

January 22, 1946.

Mr. George Whitney, President,
J. P. Morgan & Co. Incorporated,
23 Wall Street,
New York City.

Dear Mr. Whitney:

This is to thank you for your note of January 16 enclosing a copy of the letter to stockholders.

While I think I would not quarrel with most of the general observations, it is unfortunate, it seems to me, to assume that the failure to achieve high levels of production and employment in the decade of the 30's is properly attributable to the fact that the policy of deficit financing was not successfully carried through. I would agree that it was inadequately and inexpertly managed, but it was the one factor above all others that arrested the deflationary tide. And whether we like it or not, the policy is bound to be undertaken by whatever government is in power if we are unfortunate enough to get into another severe deflation. I think it would be more sensible to try to work the policy out intelligently than to attempt to dismiss it altogether.

On the other side of the ledger, however, I am glad to see that in discussing foreign trade the letter emphasizes that we must "buy, as well as sell, goods and services abroad." There is too much tendency to talk as if this were just a one-way street of selling.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b


J. P. MORGAN & CO.
INCORPORATED
23 Wall Street
New York

GEORGE WHITNEY
PRESIDENT

New York, January 16, 1946

Hon. Marriner S. Eccles, Chairman,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Governor Eccles:

I am sending you herewith, as a matter of possible interest, our stockholders letter presented at the annual meeting of J. P. Morgan & Co. Incorporated today.

Sincerely yours,

George Whitney

Enclosure

J. P. MORGAN & CO.
INCORPORATED
23 Wall Street
New York 8

HENRY C. ALEXANDER
VICE-PRESIDENT

New York, January 25, 1940

M. S. Eccles, Esq.,
Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D.C.

Dear Mr. Eccles:

Mr. Whitney will be out of town for about a week but, in his absence, I wish to acknowledge receipt of your letter of January 22nd.

We are naturally much interested in your reaction to our letter to stockholders and I know that Mr. Whitney will much appreciate your interesting and thoughtful letter.

Sincerely,

Henry C. Alexander

Received in
Chairman's Office

JAN 28 1940

Board of Governors
of the
Federal Reserve System

J. P. MORGAN & CO.
INCORPORATED
23 Wall Street
New York

GEORGE WHITNEY
PRESIDENT

New York, February 6, 1946

Hon. Marriner S. Eccles, Chairman,
Board of Governors of the Federal Reserve System,
Washington, D. C.

Dear Mr. Eccles:

I know Henry Alexander acknowledged your letter of January 22nd in which you comment on our stockholders' letter, which I sent you.

I am sorry if you got the impression that the failure to obtain high levels of production and employment in the 1930's was laid solely to unsuccessful management of deficit financing. That was certainly not my point of view. I had in mind merely that deficit financing did not accomplish the purpose for which it was publicly intended, nor can it in the future. There are, of course, other factors which more thoroughly control the lack of reemployment.

Sincerely yours,

George Whitney

New York, January 16, 1946.

To the Stockholders of

J. P. Morgan & Co. Incorporated

As the year 1945 closed and the new year opens, thankfulness for the victory that the old year brought is uppermost in the minds of all of us throughout the Nation. Our thoughts and sympathies go to all who suffered personal loss or injury. We are grateful to all who served in our armed forces.

The Nation can well be proud of its achievements, of its military triumphs, of its unity of purpose throughout the war, of the mobilization of its skills and resources, of the products of its industries, its labor and its farms, and of the efforts of its people toward providing so much of the tremendous monetary cost of so dreadful a conflict.

As the Nation turns to face the aftermath of war, both at home and throughout the world, the future appears grim. Everywhere one hears of strife and misunderstanding among nations and between groups within nations. The task of bringing this country back to prosperity in a peaceful world is enormous, but with clear purpose, understanding and skill, it can be done. We should not, after the most devastating war of all times, expect too much too fast, even in this country with its great material resources and relative prosperity. We should not expect that there can spring forth an economy so perfectly functioning that all ills are forever banished. We should be able to expect, however, an orderly America, opportunity for work, and a resumption of our economic and social progress. Above all, we should expect that America will be kept the land of freedom and opportunity.

