

**Twenty-sixth Annual Report**  
**Federal Reserve Bank**  
**of New York**

**For the Year Ended December 31, 1940**



**Second Federal Reserve District**



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**FEDERAL RESERVE BANK  
OF NEW YORK**

*April 8, 1941.*

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

I am pleased to transmit herewith the twenty-sixth annual report of the Federal Reserve Bank of New York reviewing the year 1940.

ALLAN SPROUL,  
*President.*

# Federal Reserve Bank of New York

## Twenty-Sixth Annual Report

The progress of the war in Europe and the development of the defense program in the United States completely altered business and credit conditions and prospects during the year 1940.

It is true that in the early part of the year, there was little evidence of those changes which were quite generally anticipated at the outbreak of the war in September, 1939. Commodity prices, instead of showing the expected inflationary rise, pursued an irregular, downward course. Business activity, which had expanded rapidly in the autumn of 1939, was curtailed in the first quarter of 1940, despite the stimulus of war orders and a larger export trade with Latin American countries. The demand for bank credit was relatively small, and the supply of funds increased more rapidly than the demand. Consequently, money rates tended to decline further.

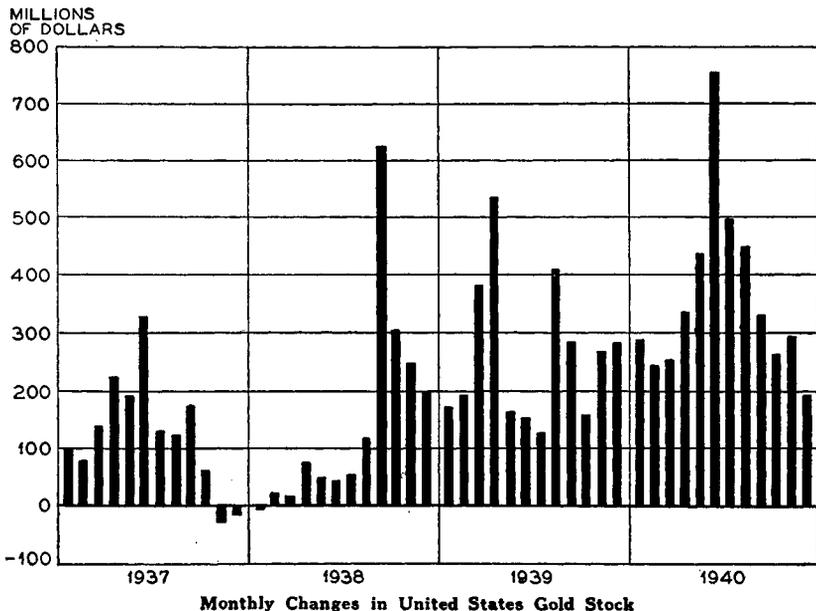
The more active phase of the war starting with the German occupation of Denmark and Norway in April and continuing with the invasion of Holland, Belgium, and France in May, and the subsequent attacks on Great Britain and on British shipping, gave purpose and impetus to a greatly expanded program of National defense in the United States, which directly affected the domestic business situation and outlook. A revival in business started in May and gained momentum during the autumn months. The hiring and training of additional employees in many industries proceeded rapidly and pointed toward a rapid diminution of the problem of unemployment. Commodity prices became firmer. Demands for bank credit increased.

The development of the National defense program gave rise to many problems in which this bank had a direct or collateral interest and responsibility. Aside from the primary problem of expanding production of defense equipment and materials as rapidly as possible, the program raised a number of financial questions. In addition to the general question of how rapidly increasing Government expenditures were to be

financed, there was also the question of how best to finance the requirements of industry for new plants, equipment, and working capital. It was readily apparent that careful consideration must be given to methods of financing Government expenditures, having in mind not only their effect upon the size and composition of the public debt, but also their effect upon consumer spending, employment, prices, and other aspects of our economy. The prospect of a rapid expansion of purchasing power and of an increased use of credit arising from the defense program also raised important questions as to appropriate monetary and credit policies to be pursued when the program was further developed.

### The Money Market

It was apparent from the beginning of the year that, in its early stages, the war was having a much greater effect upon the supply of funds available in the money market than upon the demand for bank credit. In the early months of 1940, the gold stock of this country was increasing at the rate of about \$250,000,000 a month, chiefly as a result of a rapid inflow of gold from abroad. After the invasion of Denmark and Norway the inflow was greatly accelerated, reaching its maximum



monthly figure in June when gold imports totaled \$1,164,000,000. Although a considerable amount of this gold was earmarked on arrival, the increase in the United States gold stock in that month was more than \$750,000,000. After the military collapse of France, the gold inflow receded gradually, reaching its minimum for the year in December, when total imports were slightly less than \$140,000,000, and the increase in the gold stock was less than \$200,000,000.

For the year as a whole, gold imports aggregated nearly \$4,750,000,000. The amount of gold held under earmark for foreign accounts increased by \$645,000,000, or about 55 per cent, to \$1,808,000,000, and the increase in the United States gold stock for the year was approximately \$4,350,000,000, a substantially larger increase than in the previous record year, 1939. The gold stock of this country at the end of December was almost \$22,000,000,000, or about seven times the amount held at the beginning of the last war, in 1914, and about three times the amount held at the time of the advance in the United States gold price on January 31, 1934.

The unprecedented volume of the gold movement to this country during 1940 was attributable largely to (1) heavy shipments for British account to provide dollar assets for the purchase of war materials and for the construction and equipment of plants with which to produce such materials, (2) large shipments from France for similar purposes during the first half of the year, (3) the transfer of monetary reserves from a number of European countries to the United States for safekeeping, and (4) gold shipments from other countries for the settlement of adverse balances of payments in the international accounts of such countries.

