                                                           | 20,624.83      |
|                                                                       | <hr/>          |
|                                                                       | \$3,965,702.67 |

EXCESS OF INCOME OVER EXPENSES .....

\$ 186,751.02

## Other items not included above:

|                                                                                                                                  |               |
|----------------------------------------------------------------------------------------------------------------------------------|---------------|
| Cash in bank, December 31, 1951 .....                                                                                            | 586,568.87    |
| Receipts and disbursements (net) which do not affect income or expenses but which resulted in changes in assets and liabilities— |               |
| Reimbursable accounts .....                                                                                                      | —1,096,469.24 |
| Vouchers payable .....                                                                                                           | 1,115,635.46  |
| Inventory .....                                                                                                                  | 6,899.37      |
| Unvouchered obligations .....                                                                                                    | —43,833.79    |
| Employee payroll deductions .....                                                                                                | —3,630.02     |

CASH IN BANK, December 31, 1952 .....

\$ 751,921.67

NOTES.—(1) The accounts of the Board have been maintained in part on a cash basis and in part on an accrual basis. Accordingly, at December 31, 1952, salaries of approximately \$85,000 and other expenses of approximately \$40,000 for services and goods received were unpaid at that date and are not included in the above Statement. However, it does include salaries of approximately \$50,000 and other expenses of approximately \$40,000 for services received in 1951 but not charged to expense until paid in 1952. It is anticipated that the accrual basis of accounting will be adopted in 1953.

(2) Salaries and retirement contributions exclude approximately \$95,000 and \$10,000, respectively, which were charged direct to cafeteria and leased wire operations.

In the foregoing as submitted by Arthur Andersen & Co., "Other" expenses of \$20,624.83 includes an expenditure of \$449.65 contributed by the Board of Governors for a dinner at a meeting of Treasury Department Savings Bond Program workers.

The Board received the following reimbursements in 1952 for expenditures handled through the reimbursable accounts referred to in the auditors' statement:

|                                                                                   |                |
|-----------------------------------------------------------------------------------|----------------|
| Printing Federal Reserve notes.....                                               | \$7,690,632.20 |
| Leased wire service (telegraph).....                                              | 128,316.25     |
| Leased telephone lines.....                                                       | 9,681.82       |
| Federal Reserve Issue and Redemption<br>Division (Comptroller of the Currency)... | 141,965.91     |
| Miscellaneous.....                                                                | 30,951.08      |

#### FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met on February 29, March 1, June 19, September 25, and December 8, 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, which has responsibility for determining the policies under which the open market operations of the Federal Reserve Banks will be carried out, is required to meet in Washington at least four times each year. A record of the actions taken by the Committee on questions of policy will be found on pages 90-99 of this Report.

Meetings of the Conference of Chairmen of the Federal Reserve Banks were held on May 5-6 and December 4-5 and were attended by members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on February 27-28, June 18, September 23-24, and December 7-8, and the Board of Governors met with the Presidents on February 29, June 19, September 26, and December 9.

Meetings of the Federal Advisory Council were held on February 17-19, May 18-20, October 5-7, and November 16-18. The Board of Governors met with the Council on February 19, May 20, October 7, and November 18. 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.

**AD HOC SUBCOMMITTEE OF FEDERAL OPEN MARKET COMMITTEE**

During the year the Federal Open Market Committee undertook a study of the technical and operational phases of the market for U. S. Government securities through an ad hoc Subcommittee. The Subcommittee consisted of Wm. McC. Martin, Jr., Chairman, Abbot L. Mills, Jr., and Malcolm Bryan. Mr. Robert H. Craft, Vice President and Treasurer of the Guaranty Trust Company of New York, was appointed Technical Consultant to the Subcommittee and during the summer months was given leave of absence from his Company to devote his full time to the work. The Subcommittee was still engaged in its studies at the year end.

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

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Nineteen fifty-three was another year of record production and price stability for the national economy, and of further advance in the economic strength of the free world. Domestic conditions during much of the year were nevertheless characterized by important realignments and adjustments in production, employment, and the credit markets. With the purpose of contributing to national stability and growth, monetary policy was promptly and flexibly adapted to these shifts of economic forces. Additional steps were taken to promote more self-reliant financial markets.

Reflecting in part continuing large requirements for the defense program and more particularly expansion in private expenditures for consumption and capital investment, total demand for national output in the first half of the year established a new high level. In the second half of the year demand and output contracted moderately, and employment declined below the level of the end of 1952. Abroad, notably in the industrial nations of Western Europe, gains in productive activity and financial stability were extended throughout the year. The vigor of developments abroad helped to sustain markets for internationally traded commodities, especially in the second half of the year.

The main element in the changing situation in the United States after midyear was a decline in demand for a wide variety of industrial products as producers and distributors, who had been accumulating inventories at a rapid rate, reduced their purchases in order to check further accumulation. By the year-end, excess inventory holdings were being worked off.

Another important demand development was a shift from rising to gradually declining defense expenditures. Curtailment of defense demands reflected many influences, including the cessation of fighting in Korea, some easing of international tensions, and some shift in the goals and nature of the program.

Capital outlays of business for new plant and equipment were at appreciably higher levels than during 1952, with reductions in some

lines more than offset by increases in others. Although some tightness developed in the mortgage market in the late spring and summer, residential building was for the most part maintained close to earlier levels. Consumer buying of goods, which was unusually active early in the year, was reduced moderately after midyear. Reflecting a lower level of agricultural prices during 1953, farm incomes declined from the relatively high level of the preceding year and farm purchases accordingly were smaller.

Despite these changes in demand and activity, domestic commodity prices, in both wholesale and retail markets, showed only selective changes during 1953. Important downward adjustments had been made earlier in prices of many agricultural and industrial materials which had been bid up to exceptional peaks after the Korean outbreak. Federal price support for cotton, wheat, and other basic farm products in large supply was a sustaining factor. Declines in demand for goods, aside from those directly associated with changes in the inventory situation and in the defense program, were generally small.

Real estate values declined in some sectors; new construction prices were generally maintained. In securities markets, common stock prices fluctuated moderately—a gradual decline to the low for the year in September being followed by some recovery in the last quarter. Under the impact of first rising and then declining interest rates, debt obligations showed more price variation than in other recent years. Toward the year-end, rates on short-term Government securities and on prime open market commercial paper were lower than at any time since 1951. Most other interest rates, though down considerably from spring levels, were still somewhat higher than in 1952.

Treasury financing needs were heavy in 1953, both for refunding a large volume of maturing issues and for raising new money, and the total of private credit demands continued large. Early in 1953, when increasingly heavy utilization of productive resources presented an inflationary threat, Federal Reserve policy was directed toward restraint of excessive bank credit expansion. Subsequently, as private credit demands relaxed and inflationary pressures abated, the Federal Reserve moved to expand the supply of funds available for bank lending and to ease the credit markets generally. By the

year-end, the Federal Reserve was actively pursuing a policy of credit ease designed to avoid deflationary tendencies.

In most countries abroad, the year 1953 was one of high and rising production and of financial equilibrium internally. Foreign trade was larger than in the second half of 1952 and marked by increasingly active competition. For many nations, problems of balance in international payments were less acute than in earlier years. The achievement and maintenance of financial stability both internally and in external payments permitted some easing of credit conditions by monetary authorities in most European countries. With world demand continuing strong, but commodity supplies generally ample, the level of world prices showed stability.

Several leading countries, including the United Kingdom, Germany, and the Low Countries, reduced the scope and severity of direct restrictions on foreign payments in 1953. The considerable strengthening of monetary reserves in Europe and the sterling area laid the basis for further steps in the direction of freer trade and convertibility of currencies.

#### FEDERAL RESERVE CREDIT POLICY

Over the year the Federal Reserve System adapted its operations to the changing economic and credit situation, with the basic objective of promoting conditions favorable to sustained high employment, stable values, growth of the country, and a rising level of consumption. In the first quarter, in the presence of booming economic conditions, and recognizing the inflationary potential of strong credit demands, the Federal Reserve System continued to pursue a policy directed toward slowing the pace of bank credit expansion with a view to reducing inflationary dangers. Operations under this policy made it necessary for member banks as a group to obtain part of their needed reserve funds through borrowing. To make the policy more effective, the Federal Reserve discount rate was raised in January 1953 from  $1\frac{3}{4}$  per cent to 2 per cent.

As the spring advanced, credit demands continued active and impinged heavily on the banks despite a large volume of nonbank funds available for lending and investing. Member banks became increasingly reluctant to lend on the basis of funds borrowed from the Federal Reserve Banks. Interest rates rose sharply, especially in May, and there was some additional demand for credit in antici-

pation of higher rates. At this juncture, it became apparent that Treasury financing needs would be large during the next few months. These developments further tightened credit conditions, causing deferment of some borrowing. Apprehension was widespread that the large credit demands of the economy would not be satisfied from prospective savings and bank credit. Also about this time there were signs of an abatement of the inflationary threat.

In recognition of the change in the economic and credit situation, the Federal Reserve modified its credit policy with a view to avoiding deflationary tendencies without encouraging a renewal of inflationary pressures. The System began early in May to increase the availability of credit by enlarging the supply of reserve funds. Through additional open market operations in June and a reduction in reserve requirements in early July, enough funds were supplied to provide assurance that the heavy demands for credit which ordinarily develop over the second half of the year could be met without undue strain on the economy. These actions were promptly reflected in a decline in member bank borrowing, easier conditions of credit availability, a marked decline in interest rates, and an improved tone in credit markets generally.

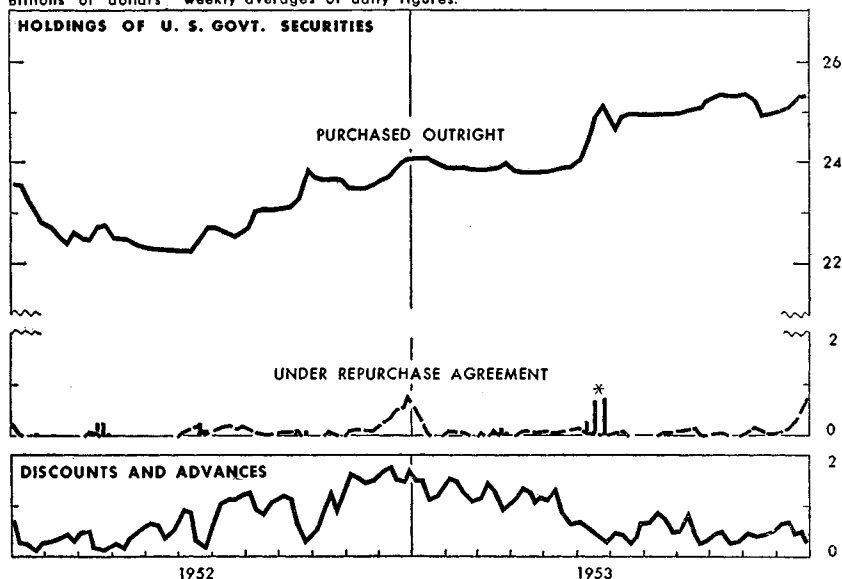
As signs of receding levels of economic activity and private credit demand appeared over ensuing months, the System in late summer and early autumn again used open market operations to supply additional reserves to the banking system and thus actively promoted credit ease with a view to avoiding deflationary tendencies. These reserves were helpful to member banks in meeting the autumn expansion of currency and credit. Interest rates declined further. By additional open market purchases near the year-end the System took further steps toward credit ease with the objective of promoting stability and growth in the economy.

**Open market operations.** The System in 1953 coordinated its open market operations with the use of its other major credit policy instruments—discount rate policy and changes in reserve requirements. As the major instrument by which the System conditions the tone of the money market, open market operations were employed over the year to establish first a situation of credit restraint and then of ease.

Early in 1953 the Federal Reserve sold Government securities to offset a seasonal easing of bank reserve positions and to maintain

**FEDERAL RESERVE CREDIT**

Billions of dollars weekly averages of daily figures.



\* Direct purchases of special certificates from Treasury.

NOTE.—Excludes Federal Reserve float, industrial loans, and acceptances.

restraint on the availability of bank credit. The System resold the substantial volume of securities which had been purchased over the year-end under agreements in which nonbank dealers undertook to buy them back again in a short time. In addition, the System sold a small amount of its other Treasury bill holdings. Open market purchases of Treasury bills were begun in early May and were made on a large scale in June in order to supply reserves to banks. Purchases were made again in August and September and later in November and December in order to permit the banks to meet fully their seasonal needs for reserve funds.

In November the Federal Reserve sold direct to the Treasury 500 million dollars of notes maturing December 1. The Treasury paid for these securities by issuing gold certificates against half of its holdings of free gold and immediately retired the securities. This transaction enabled the Treasury to borrow an equivalent amount in the market without exceeding the statutory debt limit. The volume of member bank reserves was not affected. Also, during March and June, in order to smooth the impact of quarterly tax payments on the money market, the Federal Reserve purchased directly

from the Treasury special certificates of indebtedness in the amounts of 333 million and 1,172 million dollars respectively, which were retired in a few days.

**Change in discount rate.** The Federal Reserve discount rate was raised from  $1\frac{3}{4}$  to 2 per cent on January 16, 1953 at most Federal Reserve Banks and within a week at the remaining Banks. This action was designed to align the discount rate with short-term market rates and to help restrict undue expansion in bank credit by promoting greater reluctance on the part of member banks to resort to the discount privilege at the Federal Reserve Banks.

**Change in reserve requirements.** On June 24, 1953 the Board announced a reduction in member bank reserve requirements on net demand deposits of 2 percentage points for central reserve city banks and 1 percentage point for reserve city and country banks. The new requirements, effective July 1 for country banks and July 9 for reserve city and central reserve city banks, are 13, 19, and 22 per cent, respectively. Requirements on time deposits remained unchanged at 6 per cent.

This step, which released an estimated 1.2 billion dollars in reserves, was taken in anticipation of exceptionally heavy demands on bank reserves occasioned by seasonal currency and credit requirements, including Treasury financing needs, over the second half of the year.

**Regulation of stock market credit.** The margin requirement on stock market credit was reduced to 50 per cent, effective February 20, 1953. The previous requirement of 75 per cent had been set in January 1951.

Stock prices declined from mid-March to mid-September and subsequently recovered about half of the decline. Stock market credit expanded immediately following the relaxation of margin requirements and stabilized thereafter. Such credit has not been large in amount for more than two decades.

**Steps toward freer, more self-reliant financial markets.** The System took several further steps during 1953 toward establishment of freer, more self-reliant financial markets. A free, self-reliant financial market may be defined as one in which the allocation of available funds among various uses is effected through competition in the market. Borrowers offer interest rates and other terms that enable them to obtain the funds they require, and lenders bid for

loans and securities in accordance with their appraisal of risks, yields and their portfolio needs, and with their estimate of current Federal Reserve actions. In such a market Federal Reserve purchases and sales would be solely for the purpose of influencing the volume of bank reserves in order to promote economic stability and growth.

Changes in bank reserves affect the supply, availability, and cost of credit. In a financial market such as is described above, the Federal Reserve would seek to have the impact of its actions as broad, general, and impersonal as possible. It would neither establish prices of particular securities or classes of securities directly, nor set up or maintain particular relationships in rate levels as between different sectors of the credit market, such as might impair the efficiency of the market in performing its allocative function.

The potential buying or selling power at the disposal of the Federal Reserve when it enters the market to buy or sell securities is very large. In paying for its purchases or being paid for its sales, it increases or decreases reserve funds in the market. These factors pose an operating problem for the System in keeping the impact of its open market operations in the securities market as broad and general as possible with the least distortion of price relationships.

In an effort to minimize this problem, the Federal Open Market Committee took various steps during 1953 to change its operating practices. These are shown in the policy record which appears on pages 86-105 of this Annual Report. The Committee, in effectuating its open market policies, emphasized operations in short-term securities which are the primary liquidity instruments of the credit market. In addition to this decision, the following steps were taken:

(1) The Committee reworded its directive to its executive committee regarding orderly markets. The rewording of the directive emphasizes the intention of the Federal Open Market Committee to limit its operations in the Government securities market solely to those for the purpose of providing or absorbing reserves, except in the correction of disorderly markets. It was believed that this rewording would indicate to the market that it should not expect offsetting action by the System whenever fluctuations occur. Some such fluctuations are technical and self-correcting. Others reflect basic changes in the credit outlook. The directive, however, recognizes that unusual circumstances may develop such disorder as to require correction through direct Federal Reserve intervention.

(2) The Committee also changed System operating technique during periods of Treasury refunding. Prior to the Treasury-Federal Reserve accord, it was the practice to intervene in the market in support of Treasury refunding operations. Such intervention was continued for a time after the accord since it was thought that, without it, cash redemptions of maturing issues would be unduly large. Under this technique, reserve funds were injected into the money market that were not warranted by economic circumstances. This in turn had undesirable credit consequences. The development of a self-reliant private market for Government securities was deterred because investors could not tell whether the price of a new Government security offering was being established by competitive market forces or as a result of official actions. Over the two years following the Treasury-Federal Reserve accord, the Treasury and the Federal Reserve sought in various ways to minimize or eliminate injections of reserve funds into the market in connection with Treasury refunding operations. In connection with a small refunding in December 1952, the Committee decided to refrain from purchasing the maturing securities. Again in the February 1953 refinancing, no maturing securities were purchased by the System. Cash redemptions were very small on both refinancings, and the Committee continued the policy of not intervening in the market in subsequent Treasury financing operations.

(3) The Committee discontinued, effective April 15, 1953, its requirement that transactions with the open market account be confined to dealers in Government securities who met certain specified qualifications. The requirement, which had been adopted by the Committee in 1944 to meet wartime conditions, was believed to be no longer necessary or desirable.

**Review of the discount and discount rate mechanism.** As part of a continuing program for keeping its credit instruments adapted to the needs of a flexible monetary policy, the Federal Reserve initiated in 1953 a comprehensive re-examination of its discount function, and at the year-end these studies were still in progress.

### ECONOMIC CONDITIONS

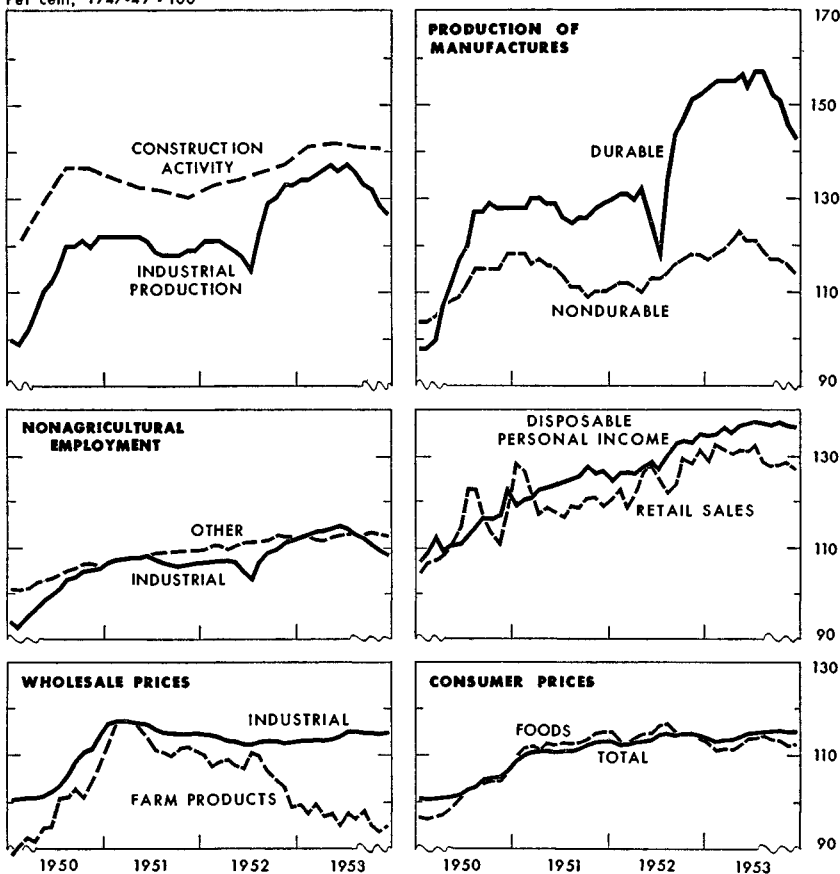
Output in the United States for the year 1953 was in record volume, but reached its peak rate about midyear and then declined significantly. In other countries of the free world, output generally

rose throughout 1953 and there were few indications up to the end of the year that there had been any significant decline in demand.

The principal declines in economic activity in the United States after midyear were in manufacturing and mining, where the immediate effects of changed inventory policies and some reduction in defense spending were concentrated. Reduction in industrial output was accompanied by some decline in imports of industrial materials.

### SELECTED BUSINESS INDEXES

Per cent, 1947-49 = 100



NOTE.—Monthly series, seasonally adjusted except for prices. Indexes for retail sales and disposable personal income based on Department of Commerce data. Indexes for prices and employment based on Bureau of Labor Statistics data with employment seasonally adjusted by Federal Reserve. Index for construction activity based on Commerce and Labor data representing deflated work put in place.

In contrast to the marked shifts in production during 1953, and to similar developments in employment, changes in wholesale and consumer prices were within an unusually narrow range, during the second as well as the first half of the year. Prices of farm products declined much more moderately than in the preceding year.

At the year-end total output of goods and services was slightly higher than at the end of 1952 while employment and hours of work were below the advanced levels of a year earlier. An apparent further increase in output per man-hour reflected many factors, including substantial additions of highly efficient new plants and installation of much new equipment in existing plants.

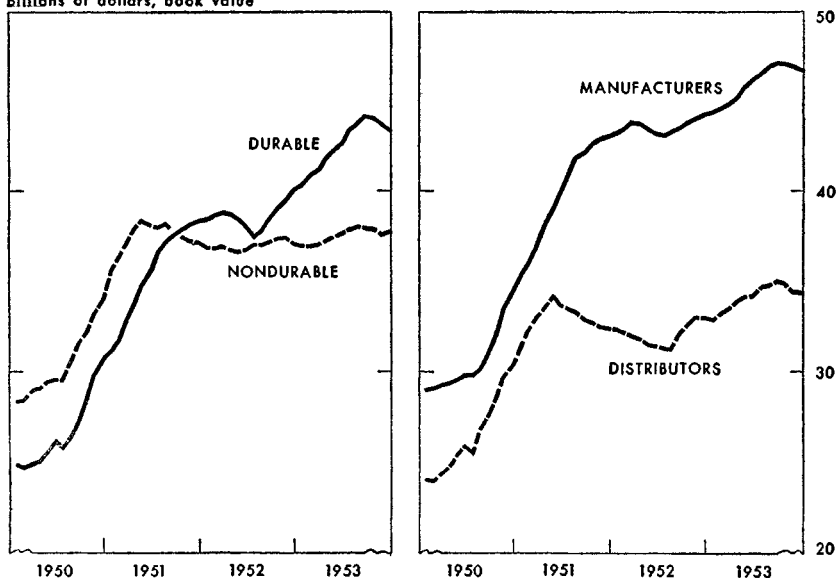
Funds to finance plant expansion, to meet other private needs, and to take care of Treasury requirements were obtained in larger proportion from individual and business savings than the year before. Bank credit expanded only moderately over the year, although borrowing at banks as well as elsewhere was large for the season in the early part of the year.

**Demand and production.** In 1953 the value of total output was about 367 billion dollars, 19 billion or 6 per cent larger than in 1952 and a record in physical volume as well as dollar amount. The substantial rise in production for the year as a whole reflected a further rise to exceptional levels of output in the first half of the year, following an upsurge in demand in the fall of 1952. During this period the productive resources of the economy were being utilized at an unusually high rate. Increased activity was based primarily on more private spending, particularly by consumers. Federal outlays for national security rose moderately, in contrast to sharp advances in the preceding two years when such outlays accounted directly for about half of the increase in national product. In the first half of 1953, as in the latter part of 1952, production of goods exceeded final takings by a substantial amount and business inventories were accumulated in large volume.

After midyear the pace of economic activity slackened appreciably as business buying for inventory dropped sharply and as fresh expansive forces were lacking. At this time reductions in defense spending came to be more widely anticipated. A truce in Korea was agreed to in July, and international tensions appeared to be easing somewhat. Business concerns and the armed services reduced new ordering and, with new orders below shipments, unfilled orders

**INVENTORIES**

Billions of dollars, book value



NOTE.—Department of Commerce book value data, adjusted for seasonal variation.

declined sharply from earlier high levels. Reflecting the effect of reduced output accompanying these developments, the buildup of business inventories, which had been at a seasonally adjusted annual rate of 6 billion dollars in the second quarter, was considerably retarded in the third quarter and turned into moderate liquidation in the fourth quarter. At that time, as the chart shows, stocks were being reduced by both manufacturers and distributors. The principal reductions were in stocks of durable goods, which earlier had advanced most.

Gross national product declined from a peak seasonally adjusted annual rate of 371 billion dollars in the second quarter to less than 364 billion in the fourth quarter. This was slightly above the level of a year earlier. The shift from substantial accumulation to liquidation of inventories was as large as the decline of 8 billion dollars in the annual rate of total production, with changes in other types of expenditures small and largely offsetting. At the end of 1953 expenditures of most types, except business inventory outlays, were either higher than or about the same as at the end of 1952.

Government spending for goods and services changed little in the second half of 1953, despite a decline in spending for national

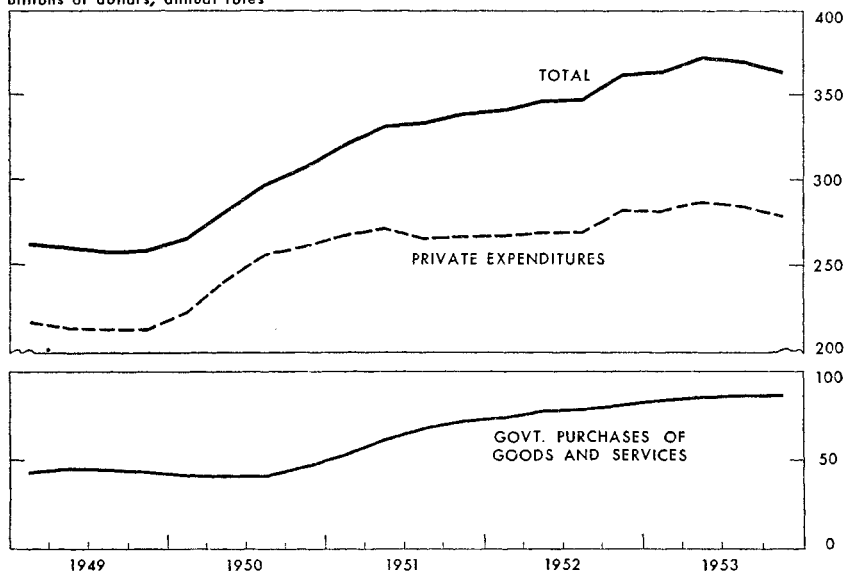
security. Federal outlays for farm price supports increased and State and local government spending continued to rise. In the fourth quarter defense outlays were at an annual rate of 50 billion dollars, almost the same as a year earlier, and moderately below the peak second quarter rate. At the year-end defense outlays still accounted for about one-seventh of total product.

Business outlays for fixed investment—construction of facilities and producers' durable equipment—rose somewhat during the first half of the year, and leveled off in the second half. For the full year, such outlays were 6 per cent above the record 1952 level. Farm investment, however, declined substantially, and among nonfarm industries there were diverse movements. Electric and gas utilities, for example, reported an increase of 17 per cent, while railroads reported a reduction of 5 per cent. For manufacturing as a whole there was an increase of 4 per cent, with a larger rise in nondurable than in durable goods lines. Construction of offices, stores, and other commercial facilities, which had been restricted somewhat in 1952, rose very sharply in 1953.

Residential building, after allowance for seasonal influences, shared

### GROSS NATIONAL PRODUCT

Billions of dollars, annual rates



NOTE.—Department of Commerce quarterly estimates at annual rates, adjusted for seasonal variation.

in the general expansion in the economy early in the year and then declined during the spring and summer. The seasonally adjusted volume increased somewhat toward the end of the year, however, while industrial activity was declining. The number of dwelling units started in 1953 was about 1.1 million, roughly the same number as in each of the two preceding years.

Consumer purchases of goods and services in 1953 were at a new high in both dollar amount and physical volume. Following a sharp expansion in late 1952, such expenditures rose moderately in the first half of 1953, with the principal increases in autos and various services. In the second half, total consumer expenditures changed only slightly as declines in purchases of goods about offset a substantial further rise in outlays for services. Demand for autos was not quite as strong in the second half and demand for apparel showed a decline in the third quarter, followed by some recovery late in the year. In real terms, after allowing for a slight rise in consumer prices over the year, total consumption outlays in the fourth quarter were a little larger than a year earlier. With population continuing to rise rapidly—by 2.7 million persons or 1.7 per cent—per capita real takings were about the same in both years.

Exports from the United States continued throughout 1953 at the rate which had prevailed in the latter part of 1952—about 12 billion dollars annually, excluding shipments under military assistance grants. This stability in export demand reflected a combination of high and generally rising world demand and the increased ability of the rest of the world to meet its own requirements on a fully competitive basis. Agricultural exports were somewhat smaller than in any other year since the war. Other exports, though smaller than in 1951 and the first half of 1952, exceeded those of the years 1948-50. United States imports reached a peak in the second quarter of 1953 at a rate of 11.4 billion dollars per annum, and thereafter fell to a rate of about 10 billion dollars in the last months of the year. Imports of foodstuffs and finished manufactures and, among materials, those of petroleum and newsprint, continued large during the latter part of 1953. Declines in imports of other materials reflected the shift, in the United States, from inventory accumulation in the first half to working down of inventories in the final quarter of the year.