Full production and wide distribution of peace time goods will bring most of the results that are sought—whether it is control of inflation and avoidance of deflation, good wages and good profits, greater security and better living, or sounder budgets and less debts.

But the desired objectives can be reached only if our Government, with the great powers that the people have temporarily granted to it, guides the economic and fiscal policies of the Nation in the direction of growth and development and not of repression. They can not be reached if we are led to expect more and more for less and less effort; if labor organizations or industrial organizations are to take purely selfish positions that block the road to production and distribution; or if political leaders are unwilling to face a reduction in government expenditures and are to assume that a policy of deficit financing can succeed any better in the future than it did in the decade 1930-40. The result of these can be nothing but the debasement of our currency and a lowering of the standard of living in the United States.

Nor can the objectives that the Nation seeks be attained in isolation. If this country is to prosper, we must try to help raise in some measure the standard of living in other countries and thereby bring about a wider market for our goods as well as those of friendly nations. We must find outlets abroad, foreign markets for excess production in many of our products; we must buy, as well as sell, goods and services abroad; we must be ready to make foreign loans and investments; we must aid in maintaining peace and world order and in the reconstruction of foreign nations, foreign exchanges, and foreign trade. Only in this way can we insure a maintenance of the standard of living in this country on a level comparable with what we have enjoyed in the past. It is certain, however, that it will not be possible for us to have everything at once, or to escape our fair share of the burdens, the disruptions, or the costs of the war.

The Company is proud of the performance of its men and women during the war—of those who served in the armed forces and also of those who have with loyalty and skill carried on the increasing

activity in the Company's operations, maintaining under conditions of a heavily depleted staff, the quality of service traditionally rendered by the Company. Upon our country's entry into the war in December 1941, there were 36 officers and 621 staff members in the employ of the Company, of whom 240 were women. A total of 12 officers and 124 staff members, including 5 women, entered the armed forces. Three young men gave their lives in the performance of their duties; three were seriously wounded; and a number of others suffered less serious injuries. Of those who entered the armed services, 57 have returned to their positions with the Company and it is expected that a majority of the others will return following their discharge from service. At the close of the year, operating personnel consisted of 46 officers and 602 staff members, of whom 313 were women.

Operations of the Company during 1945 were again governed largely by conditions related to war and war adjustments. Deposits continued to stand at high levels; loans for war purposes declined while commercial and business loans for normal purposes rose about \$35,000,000 during the year.

Operating results for the year ended December 31, 1945, and for the year ended December 31, 1944, in comparative form, were as follows:

	1945	1944
<i>Income</i>		
Net earnings from interest.....	\$7,651,603	\$8,189,031
Fees and commissions.....	2,109,224	1,772,887
	<u>\$9,760,827</u>	<u>\$9,961,918</u>
<i>Expenses</i>		
Operating expenses.....	\$4,560,373	\$4,115,797
Miscellaneous taxes and expenses.....	493,812	508,078
	<u>5,054,185</u>	<u>4,623,875</u>
Operating Earnings, before security profits and charges shown below.....	\$4,706,642	\$5,338,043
Net security profits.....	2,529,651	1,619,029
	<u>\$7,236,293</u>	<u>\$6,957,072</u>
<i>Charges</i>		
Federal income taxes.....	\$1,780,000	\$1,642,268
Special payment toward past service pension cost.....	371,000	—0—
	<u>2,151,000</u>	<u>1,642,268</u>
Net Earnings	<u>\$5,085,293</u>	<u>\$5,314,804</u>

During 1945 certain changes were effected in the investment portfolio of the Company, as a result of which earnings from interest for the period were lower, but security profits resulted from such changes. Security profits also include approximately \$618,000 resulting from the redemption of certain securities acquired at a substantial discount by the Company at the time of its incorporation. Operating expenses in 1945 included \$272,000 representing additional compensation to staff members and officers for the year 1945, as hereinafter mentioned. Net earnings were charged, as shown above, with a special payment of \$371,000 toward past service pension cost.