Not all of this incoming gold added to the reserves of banks in this country during the year, however. Some of the gold shipped here in the early part of the year was placed under earmark at this bank for the accounts of invaded countries; and these accounts subsequently were "blocked" by executive order. Other gold placed under earmark during the year represented monetary reserves transferred to this country for safekeeping by countries not subject to blocking orders. In other cases some of the proceeds of foreign gold sales to the Treasury were deposited in foreign accounts in the Reserve Banks and remained unexpended at the end of the year, either because the accounts

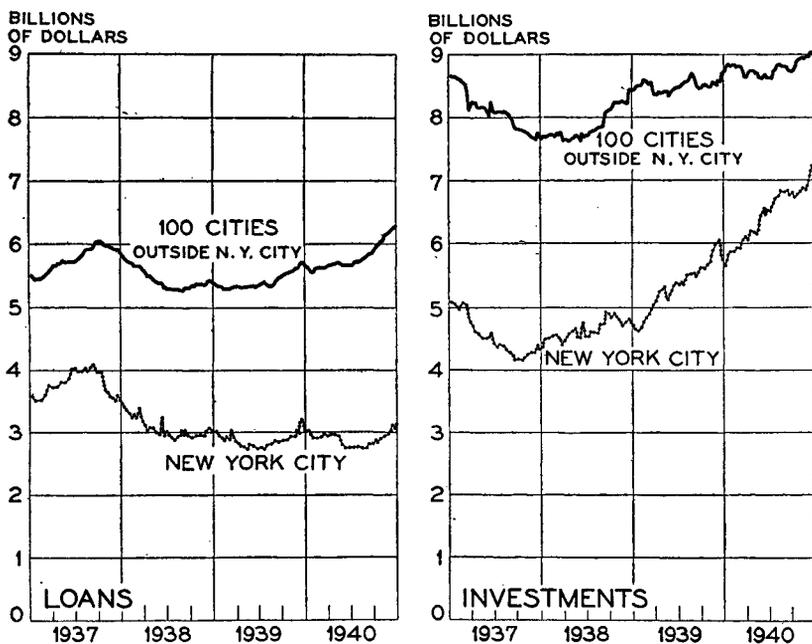
were blocked, or because disbursement of the funds was not required.

Nevertheless, total disbursements of the proceeds of foreign sales of gold to the Treasury during 1940 may be estimated at approximately \$3,400,000,000. In the absence of other offsetting transactions, these expenditures would have increased member bank reserves by a like amount. They were offset to the extent of more than \$1,000,000,000, however, by an increase in the amount of currency outstanding. The causes of this large increase in currency outstanding are not entirely clear, but it is probable that the increase in small denomination bills was related largely to rising industrial payrolls and consumer expenditures, and that a considerable part of the increase in large denomination bills was attributable to the conversion of foreign funds into United States currency. Despite these large demands for currency, the actual increase in member bank reserves during the year was close to \$2,500,000,000.

Meanwhile, demands for additional bank credit were slow in developing during the first half of the year. The volume of commercial and industrial loans at New York City banks receded slightly in January and February, and thereafter showed only a small increase until September. The experience of reporting member banks in other principal cities appears to have been similar. Loans to security brokers and dealers by New York City banks declined, during the first six months of the year, to approximately the lowest levels ever reached in the years for which data are available. Treasury financing was limited to refunding offerings in that period, and flotations of securities to provide new business capital were small. The reporting New York City banks increased their investments by about \$750,000,000, but other banks throughout the country reduced their investment holdings during that period. On the whole, therefore, it may be said that while the available supply of funds was increasing rapidly, there was little new demand for bank credit during the first half of 1940.

Following the initiation of the National defense program and accompanying the rapid expansion in business activity during the latter half of the year, however, there was an appreciable increase in the demand for bank credit. Commercial and industrial loans in the reporting New York City banks increased by more than \$200,000,000, and in reporting banks in other parts

of the country there was an increase of about \$400,000,000 during this period. Loans for the purpose of financing security transactions increased by approximately \$200,000,000, chiefly at New York City banks. Actual expenditures under the National defense program developed slowly, but gained momentum rapidly toward the close of the year, and it became necessary for the Treasury to sell Government securities to obtain new funds, as well as for refunding purposes. Partly as a result of such financing, holdings of direct obligations of the Government increased approximately \$300,000,000 in weekly reporting New York City banks during the second half of the year, and more than \$200,000,000 in other reporting banks. Holdings of Government guaranteed securities rose nearly \$340,000,000, almost entirely in the reporting New York City banks.

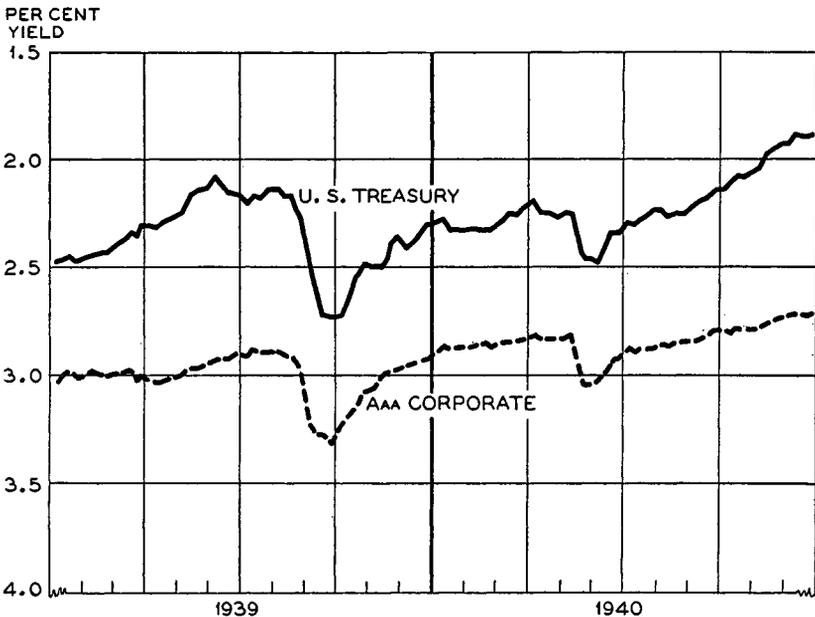


Loans and Investments of Weekly Reporting Banks

Demand deposits in member banks rose substantially during 1940 to new high levels. The rise was largely due to increases in loans and investments and to the disbursement of the proceeds of gold sales through foreign accounts in the Federal Reserve Banks, and it occurred despite total withdrawals in cur-

rency of more than \$1,000,000,000 of deposits. The increase in demand deposits from \$30,000,000,000 to \$35,000,000,000 caused an increase in reserve requirements, which for the year as a whole aggregated nearly \$1,000,000,000. This was a partial offset to the concurrent rapid expansion of member bank reserves, but, nevertheless, excess reserves of member banks increased during 1940 by well over \$1,500,000,000.