**Industrial production.** Shifts in demand arising out of changes in inventories and in the defense program had their chief impact on activity and employment at factories. Total industrial output rose from the advanced level of 133 per cent of the 1947-49 average late in 1952 to 137 in May and July 1953 and then declined during the remainder of the year to 127 in December. Reductions from previous high levels were widespread, with output of non-durable goods declining after May and durable manufactures and minerals declining from peaks reached during the summer. Within the durable goods group, primary metal and metal fabricating industries showed substantial decreases in activity after midyear, while output of building materials was for the most part maintained close to earlier high levels. Increases in output late in 1952 and early in 1953 had been particularly sharp for consumer durable goods, including autos, appliances, and television, and a considerable part of the subsequent decline in metal fabricating was in output of these and related products. The decline was not limited to consumer metal goods, however, as farm equipment output continued downward and output of some other producers' goods, including trucks and railroad equipment, declined from earlier high levels. Output of ordnance also declined. Despite some curtailment in the second half, auto production for the year was up 40 per cent from 1952 and truck production was nearly the same as in 1952.

In the nondurable goods group, the textile, apparel, rubber, and leather industries reported marked declines. Activity in the food, paper, printing, chemicals, and petroleum refining industries meanwhile continued close to earlier advanced levels. Coal mining and crude petroleum output were curtailed in the latter part of the year, following earlier accumulation of stocks.

**Labor market.** Developments in the labor market in 1953 paralleled broadly changes in economic activity. In the first half of the year civilian employment, average hourly and weekly wages, and total wage and salary receipts reached new highs. After mid-year, demands for labor eased appreciably and by December many of the earlier gains had been lost. Nonagricultural employment, seasonally adjusted, rose about 500,000 to a peak of 49.5 million persons in July and subsequently declined about 1 million. Changes in employment and in hours of work, like changes in production, were chiefly in manufacturing. The average number of hours

worked in factories was down to 40 per week at the end of the year, as compared with about 41.5 hours a year earlier. Overtime work had been reduced and part-time work increased.

Changes in nonagricultural employment outside of manufacturing were for the most part small. Federal employment, however, declined 240,000 over the year while State and local government employment rose almost this much. Also, toward the end of the year employment in transportation industries was reduced appreciably. On farms, employment continued to decline in 1953. The armed services were maintained at about 3.5 million.

The labor force continued to expand in the early months of 1953, with increases from year-ago levels. As demands for labor were reduced, however, many youths and young married women, and some older workers, withdrew from the labor force, and by December fewer persons were reported in the civilian labor force than a year earlier. Unemployment in December, at 1,850,000 persons, was considerably above the postwar low reported in early autumn, about 450,000 higher than in December 1952, and a little higher than at the end of 1951. For the year 1953 unemployment averaged 1.5 million or 2.4 per cent of the civilian labor force.

**Demand and production in other countries.** In the free world outside the United States the transition from postwar recovery to peacetime growth was already well advanced at the beginning of 1953. With problems of internal financial stability and the balance of external payments much less acute than they had been in 1951 or in the first part of 1952, attention was shifting in Europe and elsewhere to long-term expansion of productive capacity and improvement in living standards.

In the industrial countries of Western Europe, both demand and production rose during 1953, helping to support growth of output in primary producing countries and stability in world prices. Expenditures by consumers and also by business in Western Europe rose in the course of 1953, while expenditures by governments for defense and other purposes were maintained at the relatively high levels established in the first part of the year. Industrial production in October and November was about 5 per cent higher than a year before, despite the adverse effects on Continental steel production of the leveling off in world demand for steel. Construction activity was strong, particularly in Germany and the United Kingdom,

reflecting the continued existence of large backlogs of requirements created by war damage and obsolescence. Agricultural production in Western Europe reached a new record, about 30 per cent above 1948 and 20 per cent above prewar.

Commercial imports of European countries from outside Europe increased in physical volume during 1953, the expansion being mainly in raw material imports. Although restrictions were maintained by European governments on imports from the dollar area, these restrictions were moderated by a number of countries in the course of the year. Under these circumstances, stability rather than expansion of European purchases from the United States was attributable to the increase in production in recent years which has reduced European dependence on United States foodstuffs and capital goods. Meanwhile, Western Europe's exports to the dollar area continued to rise, and there was also a recovery in exports to overseas sterling area countries. Sales of goods and services to the United States military establishment increased considerably.

Important as external trade is in the European economy, the impetus to expanding production in Western Europe in 1953 came not so much from foreign trade as from growth of internal demand. Recovery in internal demand and production started in the summer of 1952, when an earlier liquidation of inventories ended. In contrast with the first years of postwar reconstruction, when large advances in industrial production were accompanied by inflationary boom conditions, financial stability was fully maintained in 1953. The absence of inflationary pressures, together with the balance-of-payments equilibrium achieved from the middle of 1952 onward, permitted some relaxation of monetary restraints in 1953, and interest rates declined somewhat in the majority of Western European countries.

In Asia, Latin America, and Africa, output of primary products for world markets generally expanded in 1953. In India and Southeast Asia there was also a notable increase in production of food for local or regional markets. Industrial production rose moderately in India, and more sharply in Japan, reaching new highs in both countries. Government programs for development of agriculture, public utilities, and industry were carried forward in a number of countries. In some countries of Southeast Asia, however, the decline in export prices during the past two years threatened to cause fiscal difficulties for development programs.

Import purchases by the less industrialized countries were generally smaller than in 1952. In many countries, however, imports turned up in the course of the year.

Canada continued to experience rapid economic development. Exports of grains and metals in the second half of the year fell somewhat below earlier high levels but other exports continued in strong demand. Employment was high and domestic demand for both Canadian and imported goods continued on a rising trend for the greater part of the year. Partly for seasonal reasons, Canadian imports from the United States declined somewhat in the second half of 1953 from the peak reached in the first half. Only in the last months of the year were there any signs of slackening in domestic trade. Despite the decline in United States interest rates in the second half of the year, money market rates in Canada remained stable for long-term maturities, and continued to rise up to October for shorter term maturities.

**Prices.** Wholesale prices in the United States and in other countries were remarkably stable in 1953. The marked rise in demand in the latter part of 1952 and the early part of 1953, in a period when most remaining price and wage controls in the United States were being eliminated, had no appreciable effect on broad averages of prices. Nor were prices significantly affected by the truce in Korea at midyear, the easing in demands in the United States in the second half of the year, or the intensified competitive pressures developing among producers and distributors.

In mid-December, the United States wholesale price index was slightly higher than a year earlier, with industrial prices up 1.5 per cent, prices of farm products down 5 per cent, and prices of processed foods unchanged. The index of basic commodity prices, which had declined very sharply in 1951 and 1952, fluctuated little during 1953 at about the pre-Korean level.

In Europe, wholesale prices declined somewhat in the first half of 1953 and were generally stable in the second half. Sustained demand in Europe contributed to stability of world prices.

Tin prices fell sharply in April and again in July, and rubber prices fell through October. Both of these materials had been in heavy demand for strategic stockpiles in earlier years. During the second half of the year some weakness developed in prices of certain materials, including hides and leather and steel scrap. On

the other hand, prices of coffee and cocoa rose considerably in response to news of short crops. Abroad, soft-currency prices of raw materials obtainable alternatively from soft-currency or dollar sources were in closer alignment with dollar prices in 1953 than in earlier postwar years, in consequence mainly of adjustments that occurred in 1952. Prices of finished goods in the United States for the most part changed little during 1953 and were at a level higher in relation to material prices than in the first half of 1950 before hostilities broke out in Korea.

Farm product prices in the United States declined somewhat further in 1953 to about the pre-Korean level. Total farm production was maintained at a high level, despite drought in some areas, and, with crop exports further reduced, carryovers continued to rise. The further price decline for crops was small, partly because prices of basic crops at the beginning of the year were already around Federal support levels. Prices of beef cattle declined one-fifth further during the year, and per capita beef consumption reached a record level. Cattle marketings were 30 per cent larger than in 1952. In contrast, marketings of hogs declined to the lowest level in several years and prices of pork products rose considerably.

Consumer prices in the United States edged up to a new high in October, and then declined slightly. In December they were less than 1 per cent higher than in December 1952. Rents continued to rise, advancing more rapidly after July when most remaining rent controls were terminated. Costs of medical care and other consumer services also rose further. Prices of apparel and house furnishings changed little and foods declined somewhat. Used car prices declined sharply and December prices were down to about the post-war low of late 1949.

In real estate markets, prices of older properties, particularly more expensive houses, tended to decline somewhat. Prices of new houses, however, were relatively stable. Reflecting reductions in farm incomes, prices of farm real estate declined 6 per cent from the peak reached in late 1952. In securities markets, common stock prices generally moved downward in the second and third quarters and increased moderately thereafter.

**Income and saving.** Stability in prices and marked changes in production and employment during 1953 were clearly reflected in the pattern of income change. Personal income, seasonally adjusted,

increased moderately further in the first half of the year, reached a peak in July, and declined moderately thereafter. December income, at an annual rate of 285 billion dollars, was 4 billion higher than a year earlier but about 3 billion below the high of July. The decline after July reflected a reduction of 5 billion dollars in the rate of wage and salary payments, partly offset in the total by an appreciable rise in unemployment benefits and by further moderate increases in rental income and interest. Business and professional income and dividends remained relatively steady. Income of farm proprietors declined somewhat further in 1953, reflecting reductions in prices which more than offset the effects on net income of a small rise in marketings and a slight decline in production expenses.

Personal tax payments fluctuated more or less with income, and thus disposable income moved up until midyear and declined subsequently. In the fourth quarter, with disposable income at a somewhat higher level than a year earlier and consumption expenditures also up a little, personal saving was the same large proportion of income as before, more than 7.5 per cent.

Corporate profits before taxes increased during the first half of 1953, reaching a seasonally adjusted annual rate of 46 billion dollars in the second quarter. As a result of declining sales and narrowing profit margins, however, profits decreased in the second half of the year, especially in manufacturing industries. For the year as a whole, corporate profits were about the same as in 1951, the previous all-time peak, and about 4 billion dollars larger than in 1952. Larger income tax liabilities, and a record volume of dividend payments, absorbed most of the 1952-53 increase in profits before taxes, and undistributed profits were only moderately larger in 1953 than in 1952.

**Debt and equity financing.** Investment of funds directly or through financial institutions other than the commercial banking system increased markedly in 1953, reaching a new high for recent years. Expansion in credit from all sources, including the commercial banking system, was about as large in 1953 as in the record year 1952. Credit demands, particularly of businesses and consumers, were extremely large in the first half of 1953 but slackened somewhat after midyear.

The role of commercial banks in the net extension of credit was reduced as a result of various factors, including the large amount of

funds offered by nonbank lenders, the limitations on the availability of bank reserves early in the year, and the restraint on loan expansion which banks began to exercise as their ratios of loans to liquid assets and to capital rose further. In 1953 the commercial banking system, including Federal Reserve Banks, absorbed a substantially reduced part of the increase in major types of debt and new equity instruments. Moreover, a larger proportion of the growth in bank loans and investments represented savings deposits than in earlier years.

Real estate mortgage credit increased substantially further in 1953. Its outstanding volume rose 9.6 billion dollars compared with 8.8 billion in 1952, as is shown in the table. Commercial banks expanded their holdings of mortgages about 1 billion dollars or 6 per cent, somewhat less than in 1952. On the other hand, savings and loan associations increased their mortgage holdings more rapidly—by a total of 3.5 billion dollars or 19 per cent. Life insurance companies and savings banks expanded their portfolios somewhat more than in 1952.

Growth in consumer instalment credit outstanding was rapid during the early months of 1953 as credit extensions based on sales of autos and household durable goods continued the expansion started in the spring of 1952, reaching a new high, after allowing for seasonal variation. Subsequently, such credit extensions declined appreciably, reflecting a decrease in the proportion of credit sales and, later, some reduction in total sales of such goods. Since repayments meanwhile continued to increase, the amount of credit outstanding showed much less marked increases after midyear. The share of instalment credit held by commercial banks rose moderately in the early part of the year but later declined.

Corporate plant and equipment expenditures and inventory accumulations were larger in 1953 than in 1952, but total funds available from retained earnings and depreciation allowances were of record proportions. Corporate stock and bond issues, net of repayments, were 7.8 billion dollars in 1953 as compared to 8.1 billion in 1952. Excluding flotations by sales finance and personal loan companies, which were very large in 1953, corporate stock and bond issues were down 1.2 billion dollars or about 15 per cent from 1952. Business borrowing at banks declined 400 million dollars in 1953, as compared with an increase of 1.9 billion in 1952.

## GROWTH IN MAJOR TYPES OF DEBT AND EQUITY FINANCING

[Net increase in amounts outstanding, in billions of dollars]

| Distribution of growth by—           | 1953 <sup>p</sup> | 1952 | 1951 |
|--------------------------------------|-------------------|------|------|
| <b>Major types:</b>                  |                   |      |      |
| Real estate mortgages.....           | 9.6               | 8.8  | 9.4  |
| Consumer credit.....                 | 3.1               | 4.4  | 0.7  |
| Corporate bond and stock issues..... | 7.8               | 8.1  | 6.3  |
| Bank loans to business.....          | -0.4              | 1.9  | 3.7  |
| State and local govt. issues.....    | 4.0               | 3.4  | 2.5  |
| Federal cash borrowing.....          | 4.6               | 3.4  | -1.2 |
| Bank credit not included above.....  | 1.8               | 1.5  | 0.6  |
| <b>Selected holders:</b>             |                   |      |      |
| Federal Reserve Banks.....           | 1.2               | 0.9  | 3.0  |
| Commercial banking system.....       | 4.4               | 8.9  | 5.7  |
| <b>Selected nonbank sources:</b>     |                   |      |      |
| Mutual savings banks.....            | 1.8               | 1.7  | 0.8  |
| Savings and loan associations.....   | 3.8               | 3.2  | 2.1  |
| Life insurance companies.....        | 4.5               | 4.4  | 3.4  |
| Federal, State, and local govts..... | 2.0               | 2.5  | 1.9  |

<sup>p</sup> Preliminary.

NOTE.—Includes only selected types of loan extensions and new equity financing. Among types not included are trade credit other than consumer credit; interbank loans; security issues by foreign agencies, international organizations, nonprofit and eleemosynary institutions; nonbank loans for purchasing securities; and claims such as shares, pass books, and policies issued by financial organizations. The sum of the figures for major types of debt and equity financing does not equal the sum of the amounts shown for holders, since not all types of credit and holders are included. The figures for holders exclude purchases of the indicated types of credit and equity instruments by individuals, corporations, foreign investors, nonlife insurance companies, and other investor groups not shown separately.

State and local governments expanded their borrowings to record levels. This reflected in part unusually large construction programs for highways, schools, and public housing, and in part an increased reliance on borrowed funds for financing these expenditures.

Treasury demand for credit increased in 1953. Federal cash income at 70.4 billion dollars for the calendar year was 1 billion less than in 1952, while cash expenditures rose 3.5 billion to 76.5 billion. More than 1.5 billion dollars of the resulting cash deficit was financed by drawing down the Treasury cash balance and 4.6 billion was covered by net cash borrowing from the public. Government securities held by the public increased about 5.4 billion dollars, of which 4.6 billion represented the Treasury's net cash financing and

the remainder largely discount accruals on outstanding savings bonds. Additions to public holdings in 1953 amounted to 1.5 billion dollars for commercial banks and Federal Reserve Banks and about 3.9 billion for nonbank investors.

The larger cash deficit in 1953 resulted primarily from a rise in expenditures. Spending for national security programs increased 1.5 billion dollars over 1952, although it leveled off during the year and turned down in the fourth quarter. Price support of farm products and social security programs accounted for the bulk of the increase of 2 billion dollars in other outlays. Cash income declined slightly despite peak or near-peak tax rates and higher incomes. Lower corporate tax collections, which reflected reduced 1952 corporate earnings, were responsible for the decline. Other tax receipts increased.

The pattern of Federal receipts over the year showed continued concentration in the first half of the year, primarily as a result of the Mills plan for corporate tax payments. Cash outgo reversed the trend of the previous two years and was smaller in the second half of the year than in the first half, but this shift was not sufficient to offset the concentration of receipts in the first six months—especially in the first quarter. The result was a cash surplus of more than 2 billion dollars in the January–June period, and a deficit of more than 8 billion over the remainder of the year.

During the calendar year 1953 the Treasury engaged in extensive borrowing operations to meet the cash deficit and also to retire maturing tax anticipation bills and to meet some cash attrition on refunding operations. The Treasury entered the securities market with several new issues to obtain more than 12 billion dollars in cash. Two of these offerings were tax anticipation issues totaling 6.7 billion dollars. The Treasury also sold for cash more than 1 billion dollars of long-term bonds in May and more than 2 billion of intermediate-term bonds in November. In addition, the Treasury raised 2.3 billion by increasing the weekly bill offerings. On five other occasions the Treasury entered the market to refund maturing debt in excess of 35 billion dollars. In nonmarketable issues, net sales of savings notes approximately offset small net redemptions of savings bonds.

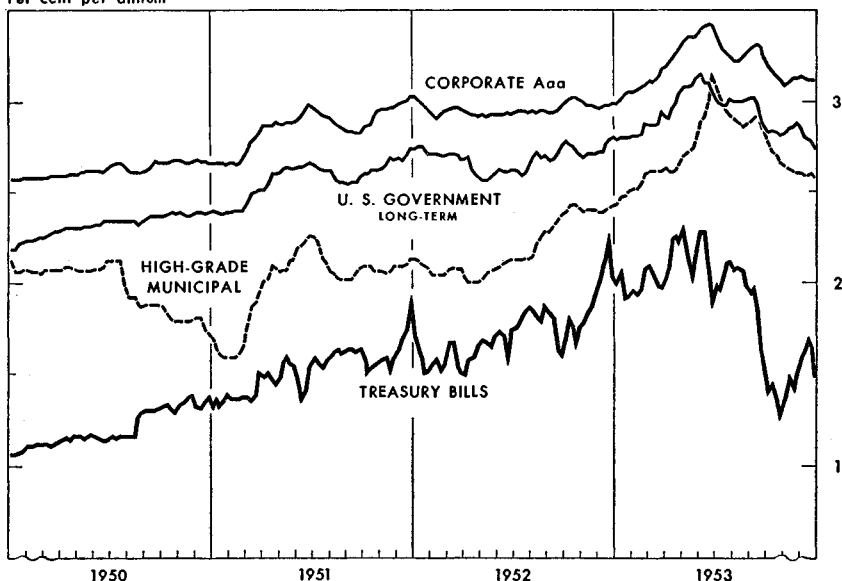
An objective in Treasury debt management operations during the

year was to lengthen the maturity of the Federal debt. Over the year, five offerings were made of securities maturing in from  $3\frac{1}{2}$  to 30 years, and a total of 9 billion dollars of these was issued.

**Interest rates.** During the first half of 1953 the large and growing demand for credit tended to outstrip the substantial and increasing funds available for lending and investing. Pressure of credit demand resulted in a moderate increase in interest rates through mid-April and then in a sharp advance. Most rates reached their highs for the year in May and June when borrowing demands were abnormally heavy. By that time it had become apparent that Federal financing for the remainder of the year would be heavier than had been anticipated, owing largely to the failure of Federal revenues to reach earlier expectations. There was also some tendency for borrowers to enter the market for financing in advance of their actual needs. From late 1952 to the middle of 1953, yields on most types of securities rose about  $\frac{1}{2}$  of 1 per cent, while interest rates on short-term business loans and other short-term paper rose about  $\frac{1}{4}$  of 1 per cent.

### MONEY RATES

Per cent per annum



NOTE.—Treasury bill rates are market rates on longest bills. Yields on long-term U. S. Governments exclude  $3\frac{3}{4}$  per cent bonds of 1978-83, issued May 1, 1953. Corporate Aaa rates are from Moody's Investors Service; high-grade municipals, from Standard and Poor's Corporation.

Beginning in June, rates declined sharply, in some cases more sharply than they previously had risen. This shift reflected both the increased availability of bank credit during the period and some slackening in credit demand. At the end of the year the market yield on Treasury bills was down to 1.5 per cent, substantially below a year earlier and as low as at any time since 1951. Yields on other Government securities and on short-term private paper were below those prevailing at the beginning of the year. Corporate and municipal bond yields were substantially below their midyear peaks but somewhat above the levels a year earlier.

### BANK CREDIT AND MONEY

Total loans and investments of commercial banks increased 4.4 billion dollars in 1953 compared with 8.9 billion in 1952. Private demands for bank credit were strong during the first half of 1953 but slackened around midyear. Holdings of Government securities fluctuated considerably during the year. Expansion of demand deposits and currency was less than in other recent years, but time deposits continued to increase substantially. Bank reserve positions were tight during the first five months of the year and thereafter eased considerably, reflecting Federal Reserve actions and slackening credit demands.

**Bank loans and investments.** Demand for bank credit from private borrowers strengthened considerably in late 1952 and early 1953 with the accelerated pace of economic activity. After midyear, however, private demand for bank credit weakened.

The pattern of early strength and later weakness in demand for bank credit was particularly evident in consumer and business loans. Consumer loans expanded rapidly from the spring of 1952 through the second quarter of 1953, owing largely to heavy automobile financing, but growth slackened sharply in the third quarter and ceased in the fourth quarter. Nevertheless, the total outstanding increased 1.3 billion dollars or 15 per cent for the year. This was the largest growth for any major category of bank loans or investments, as shown in the table.

Business demand for bank credit, which in recent years has usually declined in the January-June period, was maintained over the first quarter of 1953 and declined only moderately in the second quarter. After midyear, however, credit demand from this source did not

## LOANS AND INVESTMENTS OF COMMERCIAL BANKS

[In billions of dollars]

| Type of loan or investment        | Out-standing<br>Dec. 30,<br>1953 | Increase, or decrease (-) |                  |                  |             |                  |
|-----------------------------------|----------------------------------|---------------------------|------------------|------------------|-------------|------------------|
|                                   |                                  | Year                      | 1st<br>qtr.      | 2nd<br>qtr.      | 3rd<br>qtr. | 4th<br>qtr.      |
| Loans and investments, total..... | 145.8                            | 4.4                       | -2.1             | -1.4             | 4.8         | 3.2              |
| U. S. Govt. securities.....       | 63.6                             | 0.3                       | -2.8             | -1.9             | 3.6         | 1.4              |
| Other securities.....             | 14.6                             | 0.5                       | 0.3              | ( <sup>1</sup> ) | 0.2         | 0.1              |
| Loans, total.....                 | 67.6                             | 3.6                       | 0.4              | 0.5              | 1.0         | 1.7              |
| Business.....                     | 27.5                             | -0.4                      | ( <sup>1</sup> ) | -0.5             | 0.3         | -0.2             |
| Real estate.....                  | 16.7                             | 1.0                       | 0.2              | 0.3              | 0.3         | 0.2              |
| Agricultural.....                 | 5.0                              | 1.1                       | ( <sup>1</sup> ) | -0.2             | 0.2         | 1.1              |
| Security.....                     | 3.5                              | 0.3                       | -0.5             | 0.1              | 0.1         | 0.6              |
| Consumer.....                     | 10.7                             | 1.3                       | 0.6              | 0.6              | 0.2         | ( <sup>1</sup> ) |
| Other.....                        | 5.2                              | 0.3                       | ( <sup>1</sup> ) | 0.2              | 0.1         | ( <sup>1</sup> ) |

<sup>1</sup> Less than 50 million dollars.

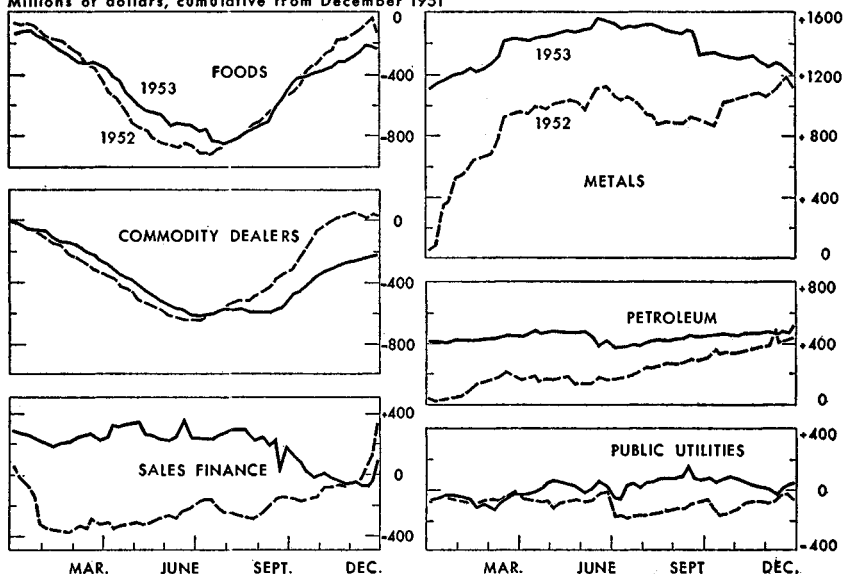
NOTE.—Data exclude interbank loans. Total loans are after, and types of loans before, deductions for valuation reserves. Consumer and "other" loans are partly estimated for all dates, and other figures for dates other than Dec. 31, 1952 and June 30, 1953. Details may not add to totals because of rounding.

rise as much as it usually does. Late in the year business loans declined slightly in contrast with the sharp rise that occurred late in 1952. For the year as a whole, such loans decreased about 400 million dollars, the first decline since 1949 and only the second in more than a decade.

Slackening of business credit demands developed in varying degrees in major industries. During the first half of the year, as shown in the chart on the next page, net loan repayments by industries whose activities are highly seasonal—such as food processors and commodity dealers—followed their seasonal pattern but were smaller than in the previous year. Expansion after mid-1953, however, was substantially less than in other recent years, in part because large supplies of farm products were placed in storage under Commodity Credit Corporation price support loans instead of being marketed through commercial channels. By the end of 1953 outstanding loans in both industries were well below the year-end levels of the previous two years. Loans to manufacturers of metals and metal products generally continued their steady expansion during the first half of 1953 but declined during the last half. Borrowing by sales

**CHANGES IN BANK LOANS — SELECTED INDUSTRIES**

Millions of dollars, cumulative from December 1951



NOTE.—Data reported by more than 200 of the largest weekly reporting member banks. Foods include liquor and tobacco. Metals include metal products, machinery, and transportation equipment. Petroleum includes coal, chemicals, and rubber. Public utilities include transportation.

finance companies also declined in the last half of 1953, in contrast with a substantial increase in the same period of the preceding year. Expansion of bank loans to the petroleum and public utility groups, which include rapidly growing industries, appears to have stopped during 1953.

Weakening of credit demand appeared somewhat earlier in the year for agricultural loans than for other loan categories, partly as a result of the sharp decline in agricultural prices during the last half of 1952. The growth of 1.3 billion dollars in the last half of 1953 did not represent an increase in demand for farm production credit but rather an increase in Federally guaranteed loans made by banks in connection with price support programs, either directly or through purchases of certificates of interest in loans on agricultural commodities held by the CCC.

In contrast with these slackening tendencies in consumer and production loans, real estate loans at banks increased steadily throughout the year at about the same pace as in 1952. Security loans fluctuated considerably in the course of the year, reflecting changes

in loans on Government securities in connection with Treasury financing operations and seasonal demands of dealers. Loans for purchasing and carrying other securities changed little, despite the reduction in margin requirements in February.

Banks continued to add to their holdings of State and local government securities in 1953, but at a slower rate than in 1952. With the greater part of the Federal Government borrowing from the public in 1953 absorbed by nonbank investors, holdings of United States Government securities by commercial banks increased only about 0.3 billion dollars and Federal Reserve holdings expanded about 1.2 billion.

Commercial banks reduced their portfolios of Government securities nearly 5 billion dollars in the first half of 1953. In this period banks were under pressure to maintain their reserve positions, and the Treasury was retiring debt by using surplus receipts and also by drawing down its balances with banks. Bank holdings of short-term Government securities were reduced largely by sales to nonbank investors but also through cash retirement of maturing tax anticipation bills and other securities. Bill holdings of banks declined about 3.5 billion dollars from December 1952 through May 1953, and banks also sold large amounts of certificates, notes, and short-term bonds. The effect of these developments on the liquidity of commercial bank portfolios was offset in part by the closer approach to maturity of large bank holdings of short-term bonds and notes.

Central reserve city and reserve city banks accounted for the greater part of the reduction in bank holdings of short-term Government securities. Bill holdings fell considerably below the levels that had been maintained at these banks since the spring of 1951. Country banks also disposed of Government securities early in 1953, but their holdings remained as large over the first five months as in the same period of 1952.

With the easing in bank reserve positions that accompanied large open market operations by the Federal Reserve beginning in May and the reduction in reserve requirements at midyear, banks quickly rebuilt their Government security portfolios. Commercial banks initially acquired about 4.5 billion dollars of the large Treasury financing in mid-July. These additions, which were distributed throughout all classes of banks, fully offset the reductions in holdings of Governments that had occurred since the first of the year.

Liquidation of Government securities was resumed before the end of July and holdings were reduced substantially by early September. They were increased again in November when the Treasury sold an issue of intermediate-term bonds for cash.