The net earnings for 1945, after payment of \$1,600,000 in dividends to stockholders, are reflected in Undivided Profits, which increased \$1,949,265 during 1945, and in General Reserve, which increased \$1,536,028 during 1945.

Condensed Statements of Condition of the Company as of December 31, 1945, and as of December 31, 1944, are submitted herewith.

In the Condensed Statements of Condition, general market securities, including all United States Government obligations, are valued at cost or, when purchased at a premium, at amortized cost calculated to the earliest call date. The General Reserve of the Company is set forth in the statements in conformity with the practice adopted by the Company in 1944.

United States Government securities amounted to about 59% of the total assets of the Company on December 31, 1945, as compared with about 66% on December 31, 1944. These securities stood on the

Condensed Statements of Condition

A S S E T S	Dec. 31, 1945	Dec. 31, 1944
Cash on Hand and Due from Banks . . .	\$137,208,564.25	\$128,580,741.82
United States Government Securities . .	467,984,871.45	535,055,435.96
State and Municipal Bonds and Notes .	12,103,782.96	10,766,289.01
Stock of the Federal Reserve Bank . .	1,200,000.00	1,200,000.00
Other Bonds and Securities (including Shares of Morgan Grenfell & Co. Lim- ited and Morgan & Cie. Incorporated) .	17,117,461.09	15,697,733.80
Loans and Bills Purchased	150,389,136.62	116,959,509.44
Accrued Interest, Accounts Receivable, etc.	2,530,442.21	2,597,765.01
Banking House	3,000,000.00	3,000,000.00
Liability of Customers on Letters of Credit and Acceptances	5,295,010.64	2,739,134.35
	<u>\$796,829,269.22</u>	<u>\$816,596,609.39</u>
L I A B I L I T I E S		
Deposits	\$715,457,446.25	\$748,229,822.87
Official Checks Outstanding	13,531,922.50	8,319,953.98
Accounts Payable and Miscellaneous Lia- bilities	5,045,039.27	3,957,354.23
Acceptances Outstanding and Letters of Credit Issued	5,959,223.91	2,739,134.35
Capital	20,000,000.00	20,000,000.00
Surplus	20,000,000.00	20,000,000.00
Undivided Profits	6,378,366.69	4,429,101.56
General Reserve	10,457,270.60	8,921,242.40
	<u>\$796,829,269.22</u>	<u>\$816,596,609.39</u>

United States Government securities carried at \$243,987,328.53 on December 31, 1944, and \$197,885,566.20 on December 31, 1945, in the above statements were pledged to qualify for fiduciary powers, to secure public monies as required by law, and for other purposes.

Members of Federal Reserve System and Federal Deposit Insurance Corporation

DIRECTORS

THOMAS W. LAMONT
Chairman

R. C. LEFFINGWELL
Chairman Executive Committee

GEORGE WHITNEY
President

HENRY C. ALEXANDER
Vice-President

ARTHUR M. ANDERSON
Vice-President

I. C. R. ATKIN
Vice-President

PAUL C. CABOT
*President State
Street Investment
Corporation*

BERNARD S. CARTER
*President
Morgan & Cie.
Incorporated*

CHARLES S. CHESTON

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*President The B. F.
Goodrich Company*

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Vice-President

CHARLES D. DICKEY
Vice-President

RALPH W. GALLAGHER

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*Vice-Chairman
of the Board
Morgan & Cie.
Incorporated*

THOMAS S. LAMONT
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GUSTAV METZMAN
*President New
York Central
Railroad Company*

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*Chairman General
Motors Corporation*