The accumulation of additional reserves in member banks at a more rapid rate than they were absorbed by currency withdrawals and demands for bank credit was accompanied by further decline in long term interest rates during the year. Not only because of the further accumulation of idle funds, but also because of security refunding operations which reduced yields on investment portfolios still further, banks were under continued pressure to add to their investment holdings to maintain their income, and an irregular rise in prices of Government and other high grade bonds occurred. The banks had previously become accustomed to holding such large amounts of excess reserves, however, that the further large increase in excess reserves, which resulted from the enormous gold inflow, had less



Average Yields on Long Term Treasury Bonds and on High Grade Corporate Bonds (Scale inverted to indicate price tendencies; Moody's Investors Service data on corporate bonds)

effect on bank investment policies and on money rates than would otherwise have been the case. The upward trend in bond prices and the further decline in their yields were subject to recurrent interruptions, largely caused by war developments, but as the year progressed there was evidence of increasing immunity in the market for high grade securities to these disturbing influences.

There had been a rapid recovery in prices of high grade securities during the last quarter of 1939, following an abrupt decline at the outbreak of the war, and during the first two months of 1940 bond prices remained fairly steady. But in March, especially after the Treasury announced that its financing operations of March 15 would be limited to a refunding issue of Treasury notes and that no bonds would then be issued, either for new money or for refunding, a further rise in bond prices occurred. By the first week of April prices of long term Treasury bonds were close to the highest levels reached at the middle of 1939.

The invasion of Denmark and Norway on April 9 had an unsettling effect on the security markets, but price declines in high grade bonds were moderate. In the following month the invasion of the Low Countries had a further depressing effect on bond prices. The total decline in average prices of long term Treasury bonds from the early April peak to the lowest levels early in June, however, was only about  $4\frac{1}{2}$  points, as compared with a decline of nearly 9 points in 1939 from early in August to the latter part of September, accompanying the outbreak of the war. The volume of selling of Government and other high grade bonds was far less than in the earlier period, and no extensive purchases by the Federal Reserve Banks were required to maintain orderly market conditions. Despite the military collapse of France in June, bond prices rose sharply in that month, recovering more than half of the preceding decline.

During the latter half of the year, in the face of threats of further adverse war developments, the general course of prices of high grade bonds was upward. This movement was accelerated following the National election in November, and in the early part of December prices not only of Treasury bonds, but also of State and municipal issues and high grade corporation bonds, reached higher levels than ever before, and bond yields declined to new low levels.

Stock prices, however, were severely affected by war developments and dropped rapidly in May to the lowest level since the first half of 1938. A gradual recovery followed, accompanying rapid expansion of business activity, but the rise was restrained by fears as to the outcome of the war and as to the heavy reliance of American business on a war created demand which might conceivably be abruptly changed. There was the expectation also that further increases in taxes to help finance the National defense program would prevent net profits of business organizations, after payment of taxes, from reflecting to any great extent the increase in business activity. Consequently stock prices at the close of the year were well below prices a year ago, and substantially lower than at other periods of active business, such as the early part of 1937.

The strength in prices of high grade bonds and the relative weakness in stock prices during 1940 were in sharp contrast to the tendencies that prevailed at the outbreak of the war in September, 1939, when bond prices declined rapidly and stock prices rose strongly for a short period, apparently reflecting expectations of a war boom which would greatly increase business profits, but would result in an upward trend in money rates that would depress bond prices.

At the close of the year 1940, however, some of the anticipated effects of the situation created by the war began to appear. The rapid progress of the National defense program led to discussions of possible inflationary dangers, either because of a multiplication of specific shortages of materials and men, or because of a full utilization of all of our productive facilities, which might call for a policy of restraint on further credit expansion. Aside from such future possibilities, there was the fact that the inflow of gold was diminishing, that withdrawals of currency from the banks were continuing in large volume, and that reserve requirements of member banks were continuing to rise. It appeared that these trends would at least prevent a further accumulation of excess reserves in the banks, and, together with the more active demand for credit, might check the downward trend in interest rates, particularly of short term. Nevertheless the volume of member bank excess reserves at the beginning of 1941, far from having been reduced by war developments, was more than double that of two years ago, and there was no apparent basis for expecting a substantial early change in credit conditions or a substantial rise in long term money rates.

### Federal Reserve Policy

The general credit policy followed in recent years was maintained during 1940. There was no change in the principal discount rates of this bank during the year and System open market operations in which the bank participated were neither extensive nor important when viewed as an instrument of credit policy. Particularly during the latter half of the year, however, consideration was given to the inflationary potentialities of the existing and then increasing volume of bank reserves, and to possible ways of meeting the situation if, under conditions of rapidly expanding demands for goods of many kinds, and accompanying strain on the productive facilities of the country, a policy of restraint on credit expansion should eventually become desirable.

Open market operations conducted by this bank for all Federal Reserve Banks under the direction of the Federal Open Market Committee continued to be directed toward the maintenance of orderly conditions in the Government securities market. These operations during 1940, excluding exchanges and switches from one issue to another, are listed below.

Net Sales		Net Purchases	
Week ended	Amount in millions	Week ended	Amount in millions
Jan. 3.....	\$ 5		
Jan. 10.....	7		
Mar 20.....	2		
Apr. 3.....	8		
		May 15.....	\$ 7
		May 22.....	3
June 19.....	4		
July 3.....	23		
July 31.....	2		
Aug. 7.....	2		
Aug. 28.....	4		
Sept. 4.....	8		
Oct. 2.....	10		
Oct. 9.....	25		
Oct. 16.....	15		
Oct. 23.....	32		
Oct. 30.....	19		
Nov. 6.....	6		
Nov. 13.....	73		
Nov. 20.....	23		
Nov. 27.....	27		
Dec. 4.....	9		
Dec. 11.....	11		
<b>Total.....</b>	<b>\$315</b>	<b>Total.....</b>	<b>\$10</b>

As these figures indicate, there were a number of weeks during the year in which there was active demand for Government securities, but such a scarcity of offerings that sales from the Federal Open Market Account seemed desirable. On the other hand, while the Government security market was subject from time to time to depressing influences, largely though not entirely related to war developments, selling orders in most such instances were not for large amounts, and at such times there were usually buying orders in the market at a moderate "scale-down" of prices.