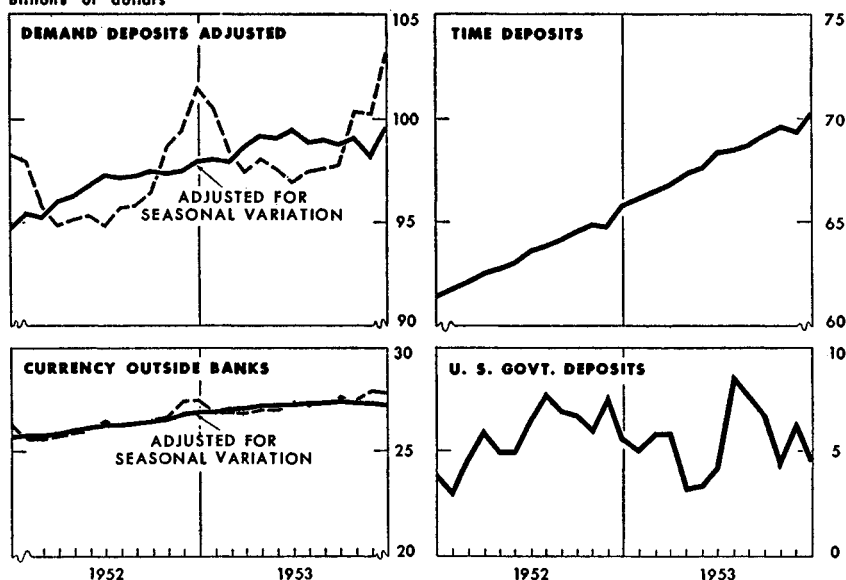
**Deposits and currency.** Monetary expansion continued in 1953 but the increase was smaller than in any year since 1949. Expansion in privately held demand deposits and currency was about 2.1 billion dollars or about 1.5 per cent for the year. This growth was one-half the increase in 1952 and one-third that in each of the two preceding years.

Demand deposits adjusted, after allowance for usual seasonal changes, continued to expand at a fairly rapid rate through April, but increased only slightly during the remainder of the year, as is shown in the chart. For the year as a whole these deposits increased 1.8 billion dollars or nearly 2 per cent.

Currency outside banks, after allowance for usual seasonal movements, increased gradually through the third quarter of the year

## DEPOSITS AND CURRENCY

Billions of dollars



NOTE.—Figures are partly estimated. Deposits are for all banks in the United States. Demand and time deposits are adjusted to exclude U. S. Government and interbank deposits. Demand deposits are also adjusted to exclude items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Figures are for last Wednesday of month except for June and December call dates.

and thereafter changed little. The year's growth of 300 million dollars or 1 per cent compared with a growth of 1.2 billion dollars or 4.5 per cent in 1952.

Growth in time deposits at commercial and mutual savings banks continued very large in 1953—4.6 billion dollars compared with 4.5 billion in 1952.

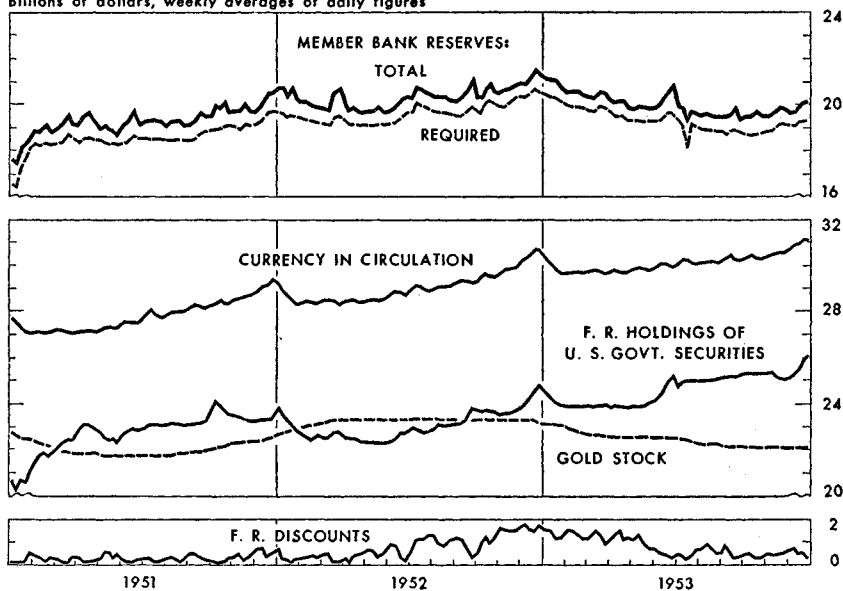
United States Government deposits fluctuated more widely than in other recent years, reflecting primarily larger and more concentrated Treasury borrowing. In addition to fluctuations during regular tax-payments, such as in the second half of March and June, these deposits rose sharply when substantial issues of new securities were sold to the public, as in July and November. In the intervening periods they were gradually drawn down in meeting the costs of Government operations. In general, they were maintained at lower levels than in 1952.

The rate of use, or turnover, of demand deposits rose somewhat in 1953, after having remained relatively stable the previous two years. Demand deposits at banks outside of the leading financial centers turned over 18.9 times in 1953, compared with 18.4 times in 1952.

**Bank reserve positions.** During the early months of 1953 member bank reserve positions were under pressure and bank borrowing at the Federal Reserve continued at a high level. A major factor tending to exert pressure on bank reserves was an outflow of gold. After remaining relatively static for nearly a year, gold began to leave the United States late in 1952 as foreign countries, principally the United Kingdom and Western Europe, converted some of their expanding dollar balances into gold. A reserve drain during the first weeks of 1953 also resulted from a reduction in Federal Reserve holdings of Government securities, reflecting largely the resale of bills acquired under repurchase agreement near the end of 1952. A large volume of reserve funds was provided early in 1953 by a return of currency from circulation. In addition, required reserves of banks declined as the Treasury drew down its deposits at commercial banks to retire debt and as other demand deposits also declined. While banks were able to reduce their indebtedness at the Reserve Banks somewhat in January, the volume of member bank borrowing averaged around 1.2 billion dollars during the early months of the year.

**MEMBER BANK RESERVES AND RELATED ITEMS**

Billions of dollars, weekly averages of daily figures



In early May the System began a program for supplying a substantial volume of additional reserve funds to meet the anticipated seasonal and growth needs for credit and currency during the remainder of the year. Open market purchases supplied a total of 1.2 billion dollars of reserves to member banks in the period from early May through the first week of July, and a reduction in reserve requirements on demand deposits early in July freed an additional 1.2 billion of reserve funds. Open market purchases were resumed after mid-August, and by the end of the year they had supplied a further 1.5 billion dollars of reserves, including 600 million near the close of the year under repurchase contracts. In November the Treasury issued gold certificates to the System to retire 500 million dollars of Government securities held by the Federal Reserve Banks, a transaction which did not affect member bank reserve balances.

A substantial portion of the reserve funds supplied by these Federal Reserve actions was used to meet the requirements of the public for currency and to provide the additional reserves to support deposit growth. There was also some drain on bank reserves during this period owing to a continued gold outflow. The needs

for reserves were less than the amount provided, however, as private demands for bank credit did not come up to the usual seasonal volume, bank deposits increased less than anticipated, and the seasonal outflow of currency was moderate. Banks were able to reduce greatly their borrowings at the Reserve Banks and the volume of their excess reserves increased. By the last week of December, average member bank borrowing had declined to 200 million dollars and was substantially less than the prevailing volume of excess reserves.

### FOREIGN FINANCIAL DEVELOPMENTS

The transition from postwar recovery to peacetime growth, noted earlier in this report, has been paralleled in many countries by a rise of confidence in the usefulness of free markets for bringing about adjustments to promote sound economic growth. Decreased use of direct controls affecting prices or purchases in domestic trade has involved greater reliance on general policies relating to credit and government finance. In international trade and finance, some degree of direct control still exists in many countries. Nevertheless, developments in 1951-53 have reflected a growing appreciation of the interdependence of policy in the domestic and external spheres. Most remarkable has been the widespread evidence of growing belief in the possibility of linking together the free world countries in a broadened market economy with fewer barriers to trade and investment.

Problems of dollar shortage were no longer pressing heavily on Western Europe at the beginning of 1953. Europe's economic recovery, accelerated by American aid, had freed that region from abnormal needs for imports and enabled it to respond to growing demand for European goods in the United States and elsewhere.

A factor widely recognized as vital for this expansion of European exports was the achievement, through a difficult period extending from 1948 to 1952, of internal financial stability at appropriate exchange rates for most currencies. Moreover, the key to financial stability was found in noninflationary fiscal and credit policies: reliance upon direct controls over costs and prices was waning.

As problems of instability were surmounted, the undesirable effects of foreign trade restriction came to be more widely recognized.

Within Europe such restrictions were lessened between 1948 and 1951 through the work of the Organization for European Economic Cooperation, and bilateral bargaining for trade and credits between governments gave way in 1950 to the automatic credit and gold settlement procedures of the European Payments Union.

A shift in policies was evident also in the sterling area, now linked to EPU through Britain. The sterling area since the outbreak of war in 1939 has been a grouping of countries within which capital could move freely or with negligible restrictions, but whose trade and capital transactions with the rest of the world, especially with the dollar area, were subjected to close controls. In December 1952 the Commonwealth Conference in London reached full agreement that a continuing insulation of the sterling area from the rest of the world economy was not to be desired.

Thus at the beginning of 1953, both in Europe and in the sterling area, efforts were being directed toward a new relaxation of trade and exchange controls, including the discriminatory controls on dollar transactions.

**United States balance of payments.** To treat dollar trade like any other trade seemed in many countries an almost Utopian goal in 1948. If this is practical policy in some of the same countries now, it is partly because a remarkable shift has occurred since 1948 in the balance of payments between the United States and the rest of the world.

United States merchandise imports in 1953 were over 50 per cent greater in value and 30 per cent greater in volume than in 1948, while commercial exports were approximately the same as in 1948. Total dollar payments from the United States to other countries for current transactions (including purchases of services as well as of goods, and also gifts other than Government aid) totaled about 17 billion dollars in 1953, as compared with only 11 billion in 1948. In 1953 these dollar payments were approximately equal to foreign payments to the United States for our exports of goods and services (apart from those covered by military aid). In 1948 exports of goods and services, strongly supported by economic aid, had exceeded current account dollar payments by 5.5 billion dollars.

United States Government grant and loan aid to European and other countries, other than aid given in the form of military supplies

and services, had declined 2.7 billion dollars from 1948 to 1953, but the rise in dollar payments from the United States to other countries on current account had been even greater. At the end of 1953 there was little ground for doubt that these payments, taken in the aggregate, would continue large in the next few years. Of the 17 billion dollar total of current account payments in 1953, United States military expenditures in foreign countries on goods and services for use abroad or for transfer to other countries under the military assistance programs accounted for about 2.5 billion.

In the last months of the year merchandise imports were about 10 per cent below those of the peak second quarter and more than 5 per cent below the average for the year. Military expenditures, however, showed a rising trend in 1953 owing to operations under the offshore procurement program. At the end of the year total payments for current transactions were still at a rate of about 16 billion dollars per annum.

The outflow of private direct investment capital continued at close to the 1948-52 average rate of 700 million dollars, though temporary factors led to a return flow in 1953 of other types of private capital.

Net transfers of gold and dollar holdings from the United States to foreign countries exceeded 2 billion dollars during 1953. Despite the decline in payments for imports, the gold and dollar movement was almost as large in the second half as in the first half of the year.

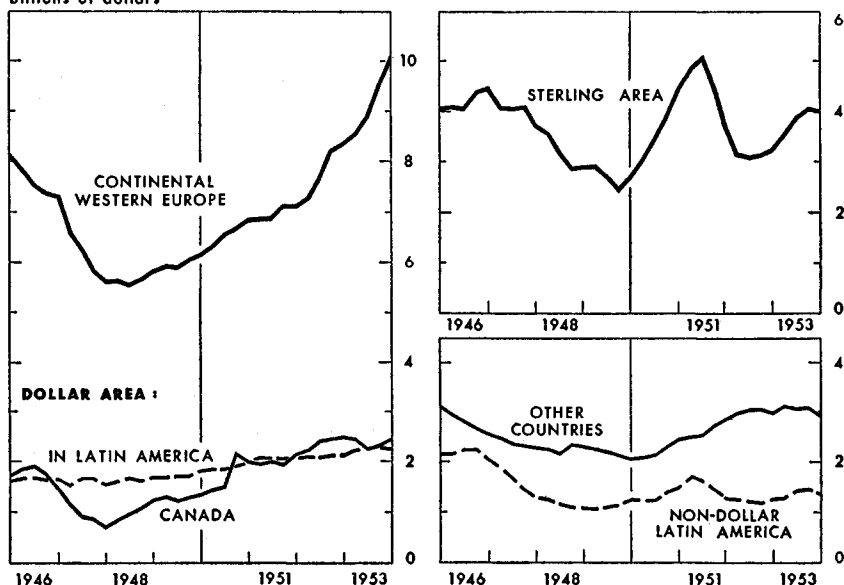
**Dollar area.** The majority of Latin American countries, including Mexico, Cuba, Venezuela, Colombia, and the Central American republics, receive payment in U. S. dollars for most of their exports and have no discriminatory controls on imports from the United States. These countries have had no pressing need to enlarge their holdings of dollars, and they absorbed very little of the increase in aggregate foreign gold and dollar holdings in 1953.

Canada continued to export more than it imported in trade with Europe and the sterling area, but its surplus in this trade declined in 1953. Canadian holdings of U. S. dollars were moderately reduced during the first half of 1953, when Canada's deficit in trade with the United States was at a peak.

Canada continued its policy of letting fluctuations in the balance of payments be reflected in exchange rate movements. The rate

**GOLD RESERVES AND DOLLAR HOLDINGS — BY AREAS**

Billions of dollars



NOTE.—End-of-quarter figures; gold reserves partly estimated. Dollar holdings include reported holdings of short-term U. S. Government securities and also certain long-term U. S. Government securities held for foreign official accounts.

declined from over \$1.03 at the beginning of the year to about \$1.005 in May and June, and again approached \$1.03 at the end of the year. Canadian interest rates are generally higher than those in the United States and the spread serves, as a rule, to promote the movement of investment capital into Canada. In the spring of 1953, when long-term rates in the United States rose sharply, a considerable amount of foreign-owned Canadian securities was repatriated or retired, but near the end of the year new flotations in this country were again occurring in considerable volume.

**Sterling area.** The United Kingdom's official gold and dollar reserves increased steadily during 1953. At 2.5 billion dollars at the end of the year, they were 0.8 billion higher than in the spring and summer of 1952. In addition, other gold and dollar holdings in the area increased slightly. The improvement in the sterling area reserve position reflects the stabilization since mid-1952 of sterling area imports from non-sterling sources at a level considerably lower than in 1951. Also, there has been a gradual but steady increase

during recent years in United Kingdom exports to the dollar area. Exports by overseas sterling area countries to the dollar area and to Continental countries in the European Payments Union were fairly well maintained in 1953, though in value they were much below the peak of the Korean war boom.

Curtailement of imports by sterling area countries in 1952 had been facilitated by market forces, following the rebuilding and accumulation of inventories in 1951. Moreover, the sharp fall in export prices of sterling area raw materials, though leading to serious balance-of-payments dislocations for overseas sterling area countries like Australia, had helped to stem internal inflation. Losses of export income after mid-1951, coupled with inflated import demand both overseas and in Britain, had been so serious, however, as to require fresh use of direct restrictions that previously had been lifted.

In 1953 virtually all sterling area countries succeeded in maintaining financial stability internally, and a start was made in relaxing trade restrictions. The most striking progress was made in the United Kingdom, where in 1950 Government trading still accounted for 50 per cent of all imports. By the end of 1953, private importing was again permitted for virtually all commodities except meat and a few other foods, in which exclusive Government trading will cease during 1954. Markets for several internationally traded commodities were reopened in 1953 for the first time since 1939, and in most of them British importers are free to buy abroad without discrimination as to country of origin; this rule now applies to all grains and in effect to cotton, both of which are primarily dollar commodities. For several commodities, notably the nonferrous metals, re-export for sterling is permitted even if the goods were originally paid for in dollars. In 1953 the United Kingdom restored considerable freedom with respect to imports from Continental Western Europe.

**Other countries outside Europe.** Financial developments in 1953 in a number of other countries were less encouraging than those in the sterling area. In several important cases countries experienced difficulty with their balance of payments not only in dollars but also in sterling and other currencies. Underlying these difficulties, as a rule, was continuance of inflationary pressures.

In South America, a few countries, including Brazil and Chile, were still experiencing active inflation and serious balance-of-pay-

ments difficulties during 1953. Argentina, with good crops, was able to increase its exports markedly, but monetary expansion continued and imports were kept under rigid control.

Although Japan's earnings from United States military expenditures continued very large, they were insufficient to bridge completely the over-all trade deficit in 1953. Imports continued to rise, and although industrial production increased by one-sixth over 1952, exports fell off and appeared to be over priced in many markets. Indonesia made some progress toward reducing inflationary pressures, but declines in the value of exports of rubber and tin created continuing difficulties for external balance. Thailand, exporting rice as well as rubber and tin, imposed new controls on imports toward the end of the year in order to conserve its foreign exchange reserves. In Israel, inflationary pressures continued to be felt, though not as strongly as in 1952.

**Continental Western Europe.** The major improvement in gold reserves and dollar holdings in 1953 occurred in Europe. The Continental countries, like the United Kingdom, enjoyed on the whole a high and balanced level of trade and other current international transactions. Of the major countries, only France and Italy had serious balance-of-payments difficulties, and in both cases these difficulties were not confined to their trade with the dollar area but affected also their payments within Europe. France had not recovered from the after-effects of its 1951 inflation, and maintained rigid import controls in 1953. Italy, on the other hand, adhered to a liberal trade policy and waited for its trading partners, particularly those within Europe, to lower their own trade barriers in return. United States dollar aid and military expenditures enabled both countries to avoid severe declines in their reserves. The gold and dollar reserves of most other countries showed a steady rise. The rise in German and Dutch reserves was very considerable.

A number of European countries took concrete steps in 1953 to relax their controls on international trade and payments. Several countries removed quota restrictions on an additional share of their private imports from other OEEC countries. Germany and the Netherlands reached the stage of 90 per cent liberalization previously achieved by four of the members. Austria moved from complete import control to 50 per cent liberalization, and significant changes were also made by Greece. There was a parallel movement with

regard to intra-European service transactions, such as tourist travel and business expenses. With regard to imports from the dollar area, Germany, the Netherlands, Belgium, and Greece explicitly reduced their restrictions.

Steps have been taken to broaden private foreign exchange markets in Europe. During 1953 permission was granted for authorized banks in nine European countries to engage among themselves in spot or forward arbitrage transactions in any of their respective currencies.

By the end of 1953 marked progress had been made not only in building up reserves but also in improving Western Europe's ability to compete on equal terms in world markets. Discriminatory controls on imports still served to protect sheltered markets in some countries. On the other hand, several countries had already gone far in opening up competition. Some countries on the Continent seemed prepared to accept the risks that might be involved in making their currencies more fully convertible, provided there were assurance of the convertibility, when required, of their own earnings of sterling or other important currencies.

#### LOAN GUARANTEES FOR DEFENSE PRODUCTION

The Defense Production Act of 1950 provided for the guarantee of loans made by commercial banks and other private financing institutions to contractors, subcontractors, and others engaged in the performance of Government contracts for the purpose of expediting production and deliveries or services for the defense program.

The original Executive Order No. 10161 issued September 9, 1950 named as guaranteeing agencies the Departments of the Army, Navy, Air Force, Commerce, Agriculture, and Interior, and the General Services Administration. The United States Atomic Energy Commission and the Defense Materials Procurement Agency subsequently were designated by Executive Order to act as additional guaranteeing agencies. In accordance with the Defense Production Act amendments of 1953 the President, on August 14, 1953, issued Executive Order No. 10480 which superseded and revoked a number of executive orders, including No. 10161. The new Order did not make any substantial changes with respect to the guarantee of defense production loans, although it abolished the Defense Mate-

## V LOANS AUTHORIZED, SEPT. 27, 1950-DEC. 31, 1953

[Percentage distribution, by size of loan and number of employees of borrower]<sup>1</sup>

| Size of loan                     | Percentage of loans authorized |        | Cumulative percentage distribution |        |
|----------------------------------|--------------------------------|--------|------------------------------------|--------|
|                                  | Number                         | Amount | Number                             | Amount |
| Under \$100,000.....             | 18.7                           | .6     | 18.7                               | .6     |
| \$100,000-\$499,999.....         | 37.7                           | 5.7    | 56.4                               | 6.3    |
| \$500,000-\$999,999.....         | 16.0                           | 6.5    | 72.4                               | 12.8   |
| \$1,000,000-\$4,999,999.....     | 21.8                           | 28.1   | 94.2                               | 40.9   |
| \$5,000,000-\$9,999,999.....     | 2.9                            | 12.2   | 97.1                               | 53.1   |
| \$10,000,000 and over.....       | 2.9                            | 46.9   | 100.0                              | 100.0  |
| Number of employees <sup>2</sup> |                                |        |                                    |        |
| Under 50.....                    | 18.7                           | 1.4    | 18.7                               | 1.4    |
| 50-99.....                       | 15.4                           | 2.5    | 34.1                               | 3.9    |
| 100-499.....                     | 38.8                           | 16.0   | 72.9                               | 19.9   |
| 500-2,499.....                   | 17.7                           | 25.1   | 90.6                               | 45.0   |
| 2,500 and over.....              | 5.2                            | 52.5   | 95.8                               | 97.5   |
| Not available.....               | 4.2                            | 2.5    | 100.0                              | 100.0  |

<sup>1</sup> Distributions are of 1,294 loans authorized in an aggregate amount of 2,358 million dollars.<sup>2</sup> Includes employees of affiliated concerns under common ownership or control.

rials Procurement Agency, heretofore a guaranteeing agency, and transferred the functions of that agency to the General Services Administration.

The Federal Reserve Banks act on behalf of the guaranteeing agencies as fiscal agents of the United States in the making of such contracts of guarantee, and the procedure is governed by Regulation V of the Board of Governors as revised September 27, 1950. Pursuant to this Regulation, and after consultation with the guaranteeing agencies, the Board established a schedule of guarantee fees, a maximum rate of interest of 5 per cent on guaranteed loans, and a maximum commitment fee of one-half of 1 per cent per annum. This schedule of rates and fees was reviewed from time to time by the Board and the guaranteeing agencies but developments during the year did not indicate the need for any changes.

During 1953 the guaranteeing agencies authorized the issuance of 135 guarantee agreements. Guaranteed loans authorized under these and earlier agreements amounted to 234 million dollars.

Regulation V loans outstanding on December 31, 1953 totaled 805 million dollars, of which 666 million or 82.8 per cent on the

average was guaranteed. On the same date an additional 364 million dollars was available to borrowers under guarantee agreements in force.

From the beginning of the program in September 1950 through December 1953, 1,294 loans totaling 2,358 million dollars were authorized by the procurement agencies that may guarantee loans. The table on page 38 gives the percentage distribution of authorizations classified by size of loan and number of employees of borrower. Nineteen per cent of the number and approximately 1 per cent of the amount of loans authorized consisted of loans of less than \$100,000, while 56 per cent of the number and 6 per cent of the amount were less than \$500,000. Approximately 73 per cent of the number and 20 per cent of the amount of loans authorized were to borrowers having less than 500 employees, including employees of any affiliated concerns under common ownership or control.

#### BANKING OPERATIONS AND STRUCTURE

**Bank earnings and profits.**<sup>1</sup> Net current earnings of member banks, before income and excess profits taxes, increased again in 1953. Increases also occurred in net losses, charge-offs, and transfers to valuation reserves, and in provisions for taxes on income. As a result, net profits after taxes and profit and loss adjustments amounted to 865 million dollars, 36 million more than in 1952. The ratio of net profits to average capital accounts was 7.8 per cent, down fractionally from 1952.

Net current earnings before income taxes amounted to 1,806 million dollars, an increase of 187 million. Earnings on both United States Government securities and loans were larger than in 1952 as a result of the larger average holdings and higher average rates of return. Earnings on Government securities amounted to 1,007 million dollars, a 78 million increase; and earnings on loans amounted to 2,630 million or 324 million more than in the preceding year. Total current earnings increased by 466 million dollars and total current expenses by 279 million. The table on the following page shows selected earnings data for all member banks in 1953 and 1952.

Net losses, charge-offs, and transfers to valuation reserves were 244 million dollars, or about one-third more than in 1952, and

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<sup>1</sup> Figures for 1953 are based on preliminary tabulations.

# EARNINGS, EXPENSES, PROFITS, AND DIVIDENDS OF ALL MEMBER BANKS, 1953 AND 1952

[In millions of dollars]

| Item                                                                          | 1953 <sup>p</sup> | 1952  |
|-------------------------------------------------------------------------------|-------------------|-------|
| Earnings.....                                                                 | 4,586             | 4,120 |
| On U. S. Govt. securities.....                                                | 1,007             | 929   |
| On loans <sup>1</sup> .....                                                   | 2,630             | 2,306 |
| All other.....                                                                | 948               | 884   |
| Expenses.....                                                                 | 2,780             | 2,501 |
| Net current earnings before income taxes.....                                 | 1,806             | 1,619 |
| Net losses, charge-offs, and transfers to valuation reserves <sup>2</sup> ... | 244               | 181   |
| Profits before income taxes.....                                              | 1,562             | 1,437 |
| Taxes on net income.....                                                      | 698               | 608   |
| Net profits.....                                                              | 865               | 829   |
| Cash dividends declared <sup>3</sup> .....                                    | 421               | 390   |

<sup>p</sup> Preliminary; final figures will appear in the *Federal Reserve Bulletin*, probably the May issue.

<sup>1</sup> Includes charges on loans other than interest.

<sup>2</sup> Excludes losses charged and recoveries credited to valuation reserves.

<sup>3</sup> Includes interest on capital notes and debentures.

provisions for taxes on net income were 90 million larger. As the net increase in such charges was less than the growth in net current earnings, net profits after taxes and profit and loss adjustments increased 36 million dollars or 4 per cent to 865 million. About 49 per cent of the 1953 profits or 421 million dollars was distributed as dividends; this represented a return of 3.8 per cent on average total capital accounts. The amount distributed was larger than in the previous year, and the rate of return was slightly higher. Profits retained to strengthen capital accounts amounted to 444 million dollars as compared with 439 million dollars in 1952.

**Bank earning assets.**<sup>2</sup> Earning assets of member banks amounted to 123 billion dollars at the end of 1953, an increase of 3 billion during the year. Practically the entire increase was in loans; holdings of "other" securities increased 300 million dollars, and holdings of United States Government securities were practically unchanged.

Total loans increased 2.8 billion dollars. Over half of the increase, or 1.5 billion, was in "other loans to individuals," which are largely consumer loans. Real estate loans and agricultural loans increased

<sup>2</sup> Figures for 1953 are partly estimated.

800 million dollars each, the increase in agricultural loans reflecting holdings of certificates of interest of the Commodity Credit Corporation. A decrease of 700 million dollars in commercial and industrial loans during the year was the first annual decrease in this category since 1949. According to sample data by industry groups, the larger decreases during 1953 were in loans to commodity dealers, sales finance companies, and manufacturers of food, liquor, and tobacco products; the largest net increase was for the wholesale and retail trade.

**Capital accounts.**<sup>2</sup> Capital accounts of member banks amounted to 11.3 billion dollars at the end of 1953, an increase of over half a billion during the year. Retention of profits accounted for most of the increase. Proceeds from sales of common stock amounting to 100 million dollars were offset slightly by other changes in capital accounts, including the retirement of preferred stock and the effects of mergers and changes in Federal Reserve membership.

The ratio of average total capital accounts to average total assets for all member banks was 7.0 per cent, practically unchanged from 1952 and 1951. The ratio of average total capital accounts to total assets less cash assets and United States Government securities continued to decline, reaching 15.7 per cent as compared with 16.2 per cent in 1952 and 18.9 per cent in 1950. The decline reflected the increased proportion of earning assets held in the form of loans and investments other than United States Government securities.

**Number of banking offices.** The number of banking offices in the United States increased to 20,406 during 1953, from 20,095 at the beginning of the year. This was the tenth consecutive year of growth. The number of branches increased by 377 to 5,897, but the number of banks declined by 66 to 14,509. All these figures exclude banking facilities at military and other Government establishments, of which there were 199 at the end of 1953, an increase of 8 during the year.

The number of banks (head offices) continued to decline as they had in the five preceding years. There were 64 new banks opened for business during the year, but this increase in head offices was more than offset by the consolidation or absorption of 116 banks, 93 of which were converted into branches. Table 18 on page 79 shows the increases and decreases in the number of banks and branches by class of bank.

The increase of 377 in the number of branches and additional offices, exclusive of banking facilities at military and other Government establishments, was the largest annual increase on record, exceeding the recent near record highs of 296 in 1952 and 290 during 1951. As in other recent years, most of the increase was in de novo branches, of which there were 304 in 1953. Pennsylvania and New York had the largest branch increases, with 60 and 55 respectively, but smaller increases occurred in practically all other States that permit branch banking. More than half of the increase in branches during 1953 was in places outside the head-office cities, about the same proportion as in 1952.

**Changes in Federal Reserve membership.** The number of member banks in the Federal Reserve System continued to decline in 1953 as a result of consolidations and absorptions. The total number of member bank offices continued to increase, however, owing to the establishment of de novo branches and to the conversion of most of the absorbed banks into branches.

At the end of the year there were 4,856 national banks and 1,887 State member banks, reflecting declines of 53 and 2, respectively, during the year.