E. TAPPAN STANNARD
*President Kennecott
Copper Corporation*

JAMES L. THOMSON
*Chairman Finance
Committee Hartford Fire
Insurance Company*

JOHN S. ZINSSER
*President Sharp & Dohme
Inc.*

books of the Company at an amortized cost of \$467,984,871. They averaged about four years and one month to maturity, or about two years and seven months to earliest call date, grouped as follows:

Principal Amount	To Maturity	To Call Date
Within one year.....	\$191,159,000	\$203,759,000
From one to five years.....	71,355,000	172,610,000
From five to ten years.....	158,360,000	77,805,000
Over ten years.....	33,376,000	76,000
	<u>\$454,250,000</u>	<u>\$454,250,000</u>

Near the close of the year additional compensation was paid to staff members in the amount of \$145,500. This was about 10% of the total staff payroll for 1945, although there were variations in the amounts paid to individuals and to classifications of staff members. On January 9, 1946, the Board of Directors authorized, under and within the limits prescribed in the Additional Compensation Plan of the Company, the payment of additional compensation to officers of the Company for the year 1945 in the amount of \$126,500. During the year the Company arranged for hospital and surgical insurance for all of its employees and eligible members of their families, at an annual cost to the Company estimated at about \$20,000.

Under the Employees Retirement Plan, in addition to regular payments in respect of current service benefits, the Company has continued its regular annual contributions in respect of prior service benefits at the rate of 10% of the actuarial value of such benefits. During 1945 such contribution amounted to \$236,500, which was an increase of about \$24,000 over the previous year's regular contribution, this increase being due to a reduction from 3% to 2½% in the rate of interest assumed in the actuarial calculations under the Plan. In addition, as indicated above, the Company made a special contribution in respect of prior service benefits during 1945 in the amount of \$371,000. Continuation of regular contributions at the rate of \$236,500 a year for about 6½ years, is estimated to be sufficient to provide in full for past service benefits under the Plan.

The Company's investment in Morgan Grenfell & Co. Limited, London, remained unchanged throughout the year.

In accordance with plans previously reported to the stockholders, Morgan & Cie. Incorporated, a wholly owned subsidiary of the Company, succeeded to the business of the firm of Morgan & Cie., Paris, upon its dissolution, effective as of May 31, 1945. Earlier succession had been prevented by war time conditions. The continuance of this business with a record of distinguished service since its establishment in 1868 should prove to be of advantage to the Company, of convenience to the public, and of substantial service to American interests and to international trade relations. The Company owns all of the \$1,000,000 capital stock of Morgan & Cie. Incorporated, \$850,000 of which was subscribed and paid for by the Company and \$150,000 of which was contributed without cost to it in 1941, by the partners of the firm of J. P. Morgan & Co., in liquidation.

The Board of Directors of Morgan & Cie. Incorporated is composed of officers of J. P. Morgan & Co. Incorporated and of Morgan & Cie. Incorporated. Mr. Thomas W. Lamont serves as Chairman of its Board, Mr. George Whitney as Chairman of its Executive Committee, and Mr. Maurice Pesson-Didion as Chairman of its Managing Committee (Paris). Its chief executive officers are Mr. Nelson Dean Jay, Vice-Chairman of the Board, and Mr. Bernard S. Carter, President.

Since the last annual report to the stockholders, there have been a number of additions to the Board of Directors of J. P. Morgan & Co. Incorporated. Mr. Charles S. Cheston, until recently Assistant Director of the Office of Strategic Services, was elected a member of the Board on February 21, 1945. Mr. Nelson Dean Jay and Mr. Bernard S. Carter, for many years members of the firm of Morgan & Cie., Paris, and now chief executive officers of Morgan & Cie. Incorporated, were elected members of the Board on October 3, 1945. Mr. John L. Collyer, President of The B. F. Goodrich Company, and Mr. Ralph W. Gallagher were elected members of the Board on January 9, 1946. Those Directors of the Company who were on service with the armed forces have now returned to their civilian activities.

George Whitney,
President.