It was only for a short time following the invasion of the Low Countries that market conditions appeared to warrant intervention by the Federal Open Market Account on the buying side. And, as the above list of transactions indicates, purchases for the Account at that time amounted to only \$10,000,000—a great contrast to the situation at the outbreak of the war, when a total of \$474,000,000 of Government securities was bought for the Account in five weeks. As further indication of the diminishing vulnerability of the Government security market to foreign developments, the situation in June may be cited, when, despite the military collapse of France, there was renewed demand for Government securities of such vigor as to warrant a resumption of sales by the Federal Open Market Account.

By the end of the year, the total volume of securities in the Account had been reduced to \$2,184,000,000, a reduction of \$642,000,000 from the peak reached on September 20, 1939, following the heavy purchases made during the slump in the bond market that accompanied the outbreak of the war. Part of this reduction was accounted for by the elimination of Treasury bills from the Account as they matured during the latter part of 1939. The remainder represented sales in the market for the purpose of maintaining orderly market conditions. Although the securities sold were largely Treasury bonds, the volume of Treasury bonds in the portfolio showed a net reduction of only \$24,000,000, while holdings of Treasury notes were reduced by \$346,000,000, largely because of refunding operations by the Treasury which involved the exchange of maturing Treasury notes for new issues of Treasury bonds. The total amount of securities in the Account at the end of 1940 was only one third of the excess reserves held by all member banks, and it was evident, therefore, that the reserve position of member banks

was far beyond the control of the Federal Reserve System through open market operations.

Demands on the industries of this country for their output, not only for National defense but also for civilian consumption, increased rapidly during the latter half of the year, and commodity prices tended to strengthen somewhat. The money supply in the form of demand deposits and currency outstanding was far larger than in any previous year, and the reserve position of the banks was such as to make possible a very large further increase in the money supply through credit expansion. It was apparent, therefore, that there were present in the business and monetary position of this country potentialities of wartime inflation, and that the Federal Reserve System lacked adequate powers to deal with the monetary and credit aspects of the situation if and when such action might become desirable. This condition was a matter of concern to all parts of the Federal Reserve System, and led to the drafting of a special report to the Congress, presented jointly on December 31, 1940, by the Board of Governors, the presidents of the Federal Reserve Banks, and the Federal Advisory Council. This report drew attention to the existing situation. It recognized that monetary measures are probably of secondary importance in controlling the situation with which we may be faced, and are for future rather than for present application. It went on to suggest for consideration of the Congress, however, a precautionary program, the most important element in which was provision for increased Federal Reserve powers to absorb excess reserves if and when such action should be required.<sup>(1)</sup>

### Interbank Deposits and Excess Reserves

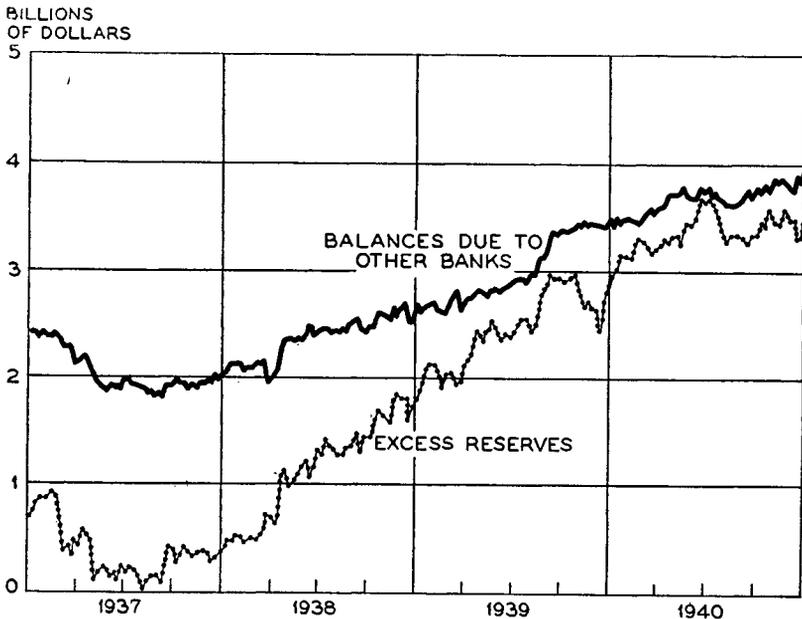
One aspect of the situation which must be considered in discussing the excess reserve problem, because it has tended greatly to confuse the situation as to the actual ownership of member bank excess reserves, is the unprecedented volume of deposits held by large city banks for correspondent banks. Published data on excess reserves held by the three principal classes of member banks in December, 1940, indicate fairly uniform distribution of excess reserves, although Central Reserve City banks appeared

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(1) The text of this statement is contained in circular No. 2160 of this bank, which is available on request.

to have slightly larger proportions of excess reserves relative to their reserve requirements than did Reserve City and "country" banks. Indicated excess reserves at that time were 93 per cent of reserve requirements for Central Reserve City banks, 85 per cent for Reserve City banks, and 86 per cent for "country" banks.

The fact of the matter, however, is that Central Reserve City banks had claims against them, in the form of deposits of other banks, which were larger in total amount than their excess reserves. Some of these deposits represented normal working balances maintained by other member banks with the city banks,



Balances Due to Other Domestic Banks and Excess Reserves of New York City Member Banks

and some represented reserves of nonmember banks. A substantial part, however, represented idle funds of other member banks that had been deposited with city correspondents rather than with Federal Reserve Banks. "Country" member banks had net amounts due them by city banks well in excess of their reserves with Federal Reserve Banks. A considerable part of these deposits with city correspondents undoubtedly were regarded by

country banks as the equivalent of excess reserves. In fact, a study made by this bank in December, 1940, indicated that there were many country banks in this District that followed the practice of maintaining reserve balances with this bank only slightly in excess of their reserve requirements, and of depositing with city correspondents most of their surplus funds. It appears, therefore, that the actual proportion of idle funds of "country" banks as a group relative to their required reserves was considerably understated by the published data on excess reserves referred to above, and that the actual amount of surplus funds of Central Reserve City banks, after allowance for claims against them in the form of deposits by other banks in excess of normal working balances, was greatly overstated by the published figures on excess reserves.