Twenty-two newly organized banks became members, of which 12 were national banks and 10 were State chartered. Seven insured nonmember banks with deposits of about 120 million dollars were admitted to membership. Two of these, as compared with 4 in 1952, had previously withdrawn from the System in order to establish branches outside the city of the head office; they applied for membership and were readmitted under the terms of the legislation enacted in 1952. One State member bank converted into a national bank during the year.

The 6,743 member banks in operation at the end of 1953 accounted for 48 per cent of the number and held 85 per cent of the deposits of all commercial banks in the country. State member banks accounted for 21 per cent of the number and held 66 per cent of the deposits of all State commercial banks. These relationships have remained practically unchanged during recent years.

**Par and nonpar banks.<sup>3</sup>** During 1953 there were 77 banks added

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<sup>3</sup> This section refers only to banks on which checks are drawn and their branches and offices, including "banking facilities" at military and other Government establishments. 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 Federal Reserve Banks for payment, and also such nonmember banks as have agreed to do so.

to the Federal Reserve Par List, and 114 deleted from the list. Of the 77 additions, 17 were nonpar banks that chose to go on the Par List, 57 were newly organized banks, and 3 were banks that previously did not handle checking accounts. Of the 114 deletions, only 3 were banks that withdrew from the Par List. All of the remainder were absorbed by other par banks and most of them were converted into branches. The number of par-remitting and nonpar offices at the end of 1953 is shown below:

|                                                                            | On<br>Par List | Not on<br>Par List |
|----------------------------------------------------------------------------|----------------|--------------------|
| Banks (head offices).....                                                  | 12,085         | 1,801              |
| Branches .....                                                             | 5,306          | 311                |
| Banking facilities at military and<br>other Government establishments..... | 197            | 2                  |
| Total .....                                                                | 17,588         | 2,114              |

The par-remitting banks, representing 87 per cent of the banks on which checks are drawn, held all but about 2 per cent of the deposits of all commercial banks in the country. All banks in 29 States and the District of Columbia were on the Federal Reserve Par List at the end of the year, and in each of 5 other States the number of nonpar banks was less than 10. Practically all of the banks not on the Par List were in 14 States, as is indicated by the following distribution:

|                      |     |                      |    |
|----------------------|-----|----------------------|----|
| Minnesota .....      | 408 | Alabama .....        | 97 |
| Georgia .....        | 280 | North Dakota .....   | 93 |
| Mississippi .....    | 157 | Tennessee .....      | 85 |
| Arkansas .....       | 116 | South Carolina ..... | 82 |
| North Carolina ..... | 106 | Missouri .....       | 61 |
| Louisiana .....      | 106 | Florida .....        | 50 |
| South Dakota .....   | 97  | Texas .....          | 47 |

Table 19 on page 80 shows these statistics by States and Federal Reserve districts.

#### BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM

**Examination of Federal Reserve Banks.** The Board's Division of Examinations examined each of the 12 Federal Reserve Banks and their 24 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 conduct 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. 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 1953 program for the examination of State member banks was practically completed.

**Bank holding companies.** During 1953 the Board authorized the issuance of four voting permits for general purposes and eight permits for limited purposes to holding company affiliates of member banks.

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. In accordance with established practice, a number of 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.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of Section 23A of the Federal Reserve Act, any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. During the year the Board made such determinations with respect to 14 organizations.

**Trust powers of national banks.** During 1953, 23 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 10 banks which previously had been granted certain trust powers. Trust powers of 27 national banks were terminated, 23 by voluntary liquidation, consolidation, merger or conversion, and 4 by voluntary surrender. At the end of 1953 there were 1,767 national banks holding permits to exercise trust powers.

**Acceptance powers of member banks.** During the year the Board approved the application of a member bank, pursuant to the provisions of Section 13 of the Federal Reserve Act, for permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors.

**Foreign branches and banking corporations.** Under the provisions of Section 25 of the Federal Reserve Act, the Board approved during 1953 an application made by a member bank for permission to establish a branch in a foreign country. One member bank opened a branch in France in 1953 which had been authorized by the Board in 1952.

At the end of 1952, seven member banks had in active operation a total of 105 branches in 23 foreign countries and possessions of the United States. Of the 105 branches, four national banks were operating 99 and three State member banks were operating 6. The foreign branches in active operation were distributed geographically as follows:

|                                 |           |                                        |            |
|---------------------------------|-----------|----------------------------------------|------------|
| <b>Latin America</b> .....      | <b>54</b> | <b>England</b> .....                   | <b>10</b>  |
| Argentina .....                 | 10        | <b>Far East</b> .....                  | <b>20</b>  |
| Brazil .....                    | 10        | Hong Kong .....                        | 1          |
| Chile .....                     | 2         | India .....                            | 2          |
| Colombia .....                  | 4         | Japan .....                            | 10         |
| Cuba .....                      | 19        | Philippines .....                      | 5          |
| Mexico .....                    | 2         | Singapore .....                        | 1          |
| Panama .....                    | 4         | Thailand .....                         | 1          |
| Peru .....                      | 1         | <b>United States Possessions</b> ..... | <b>14</b>  |
| Uruguay .....                   | 1         | Canal Zone .....                       | 4          |
| Venezuela .....                 | 1         | Guam .....                             | 1          |
| <b>Continental Europe</b> ..... | <b>7</b>  | Puerto Rico .....                      | 9          |
| Belgium .....                   | 1         | <b>Total</b> .....                     | <b>105</b> |
| France .....                    | 3         |                                        |            |
| Germany .....                   | 3         |                                        |            |

There was no change in 1953 in the list of 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 investment by member banks in the stock of corporations engaged principally in international or foreign banking. Of the four corporations in operation, one has no subsidiaries or foreign branches;

one operates a branch in England (also an agency at the New York International Airport); one operates a branch in France; and one has an English fiduciary affiliate. The head offices of these corporations and the agency at the New York International Airport were examined as of dates in 1953 by the Board's Division of Examinations.

At the end of 1953 there were in operation two banking corporations organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. The head offices of these corporations are located in New York City and both were examined during the year by the Board's Division of Examinations. One such institution operates a branch in Germany and the other has a branch in France and a fiduciary affiliate in England. The Board approved during 1953 applications by one of the institutions for permission to establish two branches in foreign countries.

**Inter-Agency Bank Examination School.** The Inter-Agency Bank Examination School was launched in 1952 by the Board of Governors, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency for the purpose of improving training procedures, shortening the training process, developing better examiners, and serving as a "workshop" through which to develop better bank examination procedures.

The School was designed to train newly appointed assistant examiners in their basic duties. During 1953, the program was expanded to include an intensive program for training experienced assistant examiners and newly appointed examiners in the field duties of examiners. As a part of the program, a demonstration "bank" with essential bank records has been developed for training purposes. The cooperating agencies have endeavored to select, from among bankers and other experts, the most capable men in their respective fields to participate in the training program as instructors and lecturers.

During 1953, two five-week sessions of the School for Assistant Examiners and one four-week session of the School for Examiners were conducted. The sessions of the Inter-Agency Bank Examination School have been attended by 151 men representing the three Federal Bank supervisory agencies, the State banking departments of Louisiana, North Dakota, Oklahoma, and Virginia, and the Treasury Department of the Commonwealth of Puerto Rico.

### CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

**Margin requirements for purchasing securities.** The Board's Regulation T, relating to the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges, and Regulation U, relating to loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange, were amended effective February 20, 1953 to decrease the margin requirements from 75 per cent to 50 per cent. The decreased margins also apply to short sales.

The Board's Regulation U was amended effective August 1, 1953 so as to make it clear that the regulation applies to loans for the purpose of purchasing or carrying certain shares issued by open-end investment companies whose assets customarily include registered stocks. The shares affected give the purchaser a proportionate interest in the issuing company's assets, and carry the right to convert his interest into the company's underlying assets or their cash equivalent. Such shares are technically called "redeemable securities."

**Reserves of member banks.** The Board's Regulation D relating to reserves required to be maintained by member banks with Federal Reserve Banks was amended, effective July 1, 1953 as to banks not in reserve or central reserve cities, and effective July 9, 1953 as to banks in reserve and central reserve cities. The amendment reduced the required reserves against demand deposits from 24 to 22 per cent for central reserve city banks, from 20 to 19 per cent for reserve city banks, and from 14 to 13 per cent for other member banks.

### ADMINISTRATION OF THE CLAYTON ANTITRUST ACT WITH RESPECT TO BANKS

In June 1948 the Board of Governors issued a complaint against Transamerica Corporation, charging that the acquisition of certain banks in California, Oregon, Washington, Nevada, and Arizona by that corporation violated Section 7 of the Clayton Antitrust Act. That Section, enacted in 1914 and amended in certain particulars in 1950, prohibits any corporation from acquiring the stock of one or more corporations engaged in commerce where the effect may be substantially to lessen competition or to tend to create a monopoly. Authority to enforce compliance with this provision is vested in the Board of Governors where the statute is applicable to banks.

Hearings were held in Washington, D. C., and in San Francisco, California, over a period of several years and, after oral argument before the Board, the Board, on March 27, 1952, issued an order requiring Transamerica to divest itself of the stock of 47 of the banks named in the Board's complaint. Transamerica Corporation petitioned the United States Court of Appeals for the Third Circuit to review the Board's order, and on July 16, 1953, that court set aside the Board's order. While the court decided that banks are within the purview of Section 7, thus affirming the Board's jurisdiction in this field, it held that the Board's order was not supported by the findings which the Board had made. The court added that it may well be in the public interest to have appropriate legislative action on this subject, with which position the Board is in agreement, in view of the fact that its quantitative analysis disclosed a tremendous concentration in banking capital and thereby of economic power.

On November 30, 1953, the Supreme Court of the United States denied a petition for a writ of certiorari to review the decision of the Court of Appeals. On December 4, 1953, the Board announced that it had decided that no further action would be taken in this proceeding.

#### LEGISLATION

**Federal Reserve branch buildings.** An Act approved May 29, 1953 amended Section 10 of the Federal Reserve Act so as to increase from 10 million dollars to 30 million the aggregate amount which may be expended with the approval of the Board of Governors for Federal Reserve Bank branch buildings, exclusive of the cost of the vaults, permanent equipment, furnishings and fixtures.

**Loans on forest tracts.** An Act approved August 15, 1953 amended Section 24 of the Federal Reserve Act by inserting a new paragraph which authorizes national banks to make real estate loans secured by first liens upon forest tracts.

**Guarantees of defense loans.** The provisions of the Defense Production Act of 1950 which provided for the guarantee of defense production loans and which, together with Executive Order No. 10161, were the authority for Regulation V, were amended by the Act of June 30, 1953 and continued in force until the close of June 30, 1955. In accordance with the amended law, the President,

on August 14, 1953, issued Executive Order No. 10480, which superseded Executive Order No. 10161.

#### RESERVE BANK OPERATIONS

**Volume of operations.** Table 5 on page 65 discloses moderate increases in most of the principal Reserve Bank operations during the year.

Discounts and advances, although more in number were less in amount than in 1952, reflecting the reduced demand for this form of Reserve Bank credit resulting from the lower member bank reserve requirements that became effective in July and the increase in average holdings of United States Government securities by the Federal Reserve Banks. The number of banks borrowing in 1953 was 1,463 as compared with 1,286 in 1952.

Currency received and counted established new highs during 1953 both in number of pieces handled and amount, as money in circulation continued to increase. Coin received and counted showed relatively small increases in number and amount over 1952, but volume was still under the peaks established in 1949.

New peaks were established in the number and amount of checks handled.

The number and amount of issues, redemptions, and exchanges of Government securities increased substantially in 1953.

The number and amount of transfers of funds continued their steady upward trend of recent years.

Postal money orders handled by the Banks in 1953 changed little in number and amount from the preceding year.

Acting on behalf of the Treasury Department in their capacity as fiscal agents of the United States, the Reserve Banks undertook, beginning July 1, 1953, the verification and destruction of silver certificates and United States notes unfit for further circulation. The number of pieces of currency destroyed in the last six months of the year was approximately 570 million.

**Earnings and expenses.** Current earnings, current expenses, and the distribution of net earnings of each Federal Reserve Bank during 1953 are shown in detail in Table 6 on pages 66-67, and a condensed historical statement for all Reserve Banks is shown in Table 7 on pages 68-69. The table on the following page summarizes the earnings and expenses and the distribution of net earnings for 1953 and 1952.

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF  
FEDERAL RESERVE BANKS, 1953 AND 1952

[In thousands of dollars]

| Item                                                | 1953               | 1952               |
|-----------------------------------------------------|--------------------|--------------------|
| Current earnings.....                               | 513,037            | 456,060            |
| Current expenses.....                               | 113,515            | 104,694            |
| Current net earnings.....                           | 399,522            | 351,366            |
| Additions to current net earnings.....              | <sup>1</sup> 2,096 | <sup>1</sup> 2,195 |
| Deductions from current net earnings.....           | 3,155              | 611                |
| Net deductions (—) or net additions.....            | —1,059             | 1,584              |
| Net earnings before payments to U. S. Treasury..... | 398,463            | 352,950            |
| Paid U. S. Treasury (interest on F. R. notes).....  | 342,568            | 291,934            |
| Dividends.....                                      | 15,558             | 14,682             |
| Transferred to surplus (Sec. 7).....                | 40,337             | 46,334             |

<sup>1</sup> Includes net profits on sales of U. S. Government securities: 1953—\$1,952,000; 1952—\$1,992,000.

Current earnings were 513 million dollars in 1953, 12 per cent more than in 1952, largely because of a higher average amount of holdings of United States Government securities and a somewhat higher average rate of interest received thereon. Earnings from discounts and advances were greater in 1953 than in 1952, reflecting the effect of the increase from 1¾ per cent to 2 per cent in the discount rate during January. Current expenses were about 8 per cent larger than in 1952, reflecting in large part the cost of increased production of Federal Reserve currency and shipping charges thereon. The increase in expenses also reflected the effect of changes in salary schedules and a small increase in the number of employees attendant on some growth in operations, including fiscal agency activities. Current net earnings in 1953 amounted to 399 million dollars, an increase of 14 per cent over 1952.

After allowing for profit and loss additions and deductions from current net earnings, net earnings before payments to the United States Treasury amounted to 398 million dollars, an increase of 13 per cent over 1952.

Payments to the United States Treasury as interest on Federal Reserve notes amounted to 343 million dollars in 1953 and surpassed any previous year's distribution of earnings to the Treasury, either

in this form or in the form of a franchise tax. A total of 1,521 million dollars has been paid to the Treasury as interest on Federal Reserve notes since the policy of making such payments was begun in 1947. Dividends to member banks at the statutory rate amounted to 16 million dollars, an increase of nearly 1 million over 1952, reflecting the increased paid-in capital of the Federal Reserve Banks because of increased capital and surplus of member banks. The remaining 40 million dollars of net earnings were added to surplus account.

**Holdings of loans and securities.** The accompanying table presents a comparison of average daily holdings of loans and securities by the Reserve Banks during the past three years, together with earnings thereon and average interest rates. A new high was established in 1953 in average holdings of United States Government securities, which amounted to 24,658 million dollars. The average rate of interest received from these holdings was 2.02 per cent, the highest since 1930. Average holdings of discounts and advances were slightly less in 1953 than in 1952. However, the average rate of interest increased in 1953 because of the January increase in the discount rate from  $1\frac{3}{4}$  per cent to 2 per cent.

#### RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1951-53

[Dollar amounts in thousands]

| Item and year                                   | Total <sup>1</sup> | Dis-<br>counts<br>and<br>advances | U. S.<br>Govern-<br>ment<br>securities | In-<br>dus-<br>trial<br>loans |
|-------------------------------------------------|--------------------|-----------------------------------|----------------------------------------|-------------------------------|
| <b>Average daily holdings: <sup>2</sup></b>     |                    |                                   |                                        |                               |
| 1951.....                                       | \$23,045,707       | \$292,770                         | \$22,748,210                           | \$4,646                       |
| 1952.....                                       | 23,933,643         | 802,334                           | 23,126,674                             | 4,635                         |
| 1953.....                                       | 25,438,684         | 777,595                           | 24,657,904                             | 3,185                         |
| <b>Earnings:</b>                                |                    |                                   |                                        |                               |
| 1951.....                                       | 394,473            | 5,139                             | 389,125                                | 208                           |
| 1952.....                                       | 455,898            | 14,083                            | 441,629                                | 186                           |
| 1953.....                                       | 512,841            | 15,265                            | 497,455                                | 121                           |
| <b>Average rate of interest (per<br/>cent):</b> |                    |                                   |                                        |                               |
| 1951.....                                       | 1.71               | 1.75                              | 1.71                                   | 4.49                          |
| 1952.....                                       | 1.90               | 1.75                              | 1.91                                   | 4.01                          |
| 1953.....                                       | 2.02               | 1.96                              | 2.02                                   | 3.80                          |

<sup>1</sup> Figures for 1951 include small amounts of acceptances purchased and earnings thereon.

<sup>2</sup> Based on holdings at opening of business.

**Foreign and international accounts.** The total of earmarked gold, dollar deposits, United States Government securities, and miscellaneous holdings for foreign account at the Federal Reserve Banks reached a record level of 8.6 billion dollars at the end of 1953, an increase of 1.5 billion dollars over 1952 and 1.1 billion dollars higher than the previous peak level reached in March 1951. This continuation of the upward trend that began early in 1952 was featured by an increase of 1.2 billion dollars in earmarked gold. Combined deposits and other dollar assets belonging to foreign correspondents rose 324 million net to a total of 3.1 billion dollars, of which 2.6 billion were United States Government securities, principally Treasury bills, held in custody; dollar deposits amounted to 423 million. There was no noteworthy change during 1953 in the holdings by the Federal Reserve Bank of New York for the International Bank for Reconstruction and Development and the International Monetary Fund.

Two foreign central bank accounts were opened during the year; one for a new bank created to take over the functions of an existing bank and the other an account for a bank with which relations had been discontinued at the beginning of the war.

The demand for loans secured by gold collateral continued limited with the maximum amounts advanced aggregating 56.5 million dollars. Two of the three borrowing central banks liquidated their indebtedness during the course of the year and the other bank was indebted at the year-end in the amount of 15.0 million dollars. The policy with respect to gold loans, as has been mentioned in previous Annual Reports, provides for the granting of such loans to foreign monetary authorities for the purpose of assisting them in meeting their dollar requirements for temporary periods.

The Federal Reserve Bank of New York continued to perform various services for the International Bank for Reconstruction and Development and the International Monetary Fund. Also, as fiscal agent of the United States, it continued to operate the United States Stabilization Fund, pursuant to authorization and instructions of the Treasury Department, and to administer for the Treasury Department the blocking regulations affecting assets and transactions in this country of Communist China and North Korea and their nationals.

**Bank premises.** The Board authorized the Federal Reserve Bank of San Francisco to begin construction of an addition to the Los Angeles Branch building and to purchase adjoining property for future expansion.

The Federal Reserve Bank of New York acquired a site for a new building to house the Buffalo Branch, and the Federal Reserve Bank of Kansas City purchased property for an addition to the Denver Branch and property adjacent to the head-office building for improvement of its security court area and for service facilities.

#### FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met on March 4-5, June 11, September 24, and December 15, 1953, and the executive committee of the full Committee met frequently during the year. Under the provisions of Section 12A of the Federal Reserve Act, the Federal Open Market Committee, which has responsibility for determining the policies under which the open market operations of the Federal Reserve Banks will be carried out, is required to meet in Washington at least four times each year. A record of the actions taken by the Committee on questions of policy will be found on pages 86-105 of this Report.

Meetings of the Conference of Chairmen of the Federal Reserve Banks were held on April 28 and December 7-8, 1953, and were attended by members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on March 2-3, June 8-9, September 22-23, and December 14, and the Board of Governors met with the Presidents on March 5, June 11, September 24, and December 15, 1953.

Meetings of the Federal Advisory Council were held on February 15-17, May 17-19, September 13-15, and November 15-17, 1953. The Board of Governors met with the Council on February 17, May 19, September 15, and November 17. 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.

## BOARD OF GOVERNORS—INCOME AND EXPENSES

The following table, showing the income and expenses of the Board for the year 1953, has been prepared from the Board's accounts, which are maintained on an accrual basis of accounting:

OPERATING FUND, January 1, 1953..... \$ 557,962.86

## INCOME:

|                                               |                |              |
|-----------------------------------------------|----------------|--------------|
| Assessments on Federal Reserve Banks.....     | \$4,099,800.00 |              |
| Sale of <i>Federal Reserve Bulletin</i> ..... | 13,446.12      |              |
| Sale of other publications.....               | 15,707.99      |              |
| Miscellaneous.....                            | 7,234.72       | 4,136,188.83 |
|                                               |                | <hr/>        |
|                                               |                | 4,694,151.69 |

## EXPENSES:

|                                                          |               |              |
|----------------------------------------------------------|---------------|--------------|
| Salaries.....                                            | 3,033,930.61* |              |
| Retirement contributions—regular.....                    | 230,875.97*   |              |
| Retirement contributions—special.....                    | 21,906.80     |              |
| Retirement contributions—supplemental death benefit..... | 14,730.22     |              |
| Traveling expenses.....                                  | 223,213.11    |              |
| Postage and expressage.....                              | 26,203.67     |              |
| Telephone and telegraph.....                             | 60,331.76     |              |
| Printing and binding.....                                | 156,342.05    |              |
| Stationery and supplies.....                             | 34,037.50     |              |
| Furniture and equipment, including rental....            | 44,735.14     |              |
| Books and subscriptions.....                             | 13,543.26     |              |
| Heat, light, and power.....                              | 37,039.80     |              |
| Repairs and alterations (building and grounds).          | 76,972.20     |              |
| Repairs and maintenance (furniture and equipment).....   | 10,750.27     |              |
| Medical service and supplies.....                        | 1,516.02      |              |
| Insurance.....                                           | 5,290.78      |              |
| All other:                                               |               |              |
| Surveys of Consumer Finances.....                        | \$149,960.22  |              |
| Other survey and research projects.....                  | 15,350.00     |              |
| Cafeteria (net).....                                     | 41,145.27     |              |
| Legal and consultant fees and expenses.....              | 16,804.52     |              |
| Borrowed Federal Reserve Bank personnel.....             | 2,831.37      |              |
| Official dinners, receptions, etc.....                   | 2,960.30**    |              |
| Miscellaneous.....                                       | 19,044.90     | 248,096.58   |
|                                                          |               | <hr/>        |
|                                                          |               | 4,239,515.74 |

OPERATING FUND, December 31, 1953..... \$ 454,635.95

\* Salaries and retirement contributions exclude approximately \$81,500 and \$8,240, respectively, which were charged direct to cafeteria and leased wire operations.

\*\* Includes expenditures of \$1,120.42, contributed by the Board of Governors for two luncheons and a dinner at meetings of Treasury Department savings bond program volunteer workers.

In addition to the foregoing, the Board received the following reimbursements in 1953 for expenditures which it makes on a reimbursable basis:

|                                                                                                      |                 |
|------------------------------------------------------------------------------------------------------|-----------------|
| Printing Federal Reserve notes.....                                                                  | \$10,721,441.80 |
| Leased wire service (telegraph).....                                                                 | 232,541.97      |
| Currency Redemption Division (Office of<br>the Treasurer of the United States).....                  | 200,000.00      |
| Federal Reserve Issue and Redemption<br>Division (Office of the Comptroller of<br>the Currency)..... | 140,300.27      |
| Leased telephone lines.....                                                                          | 9,658.79        |
| Miscellaneous.....                                                                                   | 10,666.38       |

The accounts of the Board for the year 1953 are being audited by the public accounting firm of Arthur Andersen & Co., whose certificate was not available in time for publication in this Annual Report. When this audit is completed, copies of the certificate will be forwarded to the Banking and Currency Committees of the Senate and of the House of Representatives, respectively.

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

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Broad recovery in economic activity was under way in the United States as the year 1954 closed, following the period of moderate contraction which began in mid-1953. Total output for the year as a whole was exceeded only in 1953. Abroad, activity increased throughout the year to a record level. In most industrial countries, general averages of commodity prices changed little. Prices of some agricultural and mineral products declined in international trade, and prices of others advanced. Economic readjustment within this country reflected mainly reduced expenditures for national defense and reduction of excessive business inventories. Renewal of economic expansion in the closing months of the year reflected an upswing in private demand.

Throughout 1954 credit was readily available on terms attractive to borrowers and demand for many types of credit continued to grow. Nonbank sources supplied a large amount of funds and bank credit expanded appreciably.

Interest rates, which by summer had declined to comparatively low levels, showed some firming tendencies over the balance of the year, mainly in response to a strengthening in credit demand. Privately held demand deposits and currency, which changed little in the early part of the year, after allowing for seasonal movements, increased substantially after midyear. At the year-end, they were 4 billion dollars or 3 per cent larger than at the end of 1953. Other liquid assets, such as time and savings deposits, savings and loan shares, and shares in credit unions, also continued to be accumulated. Security flotations and mortgage underwriting were in record volume and investor demand for common stocks was active. Prices of common stocks rose rapidly throughout the year and trading activity increased considerably.

Developments in credit markets and interest rates reflected in part the effects of Federal Reserve policy. In order to cushion defense and inventory readjustments and to foster business revival

and sustained economic growth, the Federal Reserve until late 1954 followed a policy of actively promoting credit ease. By that time recovery was sufficiently advanced to require modification of this aggressive policy. Debt management operations of the Treasury during the year had objectives parallel with System policy.

Following a decline of about one-tenth from mid-1953 to the spring of 1954 and a period of little change from spring to early autumn, this country's industrial activity increased. By December output at factories and mines had recovered half of the decline. The rise reflected expanding production of automobiles and other finished consumer goods as well as gains in output of steel and other materials. The increase in industrial output also reflected the high and rising levels of construction activity. Activity in producers' and military equipment industries, which had declined from mid-1953 through the third quarter of 1954, changed little in the closing months of the year.

Gross national product was 357 billion dollars for the year 1954, 8 billion less than the record level for 1953. With price averages fairly stable, the physical volume of product was correspondingly smaller than in the preceding year. Employment was lower than in 1953, and the labor force increased further. Unemployment, although somewhat less severe than in the 1949 recession period, was above the low levels of 1953, both in terms of the number of workers affected and as a percentage of the labor force.

Gross national product, which was at an annual rate of 356 billion dollars during the first three quarters of the year, rose to 362 billion in the fourth quarter. Stability through the third quarter reflected important offsetting changes among major sectors of the economy. Major factors in the rise during the fourth quarter were a marked slowing down in inventory liquidation and further increases in consumer buying.

Federal outlays for national security purposes were further curtailed in 1954. Business outlays for fixed capital purposes declined moderately. Liquidation of business inventories continued on a large scale in the first three quarters and at a greatly reduced rate in the fourth quarter.

Consumer spending for goods and services rose steadily in 1954 to new high levels. Residential construction advanced strongly from already high levels, facilitated by the ready availability of

mortgage funds on downpayment and maturity terms exceptionally attractive to borrowers. Expenditures of State and local governments increased further for roads, schools, other public improvements, and services. Foreign purchases of American goods increased.

The sustained rise in consumer expenditures during the year reflected further growth in personal income after taxes. Reductions in tax rates effective at the beginning of the year and increased unemployment compensation and old-age pension payments more than offset reductions in wage and farm incomes. Lower corporate tax rates helped to sustain business profits after taxes. Dividend income and interest payments increased.

Farm output continued large in 1954. Markets for important agricultural commodities also were affected by large carryovers from earlier harvests. Domestic demand for farm products was relatively strong, and exports expanded toward the end of the year. Prices of crops under Federal price support programs changed little, but prices of livestock and products declined further. Net farm income was lower than in other postwar years.

Unlike some economic adjustments in the past, the business decline from mid-1953 to early 1954 did not become cumulative. Reasons for this are many but special weight must be given to the underlying strength and general resilience of our market economy in making essential adjustments flexibly. Public policy measures which contributed to recovery included prompt actions by the Federal Reserve System to ease credit conditions and reduction of Federal personal and corporate income taxes. Unemployment payments and Federal price supports for basic farm products helped to sustain the incomes of workers and farmers. The further gains in industrial production abroad provided an element of strength in world markets for industrial materials and, by enlarging buying power abroad, made possible an important rise during the year in United States exports.

For Western Europe the year was one of rising prosperity, with industrial output greater than a year earlier and about one-fourth larger than in 1950. European activity rose steadily over the year in the durable goods and construction industries and continued at relatively high levels in the textile industries.

In most Western European countries the balance of international payments was favorable in 1954 and gold and dollar reserves con-

tinued to increase. Under these circumstances, central banks and governments continued to move toward reestablishment of international convertibility of currencies. Restrictions on imports of dollar goods were greatly relaxed in some countries. Sterling held outside the sterling area was made freely transferable except to the dollar area, and Great Britain abolished most governmental controls on prices and internal trade.

Financial stability was maintained in other sterling-area countries, where additional progress was made in industrial and agricultural development.

In Japan, inflationary tendencies were checked and the international payments position improved.

Progress toward establishing conditions appropriate to convertibility was evidenced in the gains in production and international trade in 1954 and in the measures taken to make markets more responsive to changing demand and supply forces. In some countries, however, restrictive controls continued to limit the play of market forces, and in a few of these unchecked inflation hampered sound economic growth and made it difficult to balance external payments with receipts.

#### FEDERAL RESERVE CREDIT POLICY

During most of 1954, Federal Reserve policy continued to be directed toward "promoting growth and stability in the economy by actively maintaining a condition of ease in the money market." This directive had been adopted in the latter part of 1953 after gradual relaxation of the policy of restraint followed until May 1953.

The policy of restraint had had the purpose of keeping the growing use of credit within the limits set by the resources of the economy, thus avoiding developments of an inflationary and unsustainable nature. Under that policy Federal Reserve open market operations had supplied only part of the increasing demand for bank reserves. This had made it necessary for banks to borrow frequently in substantial amounts to cover their reserve needs. The restrictive effect of such borrowing was reenforced by an increase in the Federal Reserve Bank discount rate.

The new policy of actively maintaining a condition of ease in the money market enabled member banks to reduce their indebtedness to the Federal Reserve Banks and also lowered the cost to in-

dividual member banks of such borrowing as was necessary from time to time. Reserves made available by the usual seasonal contraction in monetary needs in the early months of 1954 were not entirely absorbed by Federal Reserve action. Sufficient reserves were thus available not only to relieve most banks of the need to borrow in order to meet temporary reserve adjustments but also to supply the basis for additional bank credit expansion. The Federal Reserve Bank discount rate was reduced twice, in February and again in midspring.

Further steps were taken in the spring to support forces favorable to renewed economic growth. First, open market purchases supplied bank reserves in the late spring, to counteract seasonal pressures on bank reserve positions. Second, member bank reserve requirements were reduced around midyear. This action was taken primarily to foster bank credit expansion and provide the reserves that would normally be needed over the remainder of the year. Since more reserves were supplied than were needed initially, open market sales were made to absorb temporarily excess amounts. Over the fall of the year, when demand for credit and currency rose in response to seasonal forces and to expansion in private spending, open market purchases returned reserves to the market.

After midyear, as a result of Treasury borrowing and an increase in private borrowing, demand deposits and currency began to expand. As the second half-year progressed, banks made use of available funds to increase their holdings of United States Government securities as well as of other loans and investments. Over the fall, demand deposits and currency grew at a rate of about 500 million dollars a month, after allowance for the usual seasonal increase. Meanwhile, the chief indexes of economic activity were moving to higher levels and by the end of the year it was evident that a recovery movement had taken form. In this situation, Federal Reserve policy became less active in promoting credit and monetary expansion. Member banks found it necessary to borrow at the Federal Reserve Banks to meet December needs for reserves.

Credit ease during the year was reflected in an extension of the interest rate declines which had characterized credit markets during the second half of 1953. The declines in rates from their 1953 peaks were greater for issues of intermediate and longer-term securities than in comparable readjustment periods since World War I, and about

as much as in the other periods for prime short-term market paper. Market yields on intermediate and longer-term securities tended to stabilize after the first quarter, while yields on short-term paper continued to decline irregularly into the summer. Yields on nearly all types of obligations, particularly short-term paper, showed firming tendencies during the second half of the year.

All classes of credit market yields participated in the interest rate decline from mid-1953 to the second quarter of 1954, but differences in adjustment were marked. In general, short-term rates declined more than long-term rates; market rates more than customer rates; United States Government security yields more than those on private securities, and yields on high-grade securities more than those on lower-grade issues.

The easy credit situation was also accompanied by increased availability of credit, reflected both in greater willingness of lenders to make loans to credit-worthy risks and in more attractive downpayment and maturity terms for consumer instalment credit and for mortgage borrowers. In response to greater availability of credit, lower interest costs, and other factors, lending activity expanded in some areas and maintained relatively high levels in others.

The lower levels of interest rates established between mid-1953 and the second quarter of 1954 were reflected in higher prices for United States Government bonds, State and municipal bonds, and corporate bonds. The higher prices on securities, as well as higher dollar values for other long-lived capital assets, were due in part to the recapitalization of future income at reduced interest rates. The fact of higher prices on these assets tended to enhance the liquidity of the economy by increasing the proportion of assets held by individuals and businesses, especially financial institutions, that could be sold in markets at cost or profit. Greater liquidity for the economy encouraged more active spending and investing on the part of holders of capital assets.

**Open market operations.** As in 1953, System open market operations were coordinated with discount policy and changes in reserve requirements. In January and February 1954, the Federal Reserve made open market sales to absorb only in part the redundancy of bank reserves that appears at that season. Receding credit demands in these and early spring months also contributed to easier bank reserve positions. Over this period, member bank bor-

rowing tended to decline and excess reserves to rise. During the second half of May and in June, the Federal Reserve purchased about 300 million dollars of Government securities to offset a drain on bank reserves from an outflow of currency and gold and to keep banks in an easy reserve position.

Following the reduction in reserve requirements during the summer, sales of Government securities were made by the System in order temporarily to absorb reserve funds not needed until the fall period of active currency and credit demand. Beginning in September, open market purchases were geared to the maintenance of an easy member bank reserve position during the fall phase of bank credit and monetary expansion. Late in the year, as business expansion began to gather momentum, open market purchases were moderated and bank reserve positions were subject to some tightening from pressures resulting from year-end and other credit demands.

**Changes in discount rate.** During the first half of February 1954, the discount rate was reduced from 2 to  $1\frac{3}{4}$  per cent at all Federal Reserve Banks. A second reduction was made by the Reserve Banks during the period April 14-May 21, when this rate was changed to  $1\frac{1}{2}$  per cent. In both instances, the actions were designed to bring the discount rate into closer alignment with short-term market rates as well as to make it less expensive for individual member banks to make temporary adjustments in their reserve positions by borrowing at the Federal Reserve Banks.

**Change in reserve requirements.** On June 21, 1954 the Board announced a program to reduce member bank reserve requirements. The program was made effective over a period of several weeks. When completed on August 1, 1954 it included a reduction of 1 percentage point on time deposits at all member banks, a reduction of 2 percentage points on net demand deposits at central reserve city banks, and a reduction of 1 percentage point on net demand deposits at reserve city and country banks. The reserve requirement percentages in effect following this action were 5 per cent on time deposits at all member banks and 20, 18, and 12 per cent, respectively, on net demand deposits at central reserve city, reserve city, and country banks.

The reductions in reserve requirements, which released about 1.6 billion dollars of reserve funds, were made in anticipation of bank reserve needs over the fall. They took into account probable ex-

pansion of financing requirements of private activities, including seasonal needs for marketing crops and for replenishing retail stocks in advance of the heavy selling season, as well as resumed economic growth. They also took account of prospective Treasury financing needs and the seasonal rise in currency circulation over the second half of the year. The major objective of the action was to make sure that banks would be supplied with reserves in amounts sufficient to encourage them to seek uses for their funds and thus to foster credit and monetary expansion.

### ECONOMIC CONDITIONS

The second cyclical postwar downturn, which was in process at the beginning of 1954, was halted in the spring and followed by rapid expansion in economic activity late in the year. Consumer and wholesale price averages continued relatively steady in 1954. Prices of farm products declined somewhat further, but less sharply than earlier. Prices of metals and some other industrial materials advanced in the spring, and late in the year increases extended to a number of other industrial materials. Strength in world demand contributed throughout the year to the firming of prices of internationally traded commodities.

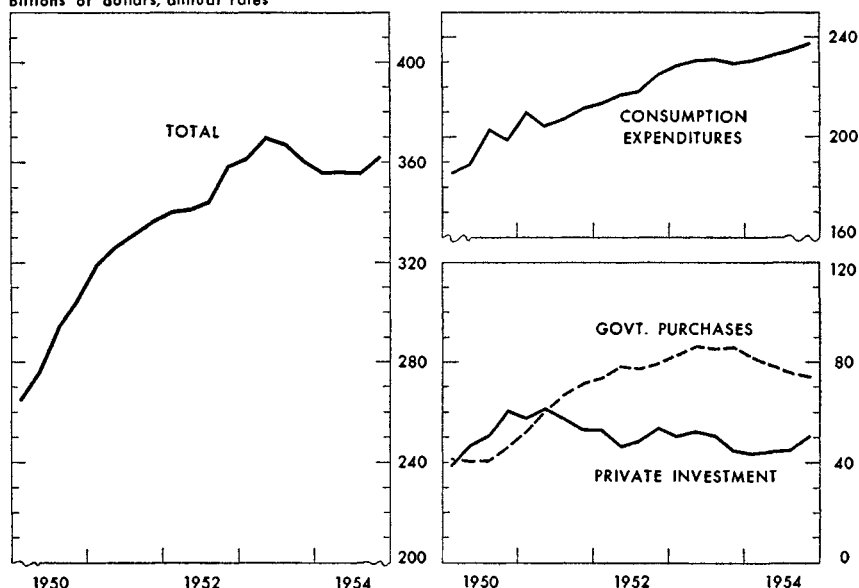
**Demand and production.** The value of total output of goods and services in the United States was 357 billion dollars in 1954 compared to a record 365 billion in 1953. Since average prices were little changed from 1953 levels, physical volume of output, as well as dollar value, was moderately smaller. The value of aggregate output, which continued to decline through the winter of 1954, was stable from early spring to early autumn at an annual rate of 356 billion dollars and expanded vigorously late in the year.

In the fourth quarter of the year, gross national product was at an annual rate of 362 billion dollars, 2 per cent above the plateau of the immediately preceding quarters and about the same percentage below the peak rate of the second quarter of 1953. Total expenditures other than for national defense and additions to business inventories were considerably above their earlier peak in mid-1953.

Expansion in the final quarter of 1954 reflected the combined effect of a number of factors. Of major importance were the sharp reduction in the rate of inventory liquidation and the rise of consumer spending to a new high level. Further increases in residential

**GROSS NATIONAL PRODUCT**

Billions of dollars, annual rates



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation. Private investment includes gross private domestic investment and net foreign investment. Government purchases include Federal and State and local purchases of goods and services.

construction activity, in State and local government expenditures, and in net foreign investment also contributed to economic expansion late in the year, while national defense outlays and business expenditures for plant and equipment declined more slowly than earlier.

Nonfarm business inventories were liquidated at an annual rate of 4 or 5 billion dollars from late 1953 through the third quarter of 1954. By last summer inventory holdings had been considerably reduced, particularly in hard goods lines where earlier reductions in demand had been concentrated. Thus a basis was laid for expansion in business ordering and termination of inventory liquidation. Manufacturers' new orders for durable goods recovered somewhat in the spring and summer months and rose to appreciably higher levels in the last four months of the year. With new orders about equal to sales, the sharp decline in outstanding orders of durable goods manufacturers came to a halt in late summer.

Consumer spending for goods and services reached a record level in the fourth quarter, 3.5 per cent higher than a year earlier. Pur-

chases of new automobiles were at exceptionally high levels in December and Christmas buying in general was in record volume. For the year 1954, the rise in total consumer outlays about kept pace with the increase of 1.7 per cent in population. Spending for non-durable goods and services was in record volume while spending for durable goods was somewhat below the 1953 record level.

Residential housing markets were strong throughout 1954. Some 1.2 million new dwelling units were started, compared to 1.1 million in each of the three preceding years and a record 1.4 million in 1950. During November and December 1954, the number of new private dwelling units started declined much less than seasonally. A major factor in the rapid rise in housing construction in 1954 was the increased availability of mortgage funds on terms unusually attractive to borrowers. After the beginning of the year, terms on loans guaranteed by the Veterans Administration were made substantially easier. The large increase in private units started reflected mainly expansion in units covered by arrangements for such mortgages, with a sharp increase in the proportion of such loans involving no downpayment or maturing in 30 years. Late in the year, additional stimulus to housing markets was provided by the Housing Act of 1954, effective October 1, which liberalized terms on loans insured by the Federal Housing Administration.

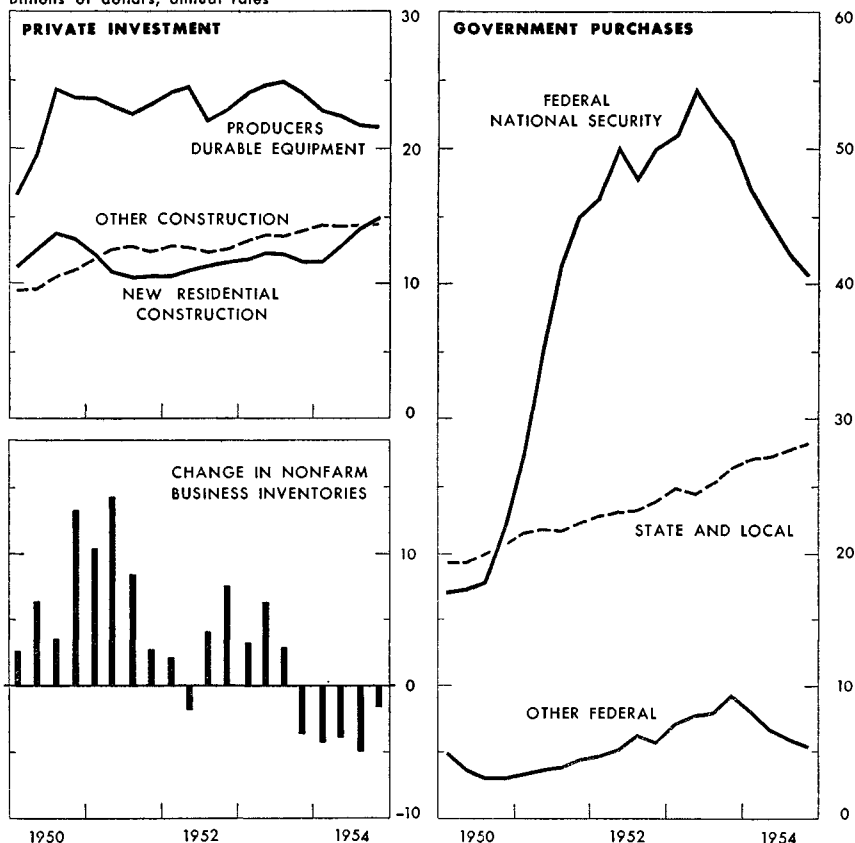
Business outlays for new construction and durable equipment continued to decline moderately during most of 1954, and for the year were 5 per cent below the record 1953 level. A decline of 9 per cent in equipment purchases was offset in part by a further increase in business construction. Individual sectors reported diverse movements in fixed capital outlays. Spending for new commercial facilities continued to rise, and outlays by mining concerns were stable. Other industrial sectors reported reductions of varying magnitudes, including 9 per cent for manufacturing and 35 per cent for railroads. Farm investment also declined.

The decline in Federal spending for national security from mid-1953 to the end of 1954 was the largest contractive element influencing the economy. In the latter part of 1954, however, there was some slackening in the rate of decline in security spending. Federal purchases of goods and services for defense declined about one-fourth from the second quarter of 1953 to the fourth quarter of 1954, from a seasonally adjusted annual rate of 54.0 billion dollars to one

of 40.5 billion. The proportion of gross national product represented by national security purchases was reduced from nearly 15 to about 11 per cent. Reduction in defense spending reflected not only declines in expenditures for weapons and military equipment and for construction, but also a cut in the size of the armed forces and diminished outlays for operation of facilities.

### GNP SELECTED COMPONENTS

Billions of dollars, annual rates



NOTE.—Department of Commerce quarterly estimates, adjusted for seasonal variation.

**Industrial production.** The impact on production of the mid-1953 to early 1954 decline and of the more recent resurgence in demand was largely concentrated at factories and mines. In early 1954 the Board's seasonally adjusted index of industrial production was still declining from its mid-1953 record level of 137 per cent of

the 1947-49 average. The decline ended in March, when the index was 123, and during the spring and summer output was relatively stable at about that level. Industrial production then rose appreciably in the autumn and in December the index reached 130. For the year output was 125 per cent of the 1947-49 average as compared to 134 in 1953 and 124 in 1952.

Production in consumer goods lines began to recover early in 1954, following sharp cutbacks in the latter half of 1953. Retail sales of most goods were maintained at relatively high levels and business stocks in most lines except automobiles were reduced. With recovery in consumer goods output, the decline in total industrial production—which had been rapid in late 1953—came to a halt in the early spring of 1954 despite continued curtailment in defense and producers' equipment lines.

In the summer and early fall the rise in over-all output of consumer goods was interrupted. Auto output declined sharply during the most extensive model change-over of the postwar period. The imminence of this change-over also had considerable effects during the summer on output and inventory changes in the steel and other supplying industries. In July and August, steel output reached a low of 63 per cent of capacity.

The rise in industrial output in the latter part of 1954 reflected widespread advances in industrial materials and consumer goods lines. Moreover, over-all activity in producers' and military equipment industries was showing little further change following earlier reductions. Following the model change-over, auto assemblies rose to an exceptionally high rate in December and production of other consumer metal goods remained at high levels. Output of building materials advanced, reflecting strength in construction. Steel output recovered rapidly and in November and December steel mills operated at close to 80 per cent of capacity.

Production of nondurable goods, which had recovered moderately in the spring, increased further in the latter part of the year to a level about 6 per cent above the December 1953 low. Textile output rose considerably in the autumn, following a period of sustained inventory liquidation during which activity in apparel and most other major textile-consuming industries continued at relatively high levels. Output of paper and chemicals was at advanced levels during most of the year.

In late 1954, minerals production was also showing substantial improvement, reflecting recovery in output of petroleum following a period of curtailment to reduce stocks, and moderate gains in other mining industries. Output of electric and gas utilities continued to advance throughout the year.

**Agriculture.** Agricultural developments during 1954 continued to be influenced by large carryovers of commodities from previous harvests and by a further marked increase in supplies of livestock and livestock products, especially after midyear. Federal acreage restrictions and drought in some areas reduced crops in which carryovers were largest—wheat, cotton, and corn. There were partly offsetting increases in other crops. Total farm production, including livestock as well as crop marketings, was about the same as in 1953.

Domestic demand for farm products generally remained strong throughout the year, while exports expanded towards the end of the year. Farm incomes declined somewhat further during 1954. Farmers' liquid asset holdings were well maintained, however, and their debts rose little. Farm real estate values firmed during the year and in November were 2 per cent higher than a year earlier and one-fifth above the 1950 level.

**Labor market.** Further growth in the population of working age brought the civilian labor force to 64.5 million persons in 1954, about 650,000 above the previous year. Employment declined 1 million, or almost 2 per cent. Unemployment increased from an average of 1.6 million in 1953 to an average of 3.2 million.

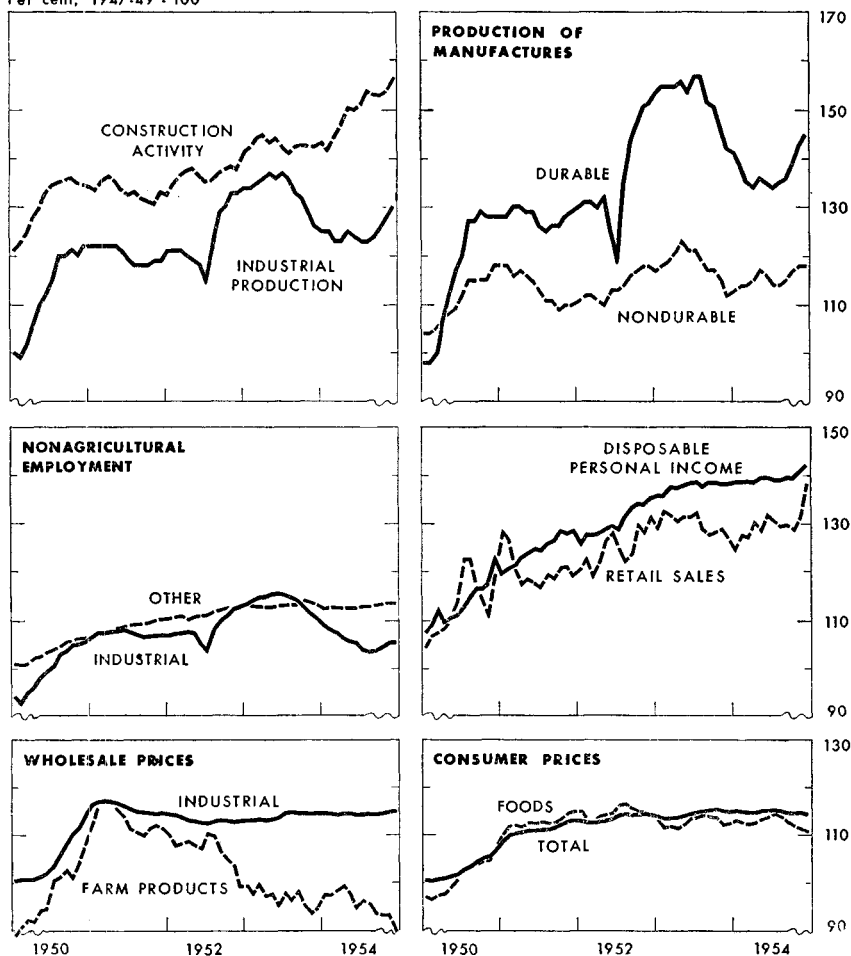
Declines in nonfarm employment, which had begun after mid-1953, tapered off after the first quarter of 1954. The low point in seasonally adjusted nonfarm employment was reached in July and August, after which employment began to rise. By the end of the year employment at 48.4 million was 400,000 above the low but still about 1.5 million below the 1953 peak.

Much of the change in employment after mid-1953 was concentrated in manufacturing industries, especially in metals and metal fabricating lines. Employment also was reduced in mining and in transportation. Changes in employment in most other non-manufacturing activities were small. Average employment on farms was almost the same in 1954 as in 1953.

In December 1954, unemployment was 2.8 million, or 4.5 per cent of the civilian labor force—about one-half million above a year

**SELECTED BUSINESS INDEXES.**

Per cent, 1947-49 = 100



NOTE.—Monthly series, seasonally adjusted except for prices. Indexes for retail sales and disposable personal income based on Department of Commerce data. Indexes for prices and employment based on Bureau of Labor Statistics data. Index for construction activity based on Commerce and Labor data representing work put in place.

earlier. Unemployment (after adjustment for seasonal influences) reached its high point in the early part of 1954, leveled off during the summer months, and declined moderately after early fall.

**Prices.** Consumer and wholesale prices were relatively stable in 1954 as in 1953, although changes for a number of commodities were substantial. During the contraction in industrial activity from mid-1953 to early 1954, average prices changed little as final demands

for goods—except for defense and business inventories—were generally well maintained, industrial activity and demands abroad were rising, and a considerable readjustment in prices from the high post-Korean levels of early 1951 had already taken place.

Supplies of foods expanded further in 1954 and prices of farm products and foods declined further. Reductions in prices were most marked for livestock products, reflecting considerable expansion in supplies in the latter part of the year, while prices of wheat and corn showed mainly seasonal changes. Following sharp increases in late 1953 and early 1954, prices of coffee and cocoa fell off substantially after midyear as buying moderated and the supply outlook improved.

The over-all increase in average prices of industrial materials and products was small, amounting to about 1 per cent from the first-quarter low to the end of the year. Wholesale prices of finished products for the most part were stable, as during the earlier contraction in output. Average prices of industrial materials advanced in 1954, particularly in the latter part of the year.

Prices of scrap metals and of lead and zinc rose toward the end of the first quarter, in part reflecting expansion in foreign demands for metals and revision in Federal stockpiling policies. During the recovery in industrial output later in the year, prices of basic metals rose further and prices of cotton and synthetic textiles, and some other industrial materials, also advanced. Rubber prices rose fairly steadily through the year, recovering all of the substantial decline which had occurred in 1953.

Average consumer prices fluctuated within a narrow range and in December were only slightly lower than a year earlier. Food prices declined somewhat after midyear, reflecting largely increased supplies of livestock products. Prices of many other commodities, such as television, appliances, and textile housefurnishings, also declined. Discounts and other concessions from list prices, which are not fully reflected in the price indexes, were more prevalent than in 1953. Rents and charges for public transportation and a variety of personal services advanced more slowly than in other postwar years.

**Income and saving.** Further growth in spendable incomes helped to limit the decline in activity and to set the stage for recovery. Mainly because of the reduction in Federal individual income tax

rates effective at the beginning of the year, disposable personal income was at a record rate, more than 3 billion dollars larger than in 1953.

Personal income in 1954 amounted to 286 billion dollars, equalling the record 1953 volume. After declining somewhat in late 1953 and early 1954, total personal income changed little during the spring and summer, and then expanded appreciably late in the year. The November and December figures exceeded the previous record high of July 1953. Wage and salary payments, particularly in durable goods manufacturing industries, advanced considerably in the autumn and accounted for most of the rise in total income. Wage rates generally continued to rise, although at a less rapid rate than in earlier postwar years. Average weekly earnings in manufacturing industries advanced moderately and were at a record level at the end of the year. Unemployment compensation payments continued to rise rapidly to the spring of 1954, but declined somewhat after midyear. Payments under the old-age and survivors insurance program expanded throughout the year.

Income of nonfarm proprietors rose slowly during most of the year and in December, when retail trade advanced sharply, exceeded the high level of early 1953. Dividend and interest income expanded further in 1954, with a marked rise in December reflecting large special dividends. Income of farm proprietors declined somewhat further in 1954.

Personal saving was in somewhat smaller dollar amount in 1954 than in 1953, but was larger than in any other peacetime year. For the year 1954 as a whole, the ratio of personal saving to disposable personal income was close to the relatively high rate prevailing in the preceding three years. During the course of the year, however, the ratio declined appreciably, as consumption expenditures increased more rapidly than disposable income.

Corporate profits before tax, which had declined substantially in the latter part of 1953, leveled off during most of 1954 and increased in the closing months of the year. Before-tax profits for the year 1954 were at the lowest level since 1949. Tax liabilities on corporate profits, however, also declined markedly, in part reflecting repeal of the excess profits tax, and after-tax profits were only moderately smaller than in the preceding year.

**Debt and equity financing.** Funds for debt and equity financing were available to borrowers on favorable terms in 1954 and found a large market. With reserve positions easy, commercial banks aggressively sought loans and investments. Financing institutions other than banks were active lenders of the continuing large supply of individual savings.

The nature of credit demand changed considerably from the preceding year, however, with demand for long-term credit heavier and that for short-term credit lighter. Growth in outstanding real estate mortgage credit was about one-fifth larger in 1954 than in 1953, and State and local governments also increased their borrowing. The Federal Government, although sharply reducing its net cash borrowing, offered a larger amount of intermediate-term securities, especially for refunding purposes. Increases in outstanding corporate stocks and bonds, excluding those of investment and consumer finance companies, were larger than in the preceding year. Outstanding short-term bank loans to commerce and industry declined appreciably more in 1954 than in 1953. Short- and intermediate-term debt of consumers, which had increased very rapidly in earlier years, changed little.

A major part of the increase in total credit and capital in 1954 was in real estate mortgages. Demand for new homes and commercial facilities was large and, with an ample supply of funds available on very favorable terms, mortgage loans were in record volume. Commercial banks increased their holdings of mortgages 1.8 billion dollars or about 10 per cent, considerably more than in the preceding year. Expansion was even greater at savings institutions; savings and loan associations alone increased their holdings 4.2 billion dollars or about 20 per cent.

The outstanding volume of consumer financing, an important form of short-term credit demand, increased 0.6 billion dollars over the year as compared to 3.7 billion in 1953. Extensions of instalment credit (adjusted for seasonal variation), which had declined from March 1953 through January 1954 and then leveled off, rose during the last half of the year as a greater proportion of sales of autos and other consumer durable goods was financed with instalment credit. At the year-end, the sharp increase in sales of new-model autos was accompanied by a marked rise in instalment loan extensions. Repayments continued at a high level all year and limited

## GROWTH IN MAJOR TYPES OF DEBT AND EQUITY FINANCING

[Net increase in amounts outstanding, in billions of dollars]

| Distribution of growth by—                              | 1954 <sup>a</sup> | 1953 | 1952 | 1951 |
|---------------------------------------------------------|-------------------|------|------|------|
| <b>Major types:</b>                                     |                   |      |      |      |
| Federal cash borrowing.....                             | 0.9               | 4.6  | 3.4  | -1.2 |
| State and local government issues (net)...              | 5.2               | 4.6  | 3.1  | 2.2  |
| Real estate mortgages.....                              | 12.0              | 9.8  | 9.0  | 9.4  |
| Corporate bond and stock issues (net) <sup>1</sup> .... | 6.1               | 5.4  | 7.1  | 5.7  |
| Bank loans to business <sup>2</sup> .....               | -0.7              | -0.1 | 1.5  | 3.8  |
| Consumer credit by banks and other lenders.....         | 0.6               | 3.7  | 4.4  | 0.7  |
| Bank loans not included above.....                      | 2.5               | 1.3  | 1.6  | 0.8  |
| <b>Selected holders:</b>                                |                   |      |      |      |
| Federal Reserve Banks.....                              | -0.9              | 1.2  | 0.9  | 3.0  |
| Commercial banks.....                                   | 10.5              | 4.0  | 8.9  | 5.8  |
| Nonbank holders—                                        |                   |      |      |      |
| Mutual savings banks.....                               | 2.0               | 1.8  | 1.7  | 0.8  |
| Savings and loan associations.....                      | 4.3               | 3.8  | 3.0  | 2.0  |
| Life insurance companies.....                           | 4.6               | 4.5  | 4.4  | 3.4  |

<sup>a</sup>Preliminary.<sup>1</sup> Excludes funds obtained by consumer finance companies and investment companies.<sup>2</sup> Excludes funds obtained by consumer finance companies.

NOTE.—Includes only selected types of loan extensions and of new equity financing. Among types not included are trade credit other than consumer credit; interbank loans; security issues by foreign agencies, international organizations, nonprofit and eleemosynary institutions; nonbank loans for purchasing securities; and claims such as shares, pass books, and policies issued by financing organizations.

The sum of the figures for major types of debt and equity financing does not equal the sum of the amounts shown for holders, since not all types of credit and holders are included. Holders exclude Federal, State, and local governments, individuals, corporations, foreign investors, nonlife insurance companies, and other investor groups not shown separately. U. S. Government security holdings of excluded groups are shown in the table on p. 24.