There are disadvantages or dangers inherent in this situation, as was evident after reserve requirements were successively increased in the latter part of 1936 and the spring of 1937 to double the basic requirements. The many "country" member banks that carry most of their surplus funds with their city correspondent banks, rather than with their respective Federal Reserve Banks, withdrew funds from the city banks and deposited them in the Reserve Banks to cover the increases in their required reserves. Thus the large city banks sustained withdrawals of funds, as well as increases in their own reserve requirements. In the case of the New York City banks this pincer action absorbed practically all of their excess reserves, and caused them to liquidate some of their assets. The result was an abrupt tightening of money market conditions and an exaggerated influence upon the Government security market, even though aggregate reserve funds of all member banks continued ample.

This situation suggests the caution with which overall control measures, such as increases in reserve requirements, must be applied. It also suggests that the reserve position of the various classes of member banks would be clarified if the country member banks carried their surplus funds more largely in their reserve accounts in the Federal Reserve Banks. This need not, of course, disturb long established correspondent relations between city and country banks, since the present abnormally large interbank deposits are not essential to the maintenance of such relations.

### **National Defense Program and Government Financing**

Another major problem, which was the subject of much consideration in the latter part of 1940, is the financing of the National defense program. There are two principal aspects of the problem: (1) provision of funds for Government purchases of military and naval equipment and supplies for a greatly expanded military training program and for the maintenance of substantially enlarged armed forces; and (2) financing of expenditures by industries for new plants, equipment, and supplies required for the production of materials needed for the defense program.

Limited provision for the financing of direct Government expenditures for National defense was made in the first Revenue Act of 1940 in June, which authorized the Treasury to sell up to \$4,000,000,000 of special National defense securities with maximum maturity of five years, in addition to the existing authority to issue Government obligations within the statutory debt limit of \$45,000,000,000. It also provided for special taxes, such as a 10 per cent increase in taxes on individual incomes, and higher amusement taxes, the proceeds of which were to be set aside by the Treasury for the retirement of National defense obligations. The Second Revenue Act of 1940 in October provided new excess profits taxes applicable to corporation profits beginning with the year 1940.

As the program developed, however, and authorized expenditures were greatly enlarged, it became apparent that much greater provision for the financing of the defense program would be required, but action with respect to additional measures was left to the Seventy-seventh Congress which was to convene early in 1941.

Meanwhile, the Treasury was limited in the types of financing which it could undertake. After selling a total of about \$680,000,000 of Treasury bonds in July, and making provision for sales of United States savings bonds and for issues of special Treasury securities for the employment of funds deposited with the Treasury for various accounts, such as old age retirement, unemployment insurance, and the civil service and railroad retirement funds, the Treasury had little borrowing power remaining under the \$45,000,000,000 debt limit. It was therefore unable to offer further issues of Treasury bonds in any considerable amount, and was largely limited to offerings of National defense

series of securities with maximum maturity of five years for the remainder of 1940. Furthermore, the Secretary of the Treasury indicated his desire to avoid further issues of long term securities with tax exemption privileges pending Congressional action on his proposal to terminate tax exemption of future Government security issues. The Treasury, therefore, drew upon its existing balances to finance the rapidly growing defense expenditures, and except for weekly issues of Treasury bills to replace maturing bills, did no new financing until December 15, when \$531,000,000 of National defense series of Treasury notes were sold.

The resulting lack of additional supplies of Treasury bonds, and the prospect that no further issues of tax exempt securities might be offered, together with the additions to bank reserves resulting from Treasury disbursements out of its balances with Federal Reserve Banks, no doubt were factors in the strong rise in prices of outstanding Treasury bonds during the autumn, despite the realization that a large amount of Treasury borrowing was in prospect for the financing of the defense program.

In the latter part of the year there was much discussion of various possible ways of financing the expenditures for National defense. The general aim was to devise ways that would be successful in raising the required funds, but would be least likely to have adverse effects upon the National economy—on the one hand by promoting inflationary tendencies, or on the other hand by exerting an unnecessarily depressing influence upon non-defense industries, thus restricting the production and consumption of consumer goods and employment in industries producing such goods.

As indicated above, the second aspect of financing the defense program is that of providing industries receiving Government contracts with funds required for new plant construction and the purchase of new equipment and for additional working capital. The Reconstruction Finance Corporation early indicated its willingness to finance such industries. In view of the large amount of financing which the Government will have to do to raise the funds needed to cover its direct expenditures, however, and in view of the huge volume of idle funds held by the banks, it seemed highly desirable that holders of Government contracts be financed so far as possible through the banks. On June 13 the president of this bank, after a meeting with representatives of the principal New York City banks, sent a letter to each member of the National Defense Advisory Commission assuring them

that the banks were prepared to participate, to the limits of their powers, in the financing of the defense program by making loans to industries whose expansion was deemed necessary for the promotion of the defense program.<sup>(1)</sup>

It appeared, however, that certain obstacles would have to be removed before the financing of holders of National defense contracts could properly be done by the banks in some cases. Ordinarily the financing of fixed capital investments (that is, investments in plants and equipment) is not considered proper for commercial banks unless the financing of such investments can be done through the issuance of senior securities of the borrowers that would properly qualify as investment securities, and thus be eligible for purchase by the banks. In a number of instances, however, the new plants and equipment required for the fulfillment of Government contracts may be of questionable utility after the completion of the defense program, so that financing through bond issues of the industries would not be appropriate. Furthermore, in some cases the contracts awarded to industries and the volume of funds required for their financing were large relative to the net worth of the contractors, so that, without assignment of claims on the Government for payments under such contracts, there would be inadequate protection for lenders. Assignment of such claims on the Government, however, was then prohibited.

The first difficulty was met in part by arrangements under which the Government would make payments to cover the cost of plants and equipment in installments extending over not more than five years. In this way it became possible to finance such expenditures by term loans from banks. To meet the further problem of proper amortization of such expenditures, the Second Revenue Act of 1940 provided that for income tax purposes holders of Government contracts that started construction work within a specified period could amortize the cost of new plants and equipment over a five year period, a much more rapid amortization than is ordinarily permitted.