Owing to differences in coverage, most of which are indicated above, the figures for bank credit in this table differ from those used elsewhere in this Report.

the growth in outstanding instalment credit. The proportion of consumer credit extended by commercial banks remained about the same as in the preceding year.

Business demand for bank credit was light in 1954. Reduction in inventories provided funds for repayment of bank loans in many businesses, particularly in metal goods lines. Some corporations chose to increase their working capital by security flotations and did not borrow from banks. Funds from operations were well maintained, the small decline in retained earnings having been largely offset by increases in depreciation allowances.

The net increase in outstanding corporate bonds and equities, excluding investment and consumer finance companies, was substantially larger in 1954 than in 1953. New offerings exceeded retirements by about 6.1 billion dollars as compared to 5.4 billion in 1953. New issues of consumer finance companies were down substantially, and those of investment companies were off slightly.

State and local governments added 5.2 billion dollars to their outstanding debt in 1954 as compared to 4.6 billion in 1953. Flotations of revenue issues continued to grow in importance. Highway construction was the most important use of borrowed funds, but amounts for educational and miscellaneous purposes also grew substantially. Financing institutions, especially commercial banks, insurance companies, and mutual savings banks, increased their holdings of State and local securities, supplying a larger proportion of the new funds than in other recent years. The proportion supplied by individual investors declined.

The Federal Government virtually balanced its cash budget in the calendar year 1954 with cash outgo of 68.9 billion dollars and receipts of 68.6 billion. The small deficit of 0.3 billion dollars contrasts with a 6.1 billion deficit in the preceding year. Net cash borrowing totaled 0.9 billion dollars and the Treasury's cash balance increased slightly.

The smaller deficit in 1954 reflected declines from 1953 of 7.7 billion dollars in cash outgo and only 1.9 billion in cash income. The sharp reductions in national security spending from the mid-1953 peak continued in 1954. They were partly offset by increased outlays for unemployment compensation, social security programs, veterans' benefits, and farm price support programs. The decline in cash income reflected primarily reduced receipts from individual income and excise taxes, as a result of lower rates, which were partly offset by increases in corporate tax collections on the near-record 1953 profits and in employment tax receipts resulting from higher old-age insurance tax rates.

Federal receipts continued to follow a sharp seasonal pattern, with heavy concentration in the first half of the year of both individual and corporate income tax payments. The result was a cash surplus of 7.9 billion dollars in the first half, which allowed net cash repayment of debt of 5.7 billion, and a deficit of 8.2 billion in the last half, which necessitated net cash borrowing of 6.6 billion.

During 1954 the Treasury refunded a record total of more than 50 billion dollars of maturing securities—nearly 15 billion more than in 1953. This included the two largest individual refundings on record in February and December. By providing advance exchange offerings on some maturities the number of refundings was reduced to one in each quarter. Net cash offerings totaled 12.6 billion dollars, slightly less than in 1953. They provided funds for redemption of maturing tax-anticipation issues, net redemptions of nonmarketable savings bonds and notes, and attrition on refundings, in addition to 0.9 billion dollars for the cash deficit and the increase in the cash balance combined. Net redemptions of savings bonds totaled less than 0.2 billion dollars, but redemption of savings notes, no longer on sale, reached nearly 1.5 billion.

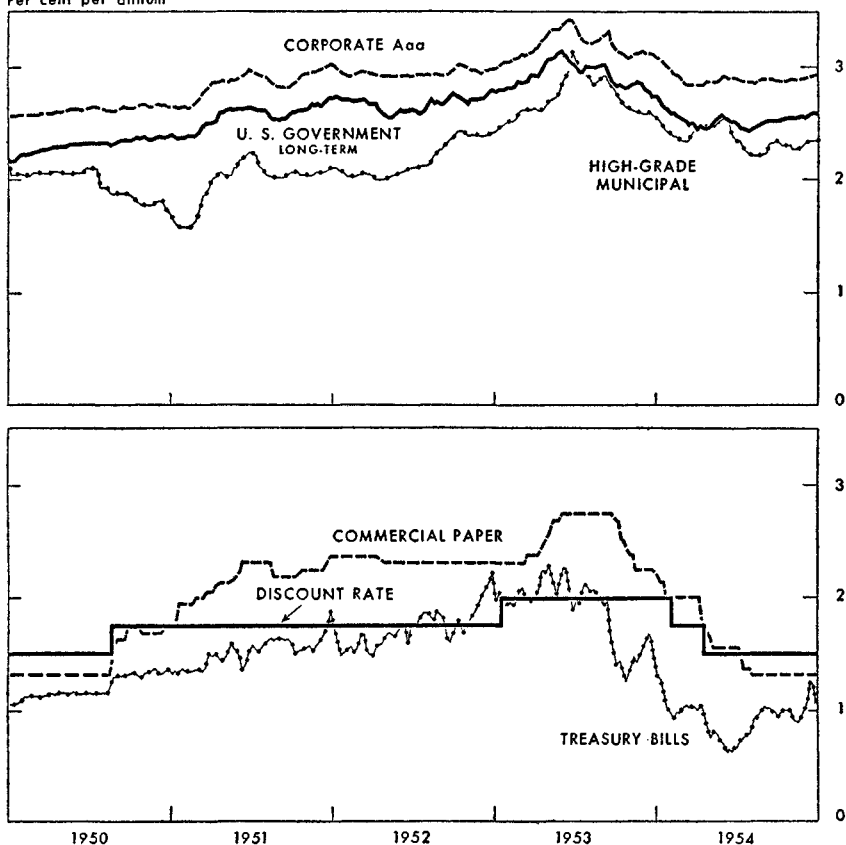
Lengthening of Federal debt maturities continued during 1954, but because of the reduced level of business activity, new securities offered both in refundings and for cash were restricted to intermediate or shorter maturities that would not impinge on the flow of funds into long-term private investment. Altogether five new Treasury offerings with maturities ranging from three to nine years were issued. From December 1953 to December 1954 the average length of the total marketable Federal debt computed to the first call date was extended from three years and nine months to four years and three months; the proportion of the marketable debt maturing within one year was reduced from 47 to 40 per cent.

**Interest rates.** Interest rates declined sharply in the early part of 1954, continuing the downward trend that began in mid-1953. The decline reflected the large volume of funds available as well as some diminution of credit demand, particularly for short-term funds. The supply of funds reflected easy bank reserve positions and also a flow of savings into life insurance, savings and loan shares, and other institutional channels in unprecedented volume for the postwar period.

During the closing months of the year, most rates moved somewhat higher. Demand for both long-term and short-term credit strengthened and the increase in savings became somewhat slower. The Treasury, which had retired debt in the first half of the year, again borrowed extensively. In late November bank reserve positions became less easy.

**MONEY RATES**

Per cent per annum



NOTE.—Treasury bill rates are market rates on longest bills. Before April 1, 1952, yields on long-term U. S. Governments include  $2\frac{1}{2}$  per cent bonds first callable after 15 years; thereafter they include  $2\frac{1}{2}$  per cent bonds first callable after 12 years. Corporate Aaa rates are from Moody's Investors Service; high-grade municipals, from Standard and Poor's Corporation. Discount rate is for Federal Reserve Bank of New York.

The Treasury bill rate showed the sharpest decline during the first half of the year and the sharpest rise during the last half. At its June low, 0.61 per cent, the rate was only about one-fourth of the mid-1953 high and the lowest since mid-1947, when the Federal Reserve Banks discontinued buying bills at a posted rate of  $\frac{3}{8}$  of 1 per cent. The sharp advance during midsummer reflected in part a technical market reaction from the previous sharp drop and in part some tightening in the money centers as a result of a temporary maldistribution of bank reserves. Thereafter, the bill yield

remained around 1.00 per cent until late November and December. During the last half of December, the rate averaged about the same as in early January, but almost  $\frac{1}{2}$  per cent below the yield a year earlier.

Yields on corporate and United States Government bonds declined steadily during the first quarter to a level of 2.85 per cent for high-grade corporate issues and just under 2.50 per cent for Government bonds. Increases were slight during the latter part of the year for high-grade corporate bonds but somewhat greater for Government bonds. High-grade municipal yields also declined steadily during the first quarter, then rose in the second quarter as new offerings reached an unprecedented volume and inventories of unsold issues accumulated at investment banking houses. Municipal yields declined again during the summer, but at their low in August were still substantially above early 1952 levels. During the remainder of the year, yields on municipal securities generally moved upward, reflecting the continuing large supply of new offerings.

### BANK CREDIT AND MONEY

Total loans and investments of commercial banks increased more in 1954 than in any other postwar year. Most of the expansion was in government securities—Federal, State, and local—and real estate mortgages. Deposits expanded sharply in the second half of the year. Bank reserve positions remained generally easy until late in the year.

**Bank loans and investments.** The rise in total bank credit outstanding was close to 11 billion dollars in 1954, and exceeded 7 per cent. More than half the increase was in holdings of United States Government securities—as shown in the accompanying table. The remainder was distributed among holdings of State and local government securities, real estate mortgages, and agricultural, security, and other loans.

Available reserve funds continued to be in excess of requirements to support private needs for credit, and banks increased their United States Government security portfolios 6 billion dollars or about 10 per cent. The largest percentage increases occurred in New York City banks, where outstanding loans declined, and the smallest at

## LOANS AND INVESTMENTS OF COMMERCIAL BANKS

[In billions of dollars]

| Type of loan or investment        | Out-<br>standing,<br>Dec. 31,<br>1954 <sup>1</sup> | Increase, or decrease (—) |       |       |
|-----------------------------------|----------------------------------------------------|---------------------------|-------|-------|
|                                   |                                                    | 1954                      | 1953  | 1952  |
| Loans and investments, total..... | 156.2                                              | +10.7                     | + 4.1 | + 9.0 |
| U. S. Government securities.....  | 69.4                                               | + 6.0                     | + 0.1 | + 1.8 |
| Other securities.....             | 16.3                                               | + 1.6                     | + 0.5 | + 0.8 |
| Loans, total.....                 | 70.6                                               | + 3.2                     | + 3.4 | + 6.4 |
| Business.....                     | 26.8                                               | — 0.4                     | — 0.7 | + 2.0 |
| Real estate.....                  | 18.4                                               | + 1.7                     | + 1.0 | + 1.1 |
| Agricultural.....                 | 5.3                                                | + 0.3                     | + 1.0 | + 0.5 |
| Security.....                     | 4.5                                                | + 0.9                     | + 0.4 | + 0.6 |
| Consumer.....                     | 10.7                                               | — 0.2                     | + 1.5 | + 1.9 |
| Other.....                        | 5.9                                                | + 0.8                     | + 0.2 | + 0.3 |

<sup>1</sup> Data for Dec. 31, 1954 are preliminary.

NOTE.—Data exclude interbank loans. Total loans are after, and types of loans before, deductions for valuation reserves. Consumer and "other" loans are partly estimated for all dates. Details may not add to totals because of rounding.

banks outside leading cities, where loan demands were well sustained during most of the year.

Banks began to acquire additional United States Government securities in April and continued such acquisitions through October. Holdings declined about 3 billion dollars during the first quarter, in part reflecting the retirement of tax-anticipation certificates by the Treasury. Acquisitions were particularly heavy in May, August, and October when the Treasury sold new securities for cash. As private credit demand strengthened in November and December, banks reduced their holdings somewhat.

The United States Government securities acquired by banks over the year, directly or indirectly, came largely from nonfinancial corporations, life insurance companies, mutual savings banks, and individuals. Net cash borrowing by the Treasury amounted to less than 1 billion dollars and holdings of the Federal Reserve Banks decreased by about the same amount. Thus commercial bank purchases of Government securities indirectly provided part of the large supply of funds made available to private borrowers by other lending institutions in 1954, and thereby contributed to

## OWNERSHIP OF THE UNITED STATES GOVERNMENT DEBT

[In billions of dollars, par value, partly estimated]

| Item                                  | End of<br>1954 | Net change |      |                  |
|---------------------------------------|----------------|------------|------|------------------|
|                                       |                | 1954       | 1953 | 1952             |
| Total debt outstanding.....           | 278.8          | +3.6       | +7.8 | +7.9             |
| Debt held by:                         |                |            |      |                  |
| Federal agencies and trust funds..... | 49.6           | +1.3       | +2.4 | +3.6             |
| Federal Reserve Banks.....            | 24.9           | -1.0       | +1.2 | +0.9             |
| Commercial banks.....                 | 69.2           | +5.5       | +0.3 | +1.8             |
| Other investors, total.....           | 135.1          | -2.2       | +3.9 | +1.6             |
| Insurance companies.....              | 15.0           | -0.8       | -0.3 | -0.4             |
| Mutual savings banks.....             | 8.8            | -0.4       | -0.3 | -0.3             |
| Other corporations.....               | 19.3           | -2.2       | +1.1 | -0.3             |
| State and local govts.....            | 14.6           | +1.7       | +1.8 | +1.5             |
| Miscellaneous investors.....          | 13.7           | +0.8       | +1.2 | +1.1             |
| Individuals, total.....               | 63.7           | -1.3       | +0.4 | ( <sup>1</sup> ) |
| Savings bonds.....                    | 49.7           | +0.4       | +0.2 | +0.1             |
| Other.....                            | 14.0           | -1.6       | +0.1 | ( <sup>1</sup> ) |

<sup>1</sup> Less than 50 million dollars.

NOTE.—Includes matured and noninterest-bearing debt, guaranteed securities, special issues to Government accounts, and also increases in debt reflecting the crediting of interest on savings bonds. Changes in total debt differ from net cash borrowing, quoted in the text, which amounted to 0.9 billion dollars in 1954, 4.6 billion in 1953, and 3.4 billion in 1952. Details may not add to totals because of rounding.

Differences in figures for commercial banks compared to those in table on p. 23 result largely from the use here of par value data. Changes for Federal Reserve differ from those in the table on p. 29 because changes here are based on end-of-year figures.

the expansion in investment activity that figured so prominently in economic recovery.

The maturity distribution of bank portfolios of United States Government securities lengthened substantially in 1954, reflecting in large part intermediate-term Treasury offerings during the year. Holdings of certificates declined about 5 billion dollars, reflecting net retirements of issues held outside the Federal Reserve System. In major refundings during February, August, and December, banks exchanged about 16 billion dollars of maturing issues for bonds with six-to-nine year maturities. Bank holdings of Treasury notes, particularly in three-to-five year maturities, were also increased substantially over the year through refundings and cash purchases.

Holdings of Treasury bills rose only slightly, but there was some shifting among classes of banks; central reserve city banks reduced their bill portfolios while reserve city and country banks increased theirs.

Commercial banks also supplied a substantial volume of investment funds through purchases of State and local government securities. The increase in their holdings exceeded 1.5 billion dollars—about three times the increase during 1953—and accounted for about one-third of the net increase in the outstanding volume of such securities over the year.

Total loans at commercial banks rose more than 3 billion dollars in 1954, about the same as in 1953. A sharp expansion in the final quarter more than offset an earlier cumulative decline. Active demand for most types of bank loans was evident late in the year.

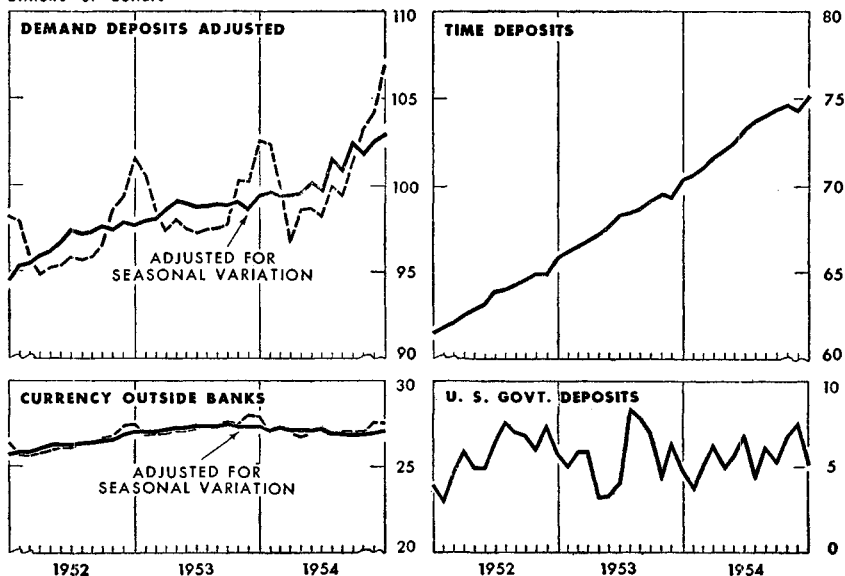
Business loans rose substantially in late 1954 whereas in the same period of 1953 they had declined. Nevertheless the increase did not offset earlier reductions and these loans declined slightly over the year. The strength of business loan demand late in the year varied with the type of borrower. New borrowing by some industries with rising seasonal requirements during this period, such as commodity dealers, was larger in 1954 than in 1953. Construction loans also rose, although usually they decline during the fall and winter. The prolonged liquidation of outstanding loans by metals manufacturers tapered off and that by sales finance companies was reversed. Although outstanding public utility loans declined more in late 1954 than in late 1953, the reduction probably represented a substitution of long-term borrowing for bank loans and not a decline in total demand for funds from this industry.

Real estate loans of commercial banks increased 1.7 billion dollars in 1954. They rose rapidly in the last half of the year, at more than twice the rate earlier in the year and throughout 1953. Consumer loans declined slightly over the year, with reductions in the first and third quarters partly offset by advances in the spring and late in the year. Loans for carrying Government and other securities increased almost a billion dollars, more than twice as much as in 1953. Agricultural loans increased much less than in 1953. Less credit was extended for the price support activities of the Commodity Credit Corporation. Short-term agricultural production loans changed little after declining in 1953.

**Deposits and currency.** Monetary expansion was substantially greater in 1954 than in 1953. Demand deposits and currency held by businesses and individuals increased about 4 billion dollars compared to 1.5 billion in 1953 and a decline of 0.5 billion in the 1949 recession year. Expansion in 1954 was concentrated in the last half of the year, as shown by the chart. It reflected a marked increase in demand deposits offset in part by a decline in currency outside banks.

### DEPOSITS AND CURRENCY

Billions of dollars



NOTE.—Figures are partly estimated. Demand and time deposits are for all banks in the United States and are adjusted to exclude U. S. Government and interbank deposits. Demand deposits are also adjusted to exclude items in process of collection. Time deposits include deposits in the Postal Savings System and in mutual savings banks. Figures are for last Wednesday of month except for June and December call dates. Figures for last half of 1954 are preliminary.

Demand deposits adjusted declined slightly more than the usual seasonal amount early in the year and then rose slightly more than seasonally in the second quarter. A 9 billion dollar increase in the last half of the year exceeded seasonal expansion by about 3 billion dollars. The annual rate of growth in this period was about 6 per cent compared to 4 per cent for the year and 1 per cent for 1953.

The post-holiday return of currency to the banks early in 1954 exceeded the usual seasonal inflow, and followed a smaller than usual

outflow late in 1953. This downward trend of currency outside banks, after allowance for seasonal movements, continued until the closing months of the year when it apparently was reversed as economic activity and consumer spending increased.

Time deposits of businesses and individuals continued their rapid growth of recent years, increasing almost 5 billion dollars or somewhat more than in 1953. Expansion was generally substantially ahead of that in 1953 until autumn, but in the last quarter it tended to slow down.

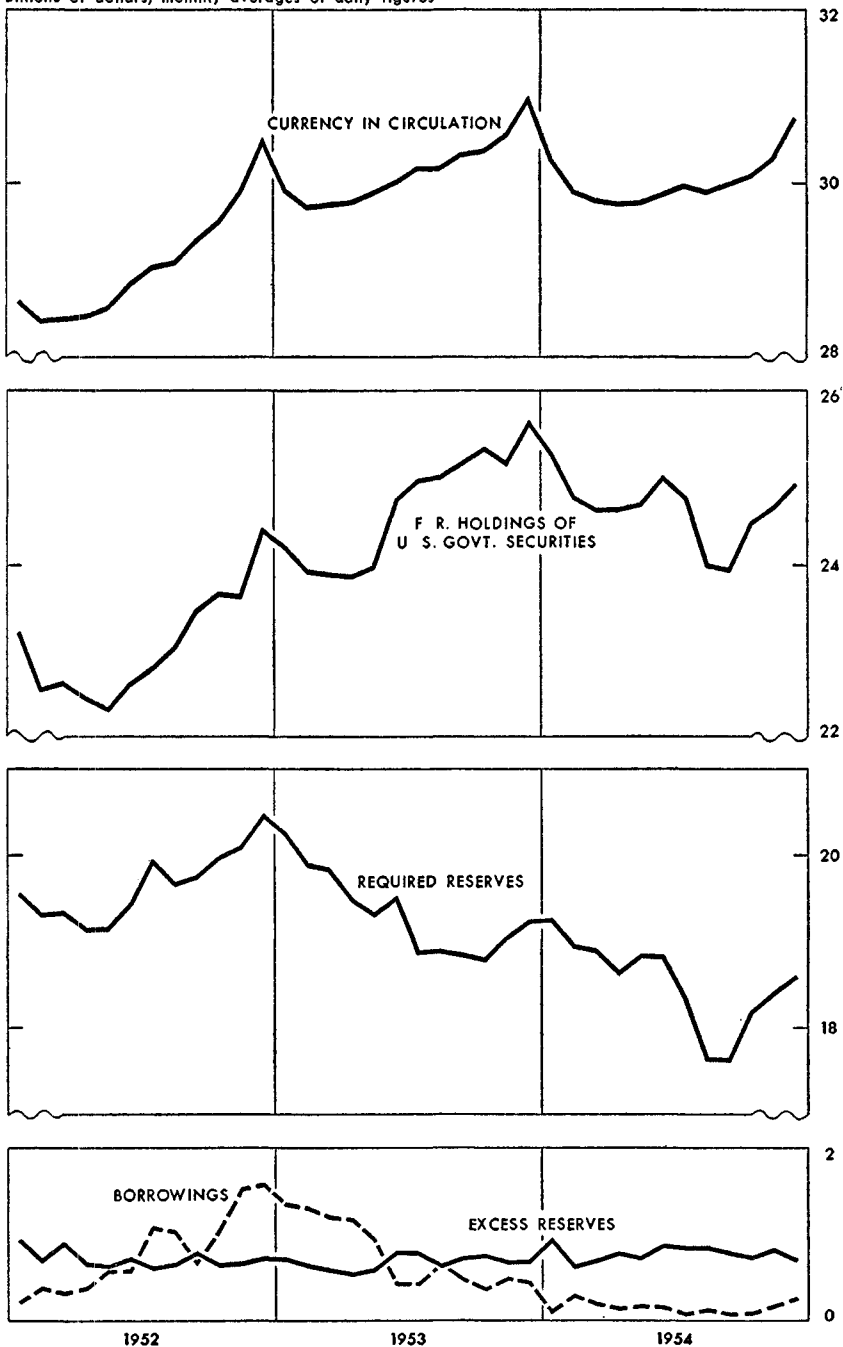
Turnover of demand deposits was generally slightly faster in 1954 than in the previous year, rising from 18.9 times to 19.2 times for banks outside financial centers. Turnover in New York City was up substantially, reflecting in large part increased activity in the securities markets.

**Bank reserve positions.** For the year as a whole, the reserves needed by member banks to back the deposit expansion amounted to about 900 million dollars, which was more than covered by the 1.6 billion dollar reduction in reserve requirements during the summer. Thus total required reserves were reduced about 700 million dollars. A decrease in currency supplied reserves approximately sufficient to cover the drain resulting from a decrease in the country's gold stock. Reflecting the net reduction in required reserves, Reserve Bank holdings of Government securities declined 700 million dollars and banks were able to meet credit and monetary demands from both private and Government borrowers without increasing their debt to the Reserve Banks. In December free reserves—that is, excess reserves less discounts and advances to member banks—though smaller than in summer and fall months, were somewhat larger than a year earlier.

Bank reserve positions eased through April 1954, as shown in the table on page 29. A large seasonal currency inflow, together with a seasonal decline in deposits and required reserves, released substantially more reserve funds than were absorbed, largely by Federal Reserve sales and redemptions of Treasury bills and some reduction in float. Member banks reduced their borrowing from Reserve Banks 300 million dollars and increased their excess reserves 100 million. Free reserves rose to an average of more than 600 million dollars in April.

**MEMBER BANK RESERVES AND RELATED ITEMS**

Billions of dollars, monthly averages of daily figures



The reserve position continued to ease through August. Reserves were made available through open market purchases by the Federal Reserve in May and early June, and through a reduction in reserve requirements on demand and time deposits during the period June 16-August 1. In order to prevent excess reserves from becoming unduly large temporarily in July and August, the Federal Reserve sold in the open market or redeemed Treasury bills. Thereafter it supplied reserves through open market purchases in order to meet fall needs for growth in required reserves and currency as well as to facilitate business recovery. Free reserves reached about 700 million dollars in June and fluctuated around that level until late in the year. Member bank borrowing remained small until late in the year.

### CHANGES IN MEMBER BANK RESERVES WITH RELATED FACTORS

[Based on monthly averages of daily figures; in billions of dollars]

| Item                                                                            | Dec.<br>1953-<br>Dec.<br>1954 | Dec.<br>1953-<br>Apr.<br>1954 | Apr.-<br>Aug.<br>1954 | Aug.-<br>Dec.<br>1954 |
|---------------------------------------------------------------------------------|-------------------------------|-------------------------------|-----------------------|-----------------------|
| <i>Member bank reserves</i>                                                     |                               |                               |                       |                       |
| Total reserves.....                                                             | - 0.6                         | - 0.5                         | - 0.9                 | + 0.8                 |
| Excess reserves.....                                                            | ( <sup>1</sup> )              | + 0.1                         | + 0.1                 | - 0.1                 |
| Required reserves.....                                                          | - 0.7                         | - 0.6                         | - 1.0                 | + 0.9                 |
| Effect of:                                                                      |                               |                               |                       |                       |
| Reduction in reserve requirement percentages.....                               | - 1.6                         | .....                         | - 1.6                 | .....                 |
| Change in deposits.....                                                         | + 0.9                         | - 0.6                         | + 0.6                 | + 0.9                 |
| <i>Principal factors affecting reserves</i> (Signs indicate effect on reserves) |                               |                               |                       |                       |
| Currency in circulation.....                                                    | + 0.2                         | + 1.2                         | - 0.1                 | - 0.9                 |
| Treasury operations.....                                                        | + 0.2                         | ( <sup>1</sup> )              | ( <sup>1</sup> )      | + 0.2                 |
| Gold stock and foreign accounts.....                                            | - 0.3                         | - 0.1                         | - 0.2                 | - 0.1                 |
| Federal Reserve float.....                                                      | ( <sup>1</sup> )              | - 0.3                         | ( <sup>1</sup> )      | + 0.3                 |
| Other factors.....                                                              | ( <sup>1</sup> )              | - 0.1                         | ( <sup>1</sup> )      | + 0.1                 |
| Federal Reserve loans and investments:                                          |                               |                               |                       |                       |
| U. S. Govt. securities, total.....                                              | - 0.7                         | - 1.0                         | - 0.6                 | + 0.9                 |
| Bought outright.....                                                            | - 0.3                         | - 0.6                         | - 0.7                 | + 1.0                 |
| Held under repurchase agreements....                                            | - 0.4                         | - 0.4                         | + 0.1                 | ( <sup>1</sup> )      |
| Discounts and advances:                                                         |                               |                               |                       |                       |
| To member banks.....                                                            | - 0.2                         | - 0.3                         | ( <sup>1</sup> )      | + 0.1                 |
| To others.....                                                                  | + 0.2                         | ( <sup>1</sup> )              | + 0.1                 | + 0.1                 |

<sup>1</sup> Less than 50 million dollars.

NOTE.—Details may not add to totals because of rounding.

Bank reserve positions became somewhat less easy in late November and December. Reserve funds from System purchases of Treasury bills in the market and under repurchase agreements with dealers, and from the year-end expansion of float, fell somewhat short of the amounts needed for a larger-than-usual growth in required reserves and currency in circulation. Banks found it necessary to reduce excess reserves somewhat and to increase their borrowing from Reserve Banks. Free reserves declined to below 500 million dollars on the average.

#### WORLD ECONOMIC AND FINANCIAL DEVELOPMENTS

The movement of recent years toward flexibility and freedom in markets continued in 1954 without interruption. The financial stability achieved in 1952 and 1953 was maintained in all leading countries of Western Europe and in the great majority of other countries. The volume of world trade expanded. Reduced demand for primary materials in the United States was in large measure counterbalanced by steadily rising demand in Europe, where industrial production reached record levels in every major nation.

Important new steps were taken toward convertibility of currencies, which is now recognized by governments throughout Western Europe and the sterling area as a major goal of policy along with the maintenance of economic growth and stability in individual countries. Steps toward convertibility taken in 1954 included significant relaxations of European restrictions upon expenditures of dollars. In Great Britain, exchange controls affecting the use of sterling by residents of nonsterling countries outside the dollar area were simplified and lightened. Similar action was taken in Germany.

New evidence of the current flexibility of central bank monetary policies under changing conditions was given toward the end of the year, when there was a moderate rise in rates of interest in London and some other European centers. In the short-run view, the margin of unutilized resources available in Europe to meet increasing demands appeared to have narrowed sharply. Nevertheless, scope for further advance was promised by the growth of capital resources and productivity in Europe and by the expanding trend of world production of basic materials traded internationally.

One of the conditions necessary for steady advance in world production and trade is the avoidance of severe disturbances of the

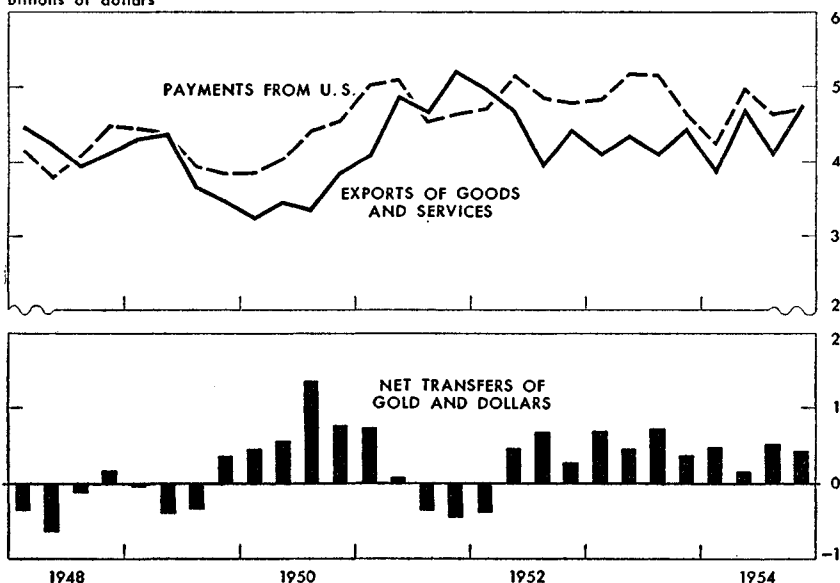
balance of international payments. Although payments to other countries from the United States in commodity trade and under Government grant and loan programs were smaller in 1954 than in 1953, the decline in these payments produced no general disturbance. In 1953 foreign countries, in the aggregate, had been adding very rapidly to their holdings of gold and dollars. Adjustment to the reduction in United States payments involved only a moderate slowing down in the rate of growth of gold and dollar reserves.

Inflationary developments in a few countries and declines in world prices of some commodities were not widespread enough to have serious repercussions in the world economy.

**United States balance of payments.** In the network of international payments, payments to and from the United States have been of special importance in recent years both because of their size and because the United States is still the only large industrial nation, except Canada, whose currency is freely convertible for use anywhere in settlement of international transactions. The maintenance

### U. S. BALANCE OF PAYMENTS

Billions of dollars



NOTE.—Department of Commerce data for payments and exports; Federal Reserve data for net transfers of gold and dollars. Payments shown include civilian and military payments for goods and services, plus the net outflow of remittances, Government non-military grants and loans, and private U. S. direct investment. Other capital movements are not included. Exports exclude military transfers under aid programs.

of a large volume of payments from the United States has contributed to establishment of financial stability and stimulation of economic growth in other countries. In turn, rising foreign demand led to a rise in United States exports in 1954.

Total payments from the United States to other countries for current transactions (including civilian and military purchases of goods and services, and also gifts other than Government aid) totaled about 16.5 billion dollars in 1954, as compared to 17 billion in 1953. Merchandise imports, which had been at a peak in the second quarter of 1953, fell until the first quarter of 1954 and then rose somewhat; for the year they totaled 10.3 billion, or 6 per cent less than in 1953. United States military purchases of goods and services for the use of our own forces abroad also decreased. Under the offshore procurement program, however, purchases of equipment to be transferred to other countries increased. Total United States military expenditures abroad were thus close to the 1953 amount of 2.5 billion dollars.

United States Government grants and loans to other countries, other than aid given in the form of military supplies and services, amounted in 1954 to less than 1.5 billion dollars (net after repayments), considerably below the 2.0 billion total in 1953.

The outflow of private American direct investment capital continued at close to the 1948-53 average rate of 700 million dollars. As in most recent years with the exception of 1953, the outward movement of private American portfolio and short-term capital exceeded the inward flow of foreign funds into long-term investments other than United States Government securities.

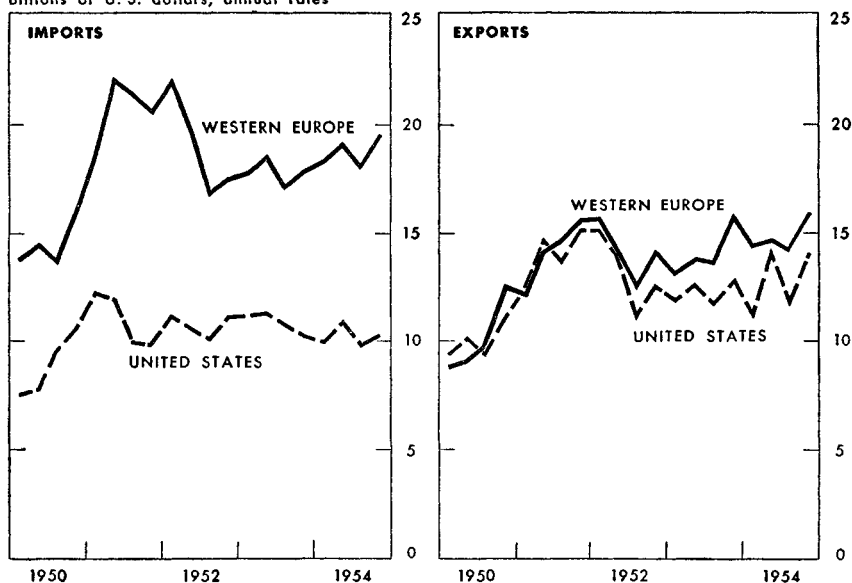
Despite the declines in import payments and in Government grants and loans, total payments from the United States to other countries were still amply sufficient to support growth in world trade. Foreign countries and international institutions, which in 1953 had added 2.2 billion dollars to their holdings of short-term dollar balances, United States Government securities, and gold purchased from the United States, added a further amount of 1.6 billion in 1954. Including gold from new production and from other sources, total gold reserves and dollar holdings of foreign countries (other than the U.S.S.R.) and of international institutions increased by 2.2 billion dollars in 1954.

The further additions to foreign monetary reserves were especially large among continental Western European nations, and provided direct support for the continued advance in European production and trade. In consequence of rising demand abroad and the reduction of barriers to trade, foreign countries increased their purchases of goods and services from the United States to about 17.5 billion dollars in 1954 from 17.0 billion in 1953.

Merchandise exports of the United States (excluding military-aid transfers) totaled 12.8 billion dollars in 1954. In the fourth quarter, with some allowance for seasonal variation, they were at an annual rate of about 13.5 billion dollars, or about 10 per cent above the 1953 level. Exports to Canada, which had declined after the second quarter of 1953, were still slightly below the average level of 1953. On the other hand, exports to Western Europe in the second half of 1954 were more than 20 per cent above the 1953 average. There were also significant increases in exports to most other areas.

#### EXTERNAL TRADE — WESTERN EUROPE AND UNITED STATES

Billions of U. S. dollars, annual rates



NOTE.—Western European trade shown is trade of members of the Organization for European Economic Cooperation (OEEC) with all others, including dependencies—that is, intra-OEEC trade is excluded. All data are on f.o.b. basis except OEEC imports, which include transportation costs probably of the order of magnitude of 10-15 per cent. U. S. exports and OEEC imports exclude military-aid shipments from U. S. Sources: Department of Commerce and OEEC; fourth quarter 1954 OEEC trade partly estimated by Federal Reserve.

**World commodity prices.** Outside Europe and the United States, economic developments in 1954 were diverse but generally more favorable than they would have been if the potential impact of reduced American demand upon prices of primary commodities had not been offset, in considerable degree, by the rise in European demand during 1953 and 1954. This rise in foreign industrial demand was most evident during 1954 in world markets for such commodities as metals, rubber, and lumber.

World prices of these and other industrial raw materials showed an upward tendency, on the average, in 1954. Advances were very large for rubber and copper. Prices of wool and hides declined, however, reflecting lower world demand in the first case and greatly increased United States supplies in the second. World market prices for wheat and rice continued to decline in the first half of the year. The prices of the beverage commodities—coffee, cocoa, and tea—rose sharply in the first half of 1954; thereafter the price of tea continued upward but the other two dropped back in consequence of reduced buying and improvement in supply prospects.

**Countries outside Europe and the Western Hemisphere.** While world price developments had important influences on business activity and on the balance of payments for particular countries, the course of events in each country was greatly affected by the nature of its own financial policies.

In most sterling-area countries the internal financial stability earlier achieved was consolidated in 1954. Industrial production continued to rise in South Africa and Australia, and in these countries, as also in New Zealand, commercial bank loans expanded rapidly and import purchases rose through most of the year. The export receipts of Australia and New Zealand were affected by the fall in prices of wool and wheat, and in the second half of 1954 their sterling reserves declined somewhat. South Africa's reserves rose in consequence of expanded gold production and a large inflow of capital.

Gradually accelerating progress was made in India's program for agricultural and public utility development, and a further advance was recorded in industrial production. There was relatively little change in India's gold and sterling reserves over the year.

Ceylon's exports of rubber and tea were in strong demand. Budgetary and credit policies put into effect the previous year served to hold down imports, and the country's foreign exchange reserves recovered rapidly. Burma, on the other hand, suffered a sharp drop in reserves in consequence of rising imports and a fall in demand for its exports of rice. Pakistan continued to maintain severe restrictions on imports of consumer goods, and its exports of raw cotton declined as domestic utilization rose.

Sterling reserves of British dependencies continued to increase, partly reflecting unspent earnings from exports to the Western Hemisphere and to Europe.

During 1954 Japan employed a vigorous tightening of credit to check a new inflation of prices that had started in 1953. Industrial production, which had been increasing very rapidly, receded for several months but near the end of the year was advancing again. In the latter part of the year imports were considerably smaller than the year before, and the balance-of-payments deficit was converted into a surplus with the help of a steady rise of exports, supplemented by continuing sales of military supplies and services to the United States. After midyear there was a marked recovery in Japan's reserves of both dollars and sterling.

In Thailand the decline in rice exports adversely affected the balance of payments and Government revenue. In Indonesia, financing of the Government deficit produced an expansion of one-third in the money supply, but imports were held in check by direct controls. The rise in rubber prices contributed to a gain in Indonesian foreign exchange reserves during the latter half of the year, and helped to check the decline in Thailand's reserves. The total value of Philippine exports was well maintained in 1954, despite lower prices for coconut oil and manila hemp.

**Western Hemisphere.** Some South American countries continued to experience difficulty with their balance of payments not only in dollars but also in sterling and other currencies. In Brazil these difficulties became especially acute after the break in the previously rising trend of coffee and cocoa prices. The underlying problem in Brazil, however, as in Chile, Bolivia, and Paraguay, was domestic inflation. Markets in these countries were imperfectly linked to world markets through the numerous exchange rates applied to various transactions, and in some cases exports were de-

pressed while mounting difficulties in maintaining effective import and exchange controls were only temporarily relieved by extensions of credit from abroad.

Argentina's grain exports, though large in volume, produced smaller foreign exchange earnings than in 1953. Rapid expansion of bank credit continued. Industrial activity, which in 1952 and 1953 had been below the 1947-49 average, increased after midyear, and money incomes and prices, which for two years had been relatively stable, moved up again.

Some of the countries in North and Central America and in northern South America whose currencies are either fully or substantially convertible suffered slight recessions in business activity in the latter part of 1953 and the early part of 1954; these included Canada, Mexico, and Cuba.

Pressures on central bank foreign exchange reserves in Mexico, and on free market exchange rates in Peru, when demand for foreign exchange tended for a time to outrun the supply, were checked after credit controls were tightened and stand-by credits obtained from the International Monetary Fund. The par value of the Mexican peso was changed in April from 11.56 cents to 8 cents.

Colombia and Venezuela continued to experience rapid economic development. Both exports and imports increased. In December Colombia made a drawing on the International Monetary Fund to supplement the reserves of its central bank, which had stopped rising after the weakening of the coffee market; taxes on imports were increased and importers were required to make larger down-payments when applying for foreign exchange.

In Canada, the largest single trading partner of the United States, output of minerals expanded continuously in 1953 and 1954. Manufacturing production, when some allowance is made for seasonal variation, appears to have been about 5 per cent lower during most of 1954 than at its peak in 1953. While inflow of capital continued on a large scale, both imports and exports were smaller than in 1953. The exchange rate for the Canadian dollar averaged \$1.02 in the first half-year and \$1.03 in the second half. With a shift in the credit policies of the Canadian authorities, yields on long-term Government bonds declined sharply from 3.7 per cent in 1953 to 3.0 per cent in the latter half of 1954.

Canadian imports from the United States during 1954 averaged 13 per cent below the peak level of the second and third quarters of 1953. The corresponding decline in Canadian exports to the United States was only 6 per cent. The value of Canadian exports to other countries was depressed, however, by lower volume and prices of wheat exports.

**Western Europe.** The balance-of-payments position of Western Europe remained extraordinarily strong in 1954. While in other parts of the world imports of many countries were roughly in line with their foreign exchange receipts—and the aggregate gold, dollar, and sterling reserves of all countries outside Europe and North America changed very little—Europe's foreign exchange receipts continued to exceed imports by a considerable margin.

Under these circumstances, with production rising and domestic prices comparatively stable, the various national authorities in most Western European countries had considerable freedom to remove direct controls, lower interest rates, and provide tax incentives for investment, without fear of inflationary developments at home and adverse repercussions on reserves. They were able to relax significantly their remaining direct controls over international transactions. Gold and dollar reserves continued to increase, although at a slower rate than before, and external debts were reduced.

The volume of currency and deposit money in the hands of the public continued to rise at a rate of about 4 per cent a year in several of the principal countries, and at a rate of 12 per cent in France and Germany.

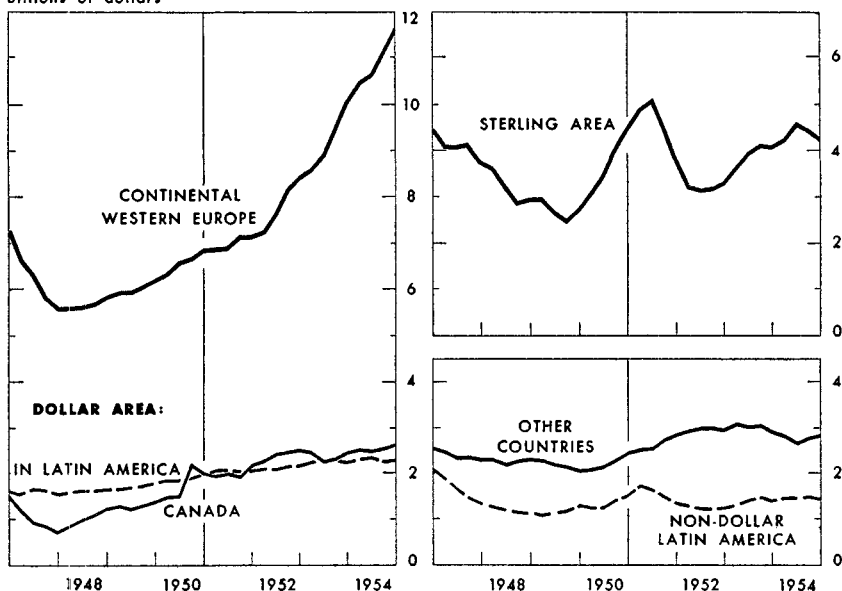
Toward the end of the year, the pressure of rapidly rising demand upon European resources which were virtually fully employed was reflected in rising imports, price increases for some commodities, and advances in money market rates.

The expansion in Western Europe was concentrated in capital goods, consumer durable goods, and construction. Total industrial production was 9 per cent higher in 1954 than in 1953, and rose at almost this rate throughout the year. In the fourth quarter of 1954 industrial production in Western Europe was one-fourth greater than at the end of 1950.

The rate of expansion varied from country to country. From the fourth quarter of 1953 to the last quarter of 1954, industrial

**GOLD RESERVES AND DOLLAR HOLDINGS — BY AREAS**

Billions of dollars



NOTE.—End-of-quarter figures; gold reserves partly estimated. Dollar holdings include principally deposits, short-term U. S. Government securities, and certain reported holdings of long-term U. S. Government securities.

production rose 4 per cent in Great Britain and Italy, with most of the advance in the first half of the year. Advances over the year amounted to 10 per cent or more in France and Belgium, where activity at the end of 1953 had not yet regained previous peaks. There were sharp increases in Austria and Greece also. In Germany, a further rise of 13 per cent brought industrial output 45 per cent above its level four years earlier.

At the beginning of 1954, the labor market was already tight in many European countries. Although wage rates rose somewhat faster in 1954 than in 1953, much of their impact on production costs was offset by higher productivity. Personal saving increased further, as a result not only of growth in incomes but also of growing confidence in the stability of money values.

Nevertheless, with rising levels of business activity and consumer demand, wholesale prices tended to advance a little toward the end of 1954.

Partly in consequence of reductions in subsidies and continuing relaxation of food rationing and rent controls in some countries, consumer prices rose moderately in 1954, especially in the first half-year. The increases over the year as a whole were less than 4 per cent in most countries.

In response to higher incomes and more readily available consumer credit, the production and sale of automobiles and some other consumer durable goods rose more than 20 per cent in several European countries. Residential construction reached a new record, and at the end of the year was still advancing, although at a reduced rate. Western European countries, in the aggregate, completed about 13 per cent more dwellings in 1954 than in 1953; completions numbered more than 6 per thousand inhabitants, which may be compared to about 7.5 per thousand in the United States. The United States rate was considerably exceeded in Germany and Norway, and equaled in Sweden. Further expansion in residential construction in 1955 in France and Italy was assured by government plans already in progress.

Industrial demand for new plant and equipment was also strong in most European countries. In Great Britain industrial capital expenditures apparently increased only moderately but plans for future expenditures rose, as evidenced by sharply increased approvals of new factory construction projects.

The cost of capital, as reflected in interest rates, fell further in the first half of 1954, as a result of policies pursued by governments and central banks, and of larger business and personal savings. Stock prices on the important European exchanges rose 20 to 60 per cent during the year. Governments were able to obtain larger borrowings from genuine savings and tended to reduce their demands on the banking systems. In several important countries government revenues rose more than expenditures.

In certain countries the available instruments of credit control were improved and diversified during the course of the year. In the Netherlands, for example, the establishment of minimum reserve requirements had the effect of restoring to the central bank a degree of influence over credit developments which had been lost when the steady growth of foreign assets made the banking system highly liquid.

In the second half of the year interest rates rose moderately in several countries. To help check a deterioration in the Danish balance of payments, the central bank raised the discount rate by 1 per cent in June and other rates of interest subsequently rose. In a number of other countries toward the end of the year the authorities permitted interest rates to rise in response to increased demands for credit and circulating cash. The most important change of this kind was the rise in short-term money rates in London beginning in November.

**Summary.** In general, 1954 was a year of rising living standards and active investment of capital throughout the world. In Europe it was a year of high prosperity. Actions of governments and central banks indicated that in most European countries and many elsewhere the authorities were well prepared to take appropriate actions promptly, whether to guard against deflation or to prevent inflation. With continued progress in the removal of barriers to trade and investment, which was made possible by a generally satisfactory situation in international payments, the possibilities for a further period of rising world supplies in balance with rising world demand appeared brighter than they had for many years.

#### LOAN GUARANTEES FOR DEFENSE PRODUCTION

Under the provisions of the Defense Production Act of 1950 as amended and the implementing Executive Orders, certain designated procurement agencies of the Government are authorized to guarantee loans made by commercial banks and other private financing institutions to finance and expedite production for national defense, also to finance contractors and subcontractors in connection with or in contemplation of the termination of their defense contracts. The guaranteeing agencies are the Departments of the Army, Navy, Air Force, Commerce, Interior, and Agriculture, the General Services Administration, and the Atomic Energy Commission.

The present program is a reactivation of the V-loan program utilized so successfully during World War II. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies in the making of such contracts of guarantee.

During 1954 the guaranteeing agencies authorized the issuance of 73 guarantee agreements amounting to 141 million dollars. Loans

outstanding on December 31, 1954 totaled 472 million dollars. On the same date an additional 273 million dollars was available to borrowers under guarantee agreements in force. During the year 1,562 million dollars was advanced on V loans, most of which are revolving credits.

### V LOANS AUTHORIZED, SEPT. 27, 1950-DEC. 31, 1954

[Percentage distribution, by size of loan and number of employees of borrower]<sup>1</sup>

| Size of loan                     | Percentage of loans authorized |        | Cumulative percentage distribution |        |
|----------------------------------|--------------------------------|--------|------------------------------------|--------|
|                                  | Number                         | Amount | Number                             | Amount |
| Under \$100,000.....             | 18.3                           | 0.6    | 18.3                               | 0.6    |
| \$100,000-\$499,999.....         | 37.7                           | 5.7    | 56.0                               | 6.3    |
| \$500,000-\$999,999.....         | 16.3                           | 6.6    | 72.3                               | 12.9   |
| \$1,000,000-\$4,999,999.....     | 21.7                           | 28.0   | 94.0                               | 40.9   |
| \$5,000,000-\$9,999,999.....     | 2.9                            | 12.1   | 96.9                               | 53.0   |
| \$10,000,000 and over.....       | 3.1                            | 47.0   | 100.0                              | 100.0  |
| Number of employees <sup>2</sup> |                                |        |                                    |        |
| Under 50.....                    | 18.8                           | 1.4    | 18.8                               | 1.4    |
| 50-99.....                       | 15.5                           | 2.4    | 34.3                               | 3.8    |
| 100-499.....                     | 38.6                           | 16.0   | 72.9                               | 19.8   |
| 500-2,499.....                   | 17.8                           | 25.0   | 90.7                               | 44.8   |
| 2,500 and over.....              | 5.1                            | 51.5   | 95.8                               | 96.3   |
| Not available.....               | 4.2                            | 3.7    | 100.0                              | 100.0  |

<sup>1</sup> Distributions are of 1,367 loans authorized in an aggregate amount of 2,500 million dollars.

<sup>2</sup> Includes employees of affiliated concerns under common ownership or control.

From the beginning of the program in September 1950 through December 31, 1954, 1,367 loans totaling 2,500 million dollars were authorized by the procurement agencies that may guarantee loans. The accompanying table gives the percentage distribution of authorized loans classified by size of loan and number of employees of borrower.

### BANKING OPERATIONS AND STRUCTURE

**Bank earnings and profits.**<sup>1</sup> Member bank net profits after income taxes were 1,089 million dollars in 1954, an increase of 224 million from 1953. The rise resulted for the most part from increased profits on sales of securities. Because of larger net profits

<sup>1</sup> Figures for 1954 are based on preliminary tabulations.

before income taxes, provisions for income taxes rose 112 million dollars despite removal of the excess profits tax. The ratio of net profits to average total capital accounts increased from 7.8 per cent in 1953 to about 9.3 per cent in 1954.

Net current earnings before income taxes rose 15 million dollars to 1,824 million, the smallest increase in several years. Average rates of return on loans and United States Government securities changed little but average holdings of both increased. Earnings on loans rose to 2,700 million dollars, 68 million above the previous year, with average holdings 2 per cent larger. Earnings on United States Government securities were 1,063 million dollars, 52 million more than in the year before, and average holdings increased 7 per cent. An 8 per cent rise in average holdings of other securities also contributed to higher net earnings. An increase of 222 million dollars in total current earnings was largely offset by a rise in expenses. The accompanying table shows selected earnings, expenses, and profits for all member banks in 1954 and 1953.

EARNINGS, EXPENSES, PROFITS, AND DIVIDENDS OF  
ALL MEMBER BANKS, 1954 AND 1953  
[In millions of dollars]

| Item                                                              | 1954 <sup>a</sup> | 1953  |
|-------------------------------------------------------------------|-------------------|-------|
| Earnings.....                                                     | 4,812             | 4,590 |
| On U. S. Govt. securities.....                                    | 1,063             | 1,011 |
| On loans.....                                                     | 2,700             | 2,632 |
| All other.....                                                    | 1,049             | 947   |
| Expenses.....                                                     | 2,988             | 2,782 |
| Net current earnings before income taxes.....                     | 1,824             | 1,809 |
| Net losses, charge-offs, and transfers to valuation reserves..... | +68               | 251   |
| Profits before income taxes.....                                  | 1,893             | 1,558 |
| Taxes on net income.....                                          | 804               | 692   |
| Net profits.....                                                  | 1,089             | 865   |
| Cash dividends declared.....                                      | 456               | 419   |

<sup>a</sup>Preliminary; final figures will appear in the *Federal Reserve Bulletin*, probably in the May issue.

The increased profits on sales of securities were sufficient to change net profits, recoveries, losses, etc., from a loss of 251 million dollars in 1953 to a gain of 68 million in 1954; as a result, 60 per

cent of net current earnings was carried to net profits after taxes as compared to 48 per cent in 1953. The year 1954 was the first since the period 1942-46 in which the excess of profits and recoveries over losses and charge-offs contributed to the net profits of member banks.

About 456 million dollars or 42 per cent of the 1954 profits was distributed as dividends; this was a return on average total capital accounts of 3.9 per cent compared to 3.8 in 1953. Profits retained to strengthen capital accounts amounted to 633 million dollars compared to 446 million in 1953.

**Bank earning assets.<sup>2</sup>** Earning assets of member banks at the end of 1954 were 132 billion dollars, an increase of 9 billion for the year. More than half of the increase was in holdings of United States Government securities. Holdings of State and local government securities rose 1.5 billion dollars, which reflected the largest percentage increase for any type of earning asset. Loans declined seasonally during the early part of the year, but showed a net increase of 2.5 billion dollars for the year.

About 1.4 billion dollars or more than half of the increase in total loans was in real estate loans. Loans for purchasing or carrying securities showed the next largest dollar increase, 860 million. Agricultural loans rose 260 million dollars, largely reflecting an increase in holdings of certificates of interest of the Commodity Credit Corporation. "Other loans to individuals," which are largely consumer loans, changed little during 1954, after having been an important factor in loan growth for two years. Commercial and industrial loans declined for the second consecutive year. According to sample data by industry groups, the over-all decline of 500 million dollars resulted from a decline of more than 1 billion dollars in loans to metals and metal products manufacturers, offset in part by increases in loans to commodity dealers and the construction industry.

**Capital accounts.<sup>2</sup>** Capital accounts of member banks at the end of 1954 amounted to 12.3 billion dollars, an increase of nearly 1 billion for the year. Approximately 633 million dollars of this amount came from retained earnings. Proceeds from sales of common stock accounted for most of the balance; other factors were mergers and changes in Federal Reserve membership.

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<sup>2</sup> Figures for 1954 are partly estimated.

The ratio of average total capital accounts to average total assets for all member banks was 7.2 per cent, slightly above the preceding three years. The ratio of average total capital accounts to average total assets less cash assets and United States Government securities was 16.1 per cent in 1954 as compared to 15.8 per cent in the preceding year. This was the second year since 1944 in which this ratio did not decline.

**Number of banking offices.** For the eleventh consecutive year the number of banking offices in the United States increased. It was 20,782 at the end of 1954 as compared to 20,406 a year before. The number of branches rose by 519 to 6,416, while the number of banks declined by 141 to 14,366. These figures exclude banking facilities at military and other Government establishments, of which there were 198 at the end of 1954, a decrease of one during the year.

The number of banks (head offices) continued the decline of the past six years. Additions of head offices resulting from the opening for business of 73 new banks were more than offset by the consolidation or absorption of 207 banks, 176 of which were converted into branches. Table 18 on page 83 shows the increases and decreases in the number of banks and branches by class of bank.

The increase of 519 in the number of branches and additional banking offices exceeded the recent annual records of 377 in 1953 and 296 in 1952. There were increases in practically all States that permit branch banking, with the largest number in Pennsylvania (87) and the second largest in California (62). More than 60 per cent of the increase in branches occurred in places outside of the head-office cities, a slightly larger proportion than in 1953.

**Federal Reserve membership.** At the end of 1954, 6,660 banks were members of the Federal Reserve System. The membership of 4,789 national banks and 1,871 State member banks reflected net declines for the year of 67 and 16, respectively. Member banks accounted for 48 per cent of the number and held 85 per cent of the deposits of all commercial banks in the United States. State member banks accounted for 21 per cent of the number of all State commercial banks and held 65 per cent of the deposits of these banks. These relationships have remained practically unchanged since 1946.

The continued decline in the number of member banks was largely the result of consolidations and absorptions. A great ma-

jority of the 120 member banks eliminated through consolidations and absorptions during the year continued to operate in their former locations as member bank branches. The member banks that merged or consolidated into nonmember banks were relatively small as measured by deposit size. Other declines included 4 State members that withdrew from membership and 3 national banks that converted into nonmember banks.

Eighteen national banks and six State member banks were newly established during the year. Thirteen nonmember banks were admitted to membership in 1954; one of these was a national bank located in Alaska, the first member bank outside of the continental United States since 1921. Eight banks became members by conversion from nonmember to national banks; four State member banks converted into national banks.