The second difficulty was met by the enactment on October 9, 1940, of the "Assignment of Claims Act of 1940." This Act permitted the assignment of claims on the Government as security for loans with certain specified restrictions.

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(1) The text of this letter was published in the July 1, 1940, issue of the Monthly Review of Credit and Business Conditions of this bank.

In these ways the financing of many National defense contracts was made "bankable." There still remained, however, the difficulty that in some instances the loans required by holders of National defense contracts would probably be unduly large for the local banking institutions. The possibility of dividing the business with correspondent banks, of course, exists. Further to help meet this difficulty, however, this bank and other Federal Reserve Banks indicated their willingness, where adequate credit could not be supplied by the local banks, to review such cases and to render such assistance as they properly could.

While bank loans secured by the assignment of claims on the Government under National defense contracts apparently did not account for a major part of the expansion of commercial and industrial loans reported by member banks during the latter half of 1940, some such loans were specifically reported, and in many instances loans apparently were made, without such specific security, to borrowers of good credit standing to provide the additional working capital required for the expansion of industrial activities.

### Reserve Bank Activities Connected with the Defense Program

In addition to services rendered as fiscal agents of the Government, this and other Federal Reserve Banks were called upon during the past year to perform certain services directly related to the National defense program. Beginning in August, the Board of Governors of the Federal Reserve System in behalf of the National Defense Advisory Commission, asked the Reserve Banks to make quick surveys of available productive facilities in their respective districts for the production of a great variety of articles for which Government contracts were to be placed. These surveys did not duplicate previous surveys of the overall capacity of industries to produce such supplies, but were aimed rather at ascertaining the extent of industrial capacity then idle which might be utilized in the production of such articles, and the availability of labor in the respective communities to man the idle equipment or to operate the plants for additional shifts.

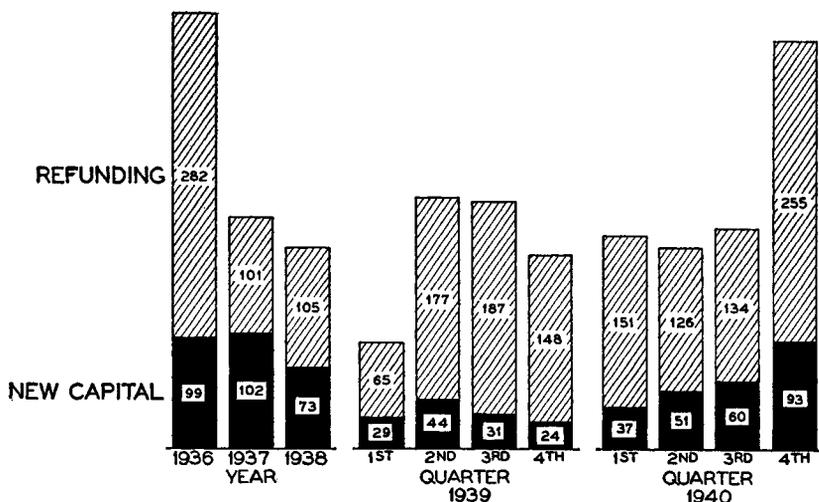
This industry survey work was supplanted in the autumn of 1940 by a new organization designed to assist in making available information concerning small enterprises which might participate in the defense program as subcontractors, and by mak-

ing available to local industries information relating to the placing of primary contracts. For this purpose a committee of the National Defense Advisory Commission designated one of its members as Director of Small Business Activities and asked the Board of Governors of the Federal Reserve System to act as its operating agent. The Board of Governors designated one of its members to supervise these activities and to serve as liaison officer with the Director of Small Business Activities, and requested each Federal Reserve Bank and branch to designate one of its officers as field representative.

Through circulars distributed among all banking institutions in the respective districts, information relating to National defense contracts was widely disseminated, and the commercial banks were asked to cooperate by reporting to the Federal Reserve Bank information concerning industries in their respective localities that might be able to participate in the production of goods for the National defense program.

### New Security Issues

The flotation of new securities was hampered during the past year by the depressing influence on the security markets of recurring war crises. In periods of market strength, however, the volume of security issues expanded considerably, and for the year as a whole was larger than in the three preceding years. In addition to financing done through public offering of securities, a fairly sizable amount again was done through private placements of securities. As in most other recent years, the greater part of the new corporate financing represented refunding operations, although the volume of securities sold to provide new capital for business organizations increased gradually during the course of the year.



Monthly Average Volume of Domestic Corporate Security Issues for Refunding and for New Capital (In millions of dollars)

A further decline in interest rates on long term bonds again permitted corporations in strong financial position to lower interest charges on their funded debt by selling securities at low coupon rates to replace outstanding securities on which higher rates of interest were being paid. In some instances the securities sold during 1940 replaced securities previously issued in refunding operations only a few years ago at interest rates which then seemed low. The total volume of refunding issues by corporations during 1940, while substantially less than in 1936, was with that exception the largest on record. Refunding of State and

municipal issues was larger than in any preceding year for which records are available.

As the accompanying diagram indicates, security flotations to provide new corporation capital increased gradually during the year; in the final quarter of the year they were the largest since the third quarter of 1938. However, the total volume for the year, while nearly double the amount in 1939, was less than in 1938 and considerably less than in 1936 and 1937, and was only a small fraction of the volume in the years preceding the depression. Investors continued to exhibit a disinclination to employ their funds in stocks and lower grade bonds, apparently reflecting continued lack of confidence as to the prospect for profits from such investments commensurate with the risk. While business activity expanded rapidly after the first four months of the year, fears as to the outcome of the war and as to the effects of further increases in taxation apparently accounted for investors' low appraisal of the prospects for such investments, which was reflected in the depressed levels of stock prices during much of the year. Some corporations, particularly those in rapidly expanding industries, were able to raise some additional capital through public offerings of common stocks, but as in most of the preceding years since 1929, such issues represented only a small part of the total volume of corporation financing.