**Par and nonpar banks.**<sup>3</sup> During 1954, 83 banks were added to the Federal Reserve Par List and 208 were deleted. Of the additions, 15 were nonpar banks that chose to go on the Par List, 64 were newly organized banks, 2 were former nonpar banks admitted to Federal Reserve membership, and 2 had not previously handled checking accounts. Of the deletions, only 2 withdrew from the Par List; the remainder were absorbed by other par banks and, in most cases, were converted into branches. The number of par-remitting and nonpar offices at the end of 1954 is shown below:

|                                                                            | On<br>Par List | Not on<br>Par List |
|----------------------------------------------------------------------------|----------------|--------------------|
| Banks (head offices) .....                                                 | 11,960         | 1,787              |
| Branches .....                                                             | 5,783          | 315                |
| Banking facilities at military and<br>other Government establishments..... | 196            | 2                  |
| Total .....                                                                | 17,939         | 2,104              |

The par-remitting banks, representing 87 per cent of the banks on which checks are drawn, held about 98 per cent of the deposits of all commercial banks in the United States. All banks in 29 States and the District of Columbia were on the Federal Reserve Par List at the end of the year, and in each of 5 other States the

<sup>3</sup> This section refers only to banks on which checks are drawn and their branches and offices, including "banking facilities" at military and other Government establishments. 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 Federal Reserve Banks for payment, and such nonmember banks as have agreed to do so.

number of nonpar banks was less than 10. Practically all of the banks not on the Par List were in 14 Midwestern and Southern States, with the largest numbers in Minnesota and Georgia. Table 19 on page 84 shows the number of par and nonpar banking offices by States and Federal Reserve districts.

**Designation of reserve cities.** Acting in accordance with the rule adopted by the Board on December 19, 1947, under which the classification of reserve cities is determined every three years, on February 18, 1954 the Board of Governors of the Federal Reserve System took action as follows with respect to the classification of reserve cities, effective March 1, 1954.<sup>4</sup>

(1) The City of Washington, D. C., and every city except New York and Chicago in which there is situated a Federal Reserve Bank or Branch of a Federal Reserve Bank, were continued as reserve cities. (New York and Chicago continued as central reserve cities under the Board's rule of December 19, 1947).

(2) On the basis of official reports of condition in the two-year period ended on June 30, 1953, the following cities met the standard prescribed in paragraph (2) of subsection (b) of the Board's rule, and, therefore, such cities also were continued as reserve cities:

Columbus, Ohio; Des Moines, Iowa; Indianapolis, Indiana; Milwaukee, Wisconsin; National City (National Stock Yards), Illinois; St. Paul, Minnesota; Tulsa, Oklahoma; Wichita, Kansas; and Fort Worth, Texas.

(3) On the basis of written requests from the member banks in such cities, in accordance with paragraph (3) of subsection (b) of the Board's rule, the following cities also were continued as reserve cities:

Toledo, Ohio; Cedar Rapids, Iowa; Sioux City, Iowa; Kansas City, Kansas; Pueblo, Colorado; and Topeka, Kansas.

(4) The following cities did not fall within the scope of either paragraph (2) or (3) of subsection (b) of the Board's rule, and, consequently, the designation of such cities as reserve cities was terminated:

Dubuque, Iowa; Lincoln, Nebraska; and St. Joseph, Missouri.

#### BANK SUPERVISION BY THE FEDERAL RESERVE SYSTEM

**Examination of Federal Reserve Banks.** The Board's Division of Examinations examined each of the 12 Federal Reserve Banks and their 24 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

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<sup>4</sup>The rule regarding classification of central reserve and reserve cities appears in the Board's *Annual Report* for 1947, pp. 86-87.

by the Board of Governors. The established policy is to conduct 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. 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 1954 program for the examination of State member banks was practically completed.

**Bank holding companies.** During 1954 the Board authorized the issuance of six voting permits for general purposes and five permits for limited purposes to holding company affiliates of member banks.

To provide information with respect to such organizations, regular annual reports were obtained from holding company affiliates to which voting permits have been granted. In accordance with established practice, a number of 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.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of Section 23A of the Federal Reserve Act, any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. During the year the Board made such determinations with respect to two organizations.

**Trust powers of national banks.** During 1954, 37 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 19 banks which previously had been granted certain trust powers. Trust powers of 26 national banks were terminated, 24 by voluntary liquidation, consolidation, or merger and 2 by voluntary surrender. At the end of 1954, there were 1,759 national banks holding permits to exercise trust powers.

**Acceptance powers of member banks.** During the year the Board approved the application of a member bank, pursuant to

the provisions of Section 13 of the Federal Reserve Act, for permission to accept drafts or bills of exchange drawn for the purpose of furnishing dollar exchange as required by the usages of trade in such countries, dependencies, or insular possessions of the United States as may have been designated by the Board of Governors.

**Foreign branches and banking corporations.** Under the provisions of Section 25 of the Federal Reserve Act, the Board approved during 1954 three applications made by member banks for permission to establish branches in foreign countries. One member bank opened a branch in England and another opened a branch in Cuba in 1954, the latter having been authorized by the Board in 1953. One branch in Germany was closed during the year.

At the end of 1954, seven member banks had in active operation a total of 106 branches in 23 foreign countries and possessions of the United States. Of the 106 branches, four national banks were operating 99 and three State member banks were operating 7. The foreign branches in active operation were distributed geographically as follows:

|                                 |           |                                        |            |
|---------------------------------|-----------|----------------------------------------|------------|
| <b>Latin America</b> .....      | <b>55</b> | <b>England</b> .....                   | <b>11</b>  |
| Argentina .....                 | 10        |                                        |            |
| Brazil .....                    | 10        | <b>Far East</b> .....                  | <b>20</b>  |
| Chile .....                     | 2         | Hong Kong .....                        | 1          |
| Colombia .....                  | 4         | India .....                            | 2          |
| Cuba .....                      | 20        | Japan .....                            | 10         |
| Mexico .....                    | 2         | Philippines .....                      | 5          |
| Panama .....                    | 4         | Singapore .....                        | 1          |
| Peru .....                      | 1         | Thailand .....                         | 1          |
| Uruguay .....                   | 1         |                                        |            |
| Venezuela .....                 | 1         | <b>United States Possessions</b> ..... | <b>14</b>  |
| <b>Continental Europe</b> ..... | <b>6</b>  | Canal Zone .....                       | 4          |
| Belgium .....                   | 1         | Guam .....                             | 1          |
| France .....                    | 3         | Puerto Rico .....                      | 9          |
| Germany .....                   | 2         |                                        |            |
|                                 |           | <b>Total</b> .....                     | <b>106</b> |

There was no change in 1954 in the list of corporations organized under State laws which operate under agreements with the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. Of the four corporations in operation, one has no subsidiaries or foreign branches; one operates a branch in England (also an agency at the New York Inter-

national Airport); one operates a branch in France; and one has an English fiduciary affiliate.

At the end of 1954 there were in operation two banking corporations organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. The head offices of these corporations are located in New York City and both were examined during the year by the Board's Division of Examinations. One such institution operates a branch in Germany and the other has a branch in France and a fiduciary affiliate in England. During the year the Board approved the application of one of these corporations for permission to invest in the stock of an investment company proposed to be organized under the laws of a foreign country.

In 1954 the Board initiated a special study of the foreign operations of American banks in financing international and foreign trade. The purpose of the study is to develop information as to changes that should be made in the Board's existing regulations, agreements, and policies regarding foreign banking corporations and foreign branches of national and State member banks, as well as changes that might be proposed in the law.

**Inter-Agency Bank Examination School.** During 1954, three five-week sessions of the School for Assistant Examiners and two four-week sessions of the School for Examiners were held. The Inter-Agency Bank Examination School is conducted by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. Since established in 1952, the various sessions of the Inter-Agency School have been attended by 306 men, representing the three Federal bank supervisory agencies, the State Banking Departments of Indiana, Louisiana, Maine, New Hampshire, North Dakota, Oklahoma, and Virginia, the Treasury Department of the Commonwealth of Puerto Rico, and one foreign country.

#### CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

**Reserves of member banks.** The Board's Regulation D was amended so as to reduce the reserves required to be maintained by member banks with Federal Reserve Banks. The percentage applicable on time deposits for all member banks was reduced from 6 to 5 per cent. The percentages on net demand deposits were

reduced from 22 to 20 per cent for central reserve city banks, from 19 to 18 per cent for reserve city banks, and from 13 to 12 per cent for all other member banks.

The reduction as to time deposits became effective on June 24, 1954 for reserve and central reserve city banks, and on June 16, 1954 for other member banks. The reduction as to demand deposits became effective one percentage point at a time on June 24, 1954 and July 29, 1954 for central reserve city banks, and became effective on July 29, 1954 for reserve city banks, and on August 1, 1954 for other member banks.

**Clearing and collection.** The Board's Regulation G relating to the collection of noncash items, and Regulation J relating to check clearing and collection, were amended, effective July 15, 1954, so as to permit the collection through Federal Reserve Banks of checks drawn on nonmember par-remitting banks located in such of the Territories, dependencies, insular possessions, and parts of the United States outside of the continental United States as the Board may designate, and the collection of noncash items payable in such areas. At the same time the Board designated Alaska and Hawaii as being in the Twelfth Federal Reserve District for the purposes of these amendments.

**Foreign banking.** The Board's Regulation K, entitled "Banking Corporations Authorized to do Foreign Banking Business under the terms of Section 25(a) of the Federal Reserve Act," commonly known as Edge Act Corporations, was amended effective September 29, 1954 so as to change and liberalize the conditions relating to the raising of funds by such corporations not engaged in the business of receiving deposits and to increase the limit on the amount of credit that such nondeposit corporations may extend to one borrower.

## LEGISLATION

**Direct purchase and sale of Government obligations.** An Act of Congress approved June 29, 1954 extended until June 30, 1956 the existing limited authority of the Federal Reserve Banks under Section 14(b) of the Federal Reserve Act to buy and sell Government obligations directly from and to the United States. This authority would otherwise have expired on June 30, 1954.

**Investment in bank premises.** An Act of Congress approved June 30, 1954 amended Section 23A of the Federal Reserve Act,

which limits the amount which a member bank may loan to or invest in the stock or obligations of an affiliate, so as to exempt from such limitations any affiliate engaged "solely" in holding bank premises. Previously the statute had exempted only affiliates engaged in holding bank premises on June 16, 1934 (whether or not solely so engaged).

The same Act also amended Section 24A of the Federal Reserve Act which provides that a national bank or a State member bank must obtain the consent of the Comptroller of the Currency or of the Board of Governors, respectively, in any case in which its investment in bank premises, either directly or through an affiliate, exceeds the amount of the bank's capital stock. The amendment made it clear that the amount of any indebtedness incurred by an affiliate of the bank engaged in holding the bank's premises should be included in determining the total investment in bank premises.

**Paying out Federal Reserve notes.** An Act approved July 19, 1954 repealed the provision in Section 16 of the Federal Reserve Act which prohibited one Federal Reserve Bank from paying out notes issued by any other Federal Reserve Bank.

**Real estate loans by national banks.** An Act approved July 22, 1954 amended Section 24 of the Federal Reserve Act so as to make the limitations and restrictions on real estate loans by national banks not applicable to loans in which the Small Business Administration cooperates or purchases a participation.

An Act approved August 17, 1954 amended certain provisions of the Water Facilities Act of August 28, 1937 (16 U.S.C. 590r, et seq.) so as to authorize the Secretary of Agriculture to insure loans made to further the objectives of the Act, and amended Section 24 of the Federal Reserve Act so as to exempt such insured loans from the limitations and restrictions on real estate loans by national banks contained in the third sentence of the first paragraph of Section 24 (relating to the permissible amount of the loan in relation to the appraised value of the land).

**Housing Act of 1954.** The "Housing Act of 1954," approved August 2, 1954, amended Title III of the National Housing Act relating to the Federal National Mortgage Association so as to provide in Section 303(f) of the latter, that "Notwithstanding any other provision of law, any institution, including a national bank or State member bank of the Federal Reserve System . . . shall be

authorized . . . to receive stock of the Association" evidencing capital contributions made to the Association "and to hold or dispose of such stock, subject to the provisions of this title." The effect of this provision is to modify the provision of Section 5136 of the Revised Statutes of the United States prohibiting the purchase of corporate stocks by national banks and State member banks.

The Act also amended the National Housing Act so that Section 309(d) of the latter authorizes the Federal National Mortgage Association, with the consent of any Government corporation or Federal Reserve Bank, or of any board, commission, independent establishment, or executive department of the Government, to avail itself of the use of information, services, facilities, officers and employees thereof, in carrying out the provisions of the Act. By Section 309(g) the Federal Reserve Banks are authorized and directed to act as depositaries, custodians, and fiscal agents for the Association.

In addition, Section 203 of the Act specifically amended the next to the last sentence of paragraph "Seventh" of Section 5136 of the Revised Statutes so as to permit national banks to deal in and underwrite obligations of the Federal National Mortgage Association. Subject, of course, to any applicable provision of State law, the provision also extends to State member banks of the Federal Reserve System because Section 9 of the Federal Reserve Act makes this provision of Section 5136 applicable to State member banks.

Another provision of the Housing Act of 1954 (Section 603) provided for the establishment of a National Voluntary Mortgage Credit Extension Committee and directed the Housing and Home Finance Administrator to request the Board of Governors of the Federal Reserve System to designate a representative of the Board to serve on the Committee in an advisory capacity.

**Member banks dealing in obligations of banks for cooperatives.** An Act approved August 23, 1954 amended the last sentence of paragraph "Seventh" of Section 5136 of the Revised Statutes so as to permit national banks to deal in and underwrite obligations issued by the 13 banks for cooperatives organized under the Farm Credit Act of 1933, or any of them, in lieu of the existing authority which related only to obligations issued by the Central Bank for Cooperatives. Such transactions remain subject to the limitation of 10 per cent of the national bank's capital and surplus. Subject to any applicable provisions of State law, the permission also extends to State

member banks of the Federal Reserve System because Section 9 of the Federal Reserve Act makes these provisions of Section 5136 applicable to State member banks.

### RESERVE BANK OPERATIONS

**Volume of operations.** Table 5 on page 69 gives the volume of operations in the principal departments of the Federal Reserve Banks for the years 1950-54. In general, activities were somewhat greater in 1954 than in 1953. While discounts and advances declined, a new peak was reached in the number of checks handled.

One new activity of significant proportions was begun in 1954. At the request of the Treasury and the Post Office Departments, the Reserve Banks undertook the receipt and proving of deposits from postmasters throughout the country, along with certain relevant accounting operations. This was for the purpose of simplifying operating procedures of the Post Office Department and of speeding up the flow of funds to the Treasury. The work began at the various Reserve Banks at different times during the year. By the end of 1954, a total of 3,460,000 deposits had been handled.

**Earnings and expenses.** Current earnings, current expenses, and the distribution of net earnings of each Federal Reserve Bank during 1954 are shown in detail in Table 6 on pages 70-71, and a condensed historical statement for all Reserve Banks is shown in Table 7 on pages 72-73. The table on page 54 summarizes the earnings and expenses and the distribution of net earnings for 1954 and 1953.

Current earnings of 438 million dollars in 1954 were 15 per cent less than in 1953 largely because of a lower average rate of interest on holdings of United States Government securities. Earnings from discounts and advances were also less in 1954 than in 1953, reflecting decreases in the discount rate during the early part of the year and a decline in the volume of discounts and advances. Current expenses were about 3 per cent below 1953, mainly because of decreases in the production of Federal Reserve currency and shipping charges thereon. Current net earnings in 1954 amounted to about 328 million dollars, a decrease of 18 per cent compared to 1953.

The effect of profit and loss additions and deductions was minor, leaving net earnings before payments to the United States Treasury at about 328 million dollars.

Statutory dividends to member banks amounted to 16 million

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF  
FEDERAL RESERVE BANKS, 1954 AND 1953

[In thousands of dollars]

| Item                                                | 1954    | 1953    |
|-----------------------------------------------------|---------|---------|
| Current earnings.....                               | 438,486 | 513,037 |
| Current expenses.....                               | 109,733 | 113,515 |
| Current net earnings.....                           | 328,753 | 399,522 |
| Additions to current net earnings.....              | 1,527   | 1,2,096 |
| Deductions from current net earnings.....           | 661     | 3,155   |
| Net deductions.....                                 | 134     | 1,059   |
| Net earnings before payments to U. S. Treasury..... | 328,619 | 398,463 |
| Paid U. S. Treasury (interest on F. R. notes).....  | 276,289 | 342,568 |
| Dividends.....                                      | 16,442  | 15,558  |
| Transferred to surplus (Sec. 7).....                | 35,888  | 40,337  |

\* Includes net profits on sales of U. S. Government securities: 1954—\$482,000; 1953—\$1,952,000.

dollars, a rise of nearly 1 million dollars over 1953, which reflected an increase in the paid-in capital of the Federal Reserve Banks resulting from increased capital and surplus of member banks.

Payments to the United States Treasury as interest on Federal Reserve notes amounted to 276 million dollars in 1954, or to 90 per cent of net earnings after dividends and allowances for building up surplus to 100 per cent of subscribed capital of those Banks whose Section 7 surplus was below that amount. These allowances are consistent with the provisions of the franchise tax when it was in effect; for 1954 allowances for bringing surplus up to subscribed capital were \$5,187,000 for three Banks, and for 1953 they were \$2,273,000 for two Banks. Total payments to the Treasury as interest on Federal Reserve notes since the policy of making such payments was begun in 1947 have amounted to 1,797 million dollars.

The 36 million dollars of net earnings remaining after dividends and payments to the United States Treasury were added to surplus account.

**Holdings of loans and securities.** Average holdings of United States Government securities amounted to 24,649 million dollars during 1954, down slightly from the all-time high in 1953. The average rate of interest on these holdings declined substantially

from 2.02 to 1.76 per cent. Average holdings of discounts and advances were considerably less in 1954 than in 1953. The average rate of interest, which declined from 1.96 to 1.61 per cent, reflected two reductions in the discount rate, first from 2 per cent to 1¾ per cent and then to 1½ per cent. The table below shows a comparison of average daily holdings and average interest rates on loans and securities held by the Federal Reserve Banks during each of the past three years.

**RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1952-54**  
[Dollar amounts in thousands]

| Item and year                                   | Total <sup>1</sup> | Dis-<br>counts<br>and<br>advances | U. S.<br>Govern-<br>ment<br>securities | In-<br>dus-<br>trial<br>loans |
|-------------------------------------------------|--------------------|-----------------------------------|----------------------------------------|-------------------------------|
| <b>Average daily holdings: <sup>1</sup></b>     |                    |                                   |                                        |                               |
| 1952.....                                       | \$23,933,643       | \$802,334                         | \$23,126,674                           | \$4,635                       |
| 1953.....                                       | 25,438,684         | 777,595                           | 24,657,904                             | 3,185                         |
| 1954.....                                       | 24,866,567         | 216,697                           | 24,648,691                             | 1,179                         |
| <b>Earnings:</b>                                |                    |                                   |                                        |                               |
| 1952.....                                       | 455,898            | 14,083                            | 441,629                                | 186                           |
| 1953.....                                       | 512,841            | 15,265                            | 497,455                                | 121                           |
| 1954.....                                       | 438,359            | 3,479                             | 434,837                                | 43                            |
| <b>Average rate of interest (per<br/>cent):</b> |                    |                                   |                                        |                               |
| 1952.....                                       | 1.90               | 1.75                              | 1.91                                   | 4.01                          |
| 1953.....                                       | 2.02               | 1.96                              | 2.02                                   | 3.80                          |
| 1954.....                                       | 1.76               | 1.61                              | 1.76                                   | 3.65                          |

<sup>1</sup> Based on holdings at opening of business.

**Foreign and international accounts.** The total of earmarked gold, dollar deposits, United States Government securities, and miscellaneous holdings for foreign account at the Federal Reserve Banks continued to rise during 1954 but at a slower rate than in the two preceding years. An all-time high of 9.2 billion dollars was reached in October 1954. Following a steady advance in every year except 1951 from a total of 3.4 billion at the close of 1947, a rise of 566 million during 1954 brought the year-end total to 9.1 billion. Of this amount, 5.6 billion dollars was in the form of earmarked gold, 2.9 billion in United States Government securities, principally Treasury bills held in custody, nearly 500 million in dollar deposits, and approximately 100 million in miscellaneous securities.

The gold and dollar assets of the International Monetary Fund and the International Bank for Reconstruction and Development held at the Federal Reserve Bank of New York increased 310 million dollars during the year to a new year-end high of 3.7 billion.

An account was opened during the year for a recently established central bank in the Far East. When this account ultimately absorbed the assets of an account in the name of the same institution which the Federal Reserve Bank of New York had maintained as fiscal agent of the United States, the latter account was closed.

Loans secured by gold collateral increased in both number and amount. The maximum amount outstanding on any one day aggregated 185 million dollars as compared to less than 32 million in 1953. At the end of the year only one loan was outstanding, in the amount of 133 million; it is scheduled for repayment in monthly instalments by October 1955. The policy of the Federal Reserve System continued to provide for the granting of gold loans to assist foreign monetary authorities in meeting their dollar requirements for temporary periods.

The Federal Reserve Bank of New York, as depositary and fiscal agent, continued to perform various services for the International Bank for Reconstruction and Development and the International Monetary Fund. As fiscal agent of the United States it also continued to operate the United States Stabilization Fund, pursuant to instructions of the Treasury Department, and to administer on behalf of the Treasury Department the regulations affecting blocked assets and transactions in this country of Communist China and North Korea and their nationals.

**Bank premises.** During the year the Board authorized the Federal Reserve Bank of Kansas City to construct an addition to the Omaha Branch building, and the Federal Reserve Bank of Dallas to construct a new building for the San Antonio Branch. The Board also authorized the Federal Reserve Bank of Cleveland to construct a security court in leased quarters adjacent to the Cincinnati Branch.

During the year, with the approval of the Board, the Federal Reserve Banks of Chicago and Dallas acquired properties adjoining their present locations to provide for future expansion and the Federal Reserve Bank of St. Louis acquired a site for a new building for the Louisville Branch. The Federal Reserve Bank of Dallas

was also authorized to acquire sites for new buildings for the El Paso and Houston Branches.

**Intradistrict territorial changes.** During the year intradistrict territorial changes were made in three Federal Reserve districts. Each of these changes had the effect of enlarging the area served by Federal Reserve branches.

In the Second District, the four counties of Ontario, Steuben, Wayne, and Yates in the State of New York were transferred from the New York head office to the Buffalo Branch territory, effective April 1, 1954. In the Seventh District, the entire lower peninsula of Michigan was assigned to the Detroit Branch, effective January 1, 1954; previously 49 of these 68 counties had been in the head-office territory. In the Twelfth District, four counties were transferred to the Los Angeles Branch effective December 1, 1954; Kern, San Luis Obispo, and Mono counties in California were transferred from the San Francisco head-office territory and Clark County, Nevada, from the Salt Lake City Branch territory.

Several towns in the Eighth District were reassigned during the year so as to be included in the same head-office or branch territory as the other towns in their respective counties.

#### BOARD OF GOVERNORS—INCOME AND EXPENSES

The accounts of the Board for the year 1954 were audited by the public accounting firm of Arthur Andersen & Co., whose certificate follows:

To the Board of Governors  
of the Federal Reserve System:

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1954, and the related statement of income and expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and expenses present fairly the financial position of the Board of Governors of the Federal Reserve System as of December 31, 1954, and the results of its operations for the year then ended, and were prepared in conformity with

generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Washington, D. C.  
February 15, 1955.

### BALANCE SHEET—DECEMBER 31, 1954

#### ASSETS

|                                                    |                       |                          |                       |
|----------------------------------------------------|-----------------------|--------------------------|-----------------------|
| Cash in Federal Reserve Bank of Richmond.....      |                       |                          | \$ 738,606.91         |
| Petty cash.....                                    |                       |                          | 800.00                |
| Miscellaneous receivables and travel advances..... |                       |                          | 9,978.85              |
| Stockroom and cafeteria inventories, at cost.....  |                       |                          | 14,510.71             |
| Property and equipment:                            |                       |                          |                       |
|                                                    | At cost               | Reserve for depreciation |                       |
| Land.....                                          | \$ 737,180.30         | \$ —                     |                       |
| Land improvements.....                             | 10,939.15             | —                        |                       |
| Building.....                                      | 3,794,693.58          | —                        |                       |
| Furniture and equipment.....                       | 453,073.17            | 252,784.60               |                       |
| Automobiles.....                                   | 15,388.36             | 12,655.97                |                       |
|                                                    | <u>\$5,011,274.56</u> | <u>\$265,440.57</u>      | 4,745,833.99          |
|                                                    |                       |                          | <u>\$5,509,730.46</u> |

#### LIABILITIES AND FUND BALANCES

|                                                                 |                       |
|-----------------------------------------------------------------|-----------------------|
| Accounts payable.....                                           | \$ 132,261.07         |
| Employee Federal income taxes withheld.....                     | 100,126.34            |
| Accrued pay roll.....                                           | 120,735.19            |
| Fund Balances:                                                  |                       |
| Balance, December 31, 1953.....                                 | \$5,172,933.27        |
| Excess of expenses over income, per accompanying statement..... | ( 18,813.97)          |
| Fixed assets purchased, etc. (net).....                         | 2,488.56              |
| Balance, December 31, 1954.....                                 | <u>\$5,156,607.86</u> |
| Represented by—                                                 |                       |
| Property and Equipment Fund.....                                | 4,745,833.99          |
| Operating Fund.....                                             | 410,773.87            |
|                                                                 | <u>\$5,509,730.46</u> |

NOTE—The Board provides for depreciation of furniture and equipment and automobiles, but depreciation of the building has not been recognized in the accounts inasmuch as the Board deems a provision for such depreciation as unnecessary since funds for replacement of the building will be obtained, when required, from outside sources.

## FEDERAL RESERVE SYSTEM

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STATEMENT OF INCOME AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 1954

## INCOME:

|                                                |                      |
|------------------------------------------------|----------------------|
| Assessments against Federal Reserve Banks..... | \$4,174,600.00       |
| Bulletin sales.....                            | 13,694.68            |
| Other publications sales.....                  | 15,623.32            |
| Miscellaneous receipts.....                    | 2,468.59             |
|                                                | <hr/> \$4,206,386.59 |

## EXPENSES:

|                                                                    |                      |
|--------------------------------------------------------------------|----------------------|
| Salaries.....                                                      | \$3,007,433.18       |
| Retirement and insurance contributions.....                        | 256,451.65           |
| Traveling expenses.....                                            | 228,898.63           |
| Postage and expressage.....                                        | 55,778.03            |
| Telephone and telegraph, including leased wire operations (net) .. | 55,055.77            |
| Printing and binding.....                                          | 208,116.46           |
| Stationery and supplies.....                                       | 29,161.97            |
| Equipment rental.....                                              | 22,561.79            |
| Provision for depreciation.....                                    | 25,218.38            |
| Books and subscriptions.....                                       | 14,370.33            |
| Heat, light, and power.....                                        | 37,573.83            |
| Repairs, maintenance, and alterations.....                         | 14,720.57            |
| Insurance.....                                                     | 5,091.77             |
| Consumer Finances Surveys.....                                     | 147,123.06           |
| Talle Subcommittee project.....                                    | 5,445.47             |
| Retail Credit Survey.....                                          | 13,500.00            |
| Legal and consultant fees and expenses.....                        | 6,385.93             |
| Security clearance investigations for Board employees.....         | 13,920.00            |
| Meeting of Technicians of Central Banks.....                       | 10,773.52            |
| Audit expenses applicable to Board's accounts.....                 | 2,562.97             |
| Loss from operation of cafeteria (net).....                        | 38,643.82            |
| Other.....                                                         | 26,413.43            |
|                                                                    | <hr/> \$4,225,200.56 |

EXCESS OF EXPENSES OVER INCOME..... \$ 18,813.97

NOTE—Salaries, and retirement and insurance contributions exclude approximately \$65,800 and \$6,900, respectively, which were charged direct to cafeteria operations.

In the foregoing statement of income and expenses, "Other" expenses of \$26,413.43 includes an expenditure of \$425.00, contributed by the Board of Governors for cost of a luncheon at a meeting of Treasury Department savings bonds program volunteer workers.

The Board received the following reimbursements in 1954 for expenditures which it makes on a reimbursable basis:

|                                                                                                |                |
|------------------------------------------------------------------------------------------------|----------------|
| Printing Federal Reserve notes.....                                                            | \$6,132,815.92 |
| Currency Redemption Division (Office of the Treasurer of the United States).....               | 419,574.00     |
| Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)..... | 164,538.48     |
| Leased wire service (telegraph).....                                                           | 289,647.17     |
| Leased telephone lines.....                                                                    | 9,684.00       |
| Miscellaneous.....                                                                             | 11,943.07      |

### FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met on March 3, June 23, September 22, and December 7, 1954, and the executive committee of the full Committee met frequently during the year. Under the provisions of Section 12A of the Federal Reserve Act, the Federal Open Market Committee, which has responsibility for determining the policies under which the open market operations of the Federal Reserve Banks will be carried out, is required to meet in Washington at least four times each year. A record of the action taken by the Committee on questions of policy will be found on pages 92-98 of this Report.

A meeting of the Conference of Chairmen of the Federal Reserve Banks was held on December 2-3, 1954, and was attended by members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on March 1-2, June 21-22, September 20-21, and December 6, 1954, and the Board of Governors met with the Presidents on March 3, June 23, and September 22, 1954.

Meetings of the Federal Advisory Council were held on February 14-16, May 16-18, September 19-21, and November 14-16, 1954. The Board of Governors met with the Council on February 16, May 18, September 21, and November 16, 1954. 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.

### MEETING OF CENTRAL BANK TECHNICIANS

The Board of Governors and the Federal Reserve Bank of New York acted as hosts for the Fourth Meeting of Central Bank Technicians of the American Continent, which was held in Washington and New York during the first two weeks of May 1954. More than 100 delegates representing 17 Latin American countries, Canada, the Federal Reserve System, the International Monetary Fund, the International Bank for Reconstruction and Development, and other international organizations attended the meeting. The purpose, like that of previous meetings held in Mexico, Chile, and Cuba, was to engage in objective study and discussion of current monetary and economic problems, as well as to consider central banking problems of an operating and technical nature.