Nevertheless, there was evidence of large corporation expenditures on new plants and equipment during 1940. Commercial and industrial building construction was larger than in any year since 1929, and manufacturers of machinery were subject to such heavy demands that they had difficulty in filling orders without considerable delay. In the latter part of the year an increasing portion of these expenditures on industrial plants and equipment was related to the National defense program. Some were financed directly by the Government and some by the Reconstruction Finance Corporation; some, especially in the early part of the year, were financed by foreign governments to expedite deliveries of war materials ordered in this country. For the rest, the expenditures appear to have been financed largely by corporations out of accumulated funds or with the proceeds of term loans of the sort described in the preceding section of this report. Only a relatively small part was financed by new security issues. A considerable volume of expenditures on plants and equipment for the production of defense materials remained to be done at the close of the year.

### The Foreign Exchanges and Capital and Gold Movements

Among the various financial markets, the foreign exchange market was perhaps most directly affected and disrupted by the European war. The many and diversified developments in this field during the past year included the application of additional restrictions to international capital movements as well as the difficulties resulting from the general dislocation of international trade and finance. All contributed to a continuation of the general trend toward governmental control of exchanges, so that by the end of the year some form of exchange regulation was in force in most of the leading countries of the world. Although this governmental surveillance was motivated in most countries by a desire to conserve foreign exchange, either for the prosecution of the war or to combat a deterioration in the terms of foreign trade or in other items in the balance of payments as a result of the war, the desire to safeguard the financial interests of invaded nations was also a factor in some cases. The "blocking" by the United States and certain other countries of assets belonging to those European countries that have been forced under German or Russian control during 1940 falls, of course, into this latter category.

Specifically, one of the chief matters of interest to the foreign exchange market here during the past year was the series of steps taken by the British authorities to close the loopholes in the system of exchange control introduced by the British Government in September, 1939. These measures, as well as the developments in the war, were largely responsible for the erratic course pursued by the unofficial rate for sterling during most of the first half of 1940. While they tended progressively to limit both the supply of and demand for so-called unofficial sterling, the fact that they did not always affect both sides of the market simultaneously largely explains the wide rate fluctuations that ensued.

It will be recalled that, despite the restrictions introduced at the outbreak of the war, trading at rates distinct from the official buying and selling quotations in the London market continued in the "outside" markets. During the early months of control the outside market was supplied primarily by the liquidation of existing foreign owned sterling balances and securities and by the sterling proceeds of exports to the sterling area which could not be converted into foreign currencies at the

official quotations. Offerings from these sources, however, were fairly well absorbed by a demand on the part of importers of sterling area products, who could well avail themselves of the lower, unofficial rates. According to data furnished by the British Treasury and released by the Secretary of the Treasury of the United States in connection with his statement on the Lend-Lease bill, American importers acquired the equivalent of \$300,000,000 in sterling through the outside market during the first sixteen months of the war.

The first of the series of measures taken by the British Government during 1940 to bring foreign currency assets of British subjects and the sterling assets of foreigners more fully under official control was the adoption on January 8 of closer supervision over sterling transfers from resident to nonresident accounts. This action tending to limit the supply of unofficial sterling was followed on March 9 by announcement that, effective March 25, payment for certain important Empire products—rubber, tin, jute, whisky, and furs—exported to specified countries, including the United States, must be made either in one of five designated “hard” currencies, including the United States dollar, or in sterling acquired at the official rate with one of these five exchanges. The effect of this measure was to limit materially the permitted uses of unofficial sterling, and the New York quotation for such sterling, after a temporary rise in January to levels not far below the official rate, showed a persistent decline. This decline was accelerated following the Allied reverses in Norway and the British Cabinet crisis, and culminated in a severe depreciation immediately after the sudden German attack on the Low Countries. The opening trade on May 10 was made at a record low of \$3.00. This rate, which was 35 cents below the previous closing quotation and 14½ cents below the previous all-time low touched in 1932, represented about a 25 per cent depreciation of the unofficial rate in terms of the official London quotation. This proved to be the year’s low, however.

Subsequently, additional restrictions, which by the end of the summer resulted in the virtual disappearance of trading in unofficial sterling in New York, were instrumental in effecting a gradual rise in the unofficial quotations to the level of the official rates. On June 7 it was announced that the prohibition against the use of unofficial sterling in payment for key British exports would be extended to all exports to the United States and Switzerland. Simultaneously, the potential supply of un-

official sterling was reduced by the prohibition, at least for the time being, of security sales in the United Kingdom by non-residents of the sterling-franc area, and by the granting of dollars or Swiss francs at the official rate for current financial and commercial payments to the United States and Switzerland. Furthermore, it was indicated that supplies of unofficial sterling would eventually be reduced further by the extension of bilateral payment agreements involving the use of "special" sterling accounts in dealings with other countries outside the sterling and Allied areas. Negotiations to this end progressed in the subsequent months and by the end of the year such "special" accounts had been set up for Sweden, Argentina, Rumania, Brazil, Hungary, Portugal (and Empire), Greece, Peru, Uruguay, Bolivia, Chile, Turkey, Spain, and Paraguay.

Much of what remained of the unofficial sterling market in New York after the June 7 regulations was eliminated by further restrictions which became effective on July 18. These new measures placed further limitations on the purposes for which existing unofficial sterling balances could be used, and further accumulations of such sterling for American or Swiss account were prohibited. Provision was also made for the opening by United States and Swiss banks of "registered" sterling accounts with British authorized banks, in order to facilitate transactions in sterling at the official rates. It was provided that payments to these accounts could be made only (1) by sterling payments approved by the control; (2) by the sale of United States dollars or Swiss francs, as the case might be, at the official rate; and (3) by transfers from other "registered" accounts of the same country. On the other hand, balances standing to the credit of these accounts, which are repurchasable by the British authorities at  $\$4.02\frac{1}{2}$ , could be used for all payments to the sterling area, including those for Empire exports.

Although immediately after the imposition of the July 18 regulations the unofficial rate for sterling continued to fluctuate widely at levels considerably below the official rates, the ultimate effectiveness of these measures was demonstrated by the fact that by the middle of August the New York quotation had risen to the rate at which sterling is made available by the British authorities. The rate held within the relatively narrow range of  $\$4.02\frac{1}{2}$ - $\$4.05$  in an extremely thin market during the remainder of the year.

Because of the link between French and British exchange in the official markets, the unofficial quotation for the French franc moved approximately in line with that of sterling until trading in the franc was suspended last June, when all French property situated in the United States was placed under the control of the United States Treasury. The low point was reached on the day following the German invasion of the Netherlands and Belgium, when, accompanying the break in the pound, the French franc declined to an all-time low of \$0.0170 $\frac{1}{8}$ .

Inasmuch as the Canadian exchange control, as originally imposed in September, 1939, was more rigid than the initial British restrictions, the numerous major adjustments in the latter which so greatly affected the unofficial rate for sterling were not required in the case of Canada. As a result, the unofficial rate for Canadian dollars displayed considerably more stability than that for either sterling or the French franc. The discount on the Canadian dollar in this market opened the year at 11 $\frac{1}{4}$  per cent, closely corresponding to the official Canadian premiums of 10 and 11 per cent on American exchange. However, accompanying a seasonal decline in the tourist demand—one of the few purposes for which unofficial Canadian dollars could be used—the discount soon began to widen. By March 12 it had reached 20 per cent, partly because of the above-mentioned factor and partly in sympathy with the depreciation of sterling. Aside from a temporary recovery in April, the unofficial quotation continued considerably below the official rate, the discount reaching 22 $\frac{1}{4}$  per cent after the German military successes in May. With an increase in tourist trade, however, the discount returned to 11 $\frac{1}{4}$  per cent in July. Subsequently, the only sizable fluctuation occurred in mid-September, when the discount widened temporarily to 17 $\frac{1}{2}$  per cent, reflecting the repatriation through the outside market of American funds derived from the redemption of Canadian bond issues on September 1.

The record of the currencies of those small European countries which previously had been havens for refugee capital was one of increasing adverse pressure during the critical months before some of these nations were themselves drawn into the war. However, with the exception of the belga, which fluctuated within a considerable range because of the widened gold points, spot quotations for these currencies were held fairly stable by means of official supporting operations. After appreciating to as high as \$0.1710 on the first of April, the spot rate for the belga turned

downward, accompanying fears of invasion, and by May 9, the day before trading was suspended as a result of the "blocking" here of Belgium property, the rate had receded to \$0.1656. Spot guilders, on the other hand, were rigorously maintained at \$0.5309 through May 9. In both of these currencies, however, a sharp widening of forward discounts prior to the actual invasion gave ample evidence of the severe strain.

Despite considerable pressure against the Swiss franc as a result of the spreading of the war, the Swiss monetary authorities were successful in holding the spot rate for Swiss exchange at about \$0.2242 until early May. Immediately after the violation of Dutch and Belgian neutrality, however, the Swiss franc depreciated temporarily in the New York market to as low as \$0.2113, or somewhat below the statutory minimum. This reaction was only of short duration and by May 20 the rate had returned to \$0.2242. At about the same time the Swiss Equalization Fund, which was established in the autumn of 1936, was liquidated and the gold reserve of the Swiss National Bank was revalued upward, lowering the theoretical dollar equivalent of the Swiss franc from \$0.2426 to about \$0.2311. As long as French resistance to the German drive continued there was constant fear that Germany or Italy might attempt to force a passage through Switzerland. With the conclusion of the French armistice, however, this fear subsided and the flight of capital from Switzerland to which this fear had given rise gave way to a substantial return flow of funds. The resulting demand for Swiss exchange was met to a large extent by the Swiss authorities, who thus added to their foreign assets, but the rate was allowed to appreciate in a series of steps, which by the middle of July had brought it up to about \$0.2270. In the fall, the repatriation of funds held in Swiss names in the United States was accelerated by fears of the "blocking" of Swiss accounts in the United States. As a result, the demand for Swiss francs against dollars increased in late September and by the end of October the rate had risen to \$0.2323, a level about 81 points above that prevailing in mid-June and the highest since March, 1938, prior to the German absorption of Austria. The rate held at about this level during the remainder of 1940.

Sweden, like most of the small European countries, experienced considerable pressure against its currency during the early months of the year. This led to the introduction of official exchange control in Sweden toward the end of February. The new

regulations, which supplanted the informal control over capital transfers applied by Swedish banks since December, 1939, were strengthened further at the time of the German drive into Norway. Despite the pressure, however, the Swedish krona was maintained at about \$0.2380 until April 9. Immediately after the invasion of Norway the rate receded to about \$0.2340, but by the early part of May it had returned to about \$0.2380, and held near this level during the remainder of the year.

Concerning the rigidly controlled currencies of the Axis powers, the official rate for the reichsmark and the Italian lira were maintained at about \$0.4005 and \$0.0505, respectively, throughout the year. The dollar value of the "registered" mark, however, which is usable only for certain limited purposes, rose from a low of \$0.0720 on March 1 to a high of \$0.1255 in November, and the Handelsspermark, available for certain transactions in Germany, appreciated from about \$0.0200 in April to as high as \$0.0975 in December. This appreciation, no doubt, reflected primarily the psychological effect of the German military successes on the Continent. New York trading in both these currencies was, of course, extremely thin. The Japanese yen continued at \$0.2345, the rate at which it was pegged to the dollar in October, 1939, following the depreciation of sterling.

Considerably more interest was shown in the Latin American exchanges during the past year, as a result not only of the suspension of active trading in one European currency after another, but also of the Congressional authorization last September of an increase of \$500,000,000 in the lending power of the Export-Import Bank largely to permit further financial aid to Latin-American countries.

After moving irregularly lower to \$0.2120 during the first half of the year, the free rate for the Argentine peso appeared to have received considerable stimulus from the granting of a \$20,000,000 Export-Import Bank loan in June. Further strength was caused in the late autumn by a movement of European capital from New York to Argentina apparently as a result of apprehension lest such capital become more generally immobilized here. The peso rose to a high of \$0.2385 in mid-October and closed the year only slightly lower, at a level indicating a net appreciation of 4 per cent for the year as a whole. The dollar rate for the Mexican peso, which had declined sharply during December, 1939, following the withdrawal of the Bank of Mexico from the market, continued to recede early in January, 1940,

reaching about \$0.1670, or 19 per cent below the early December level. This rate was maintained through about the middle of June. Subsequently, the improvement in the economic situation, primarily due to curtailment of imports following stringent internal credit restrictions, together with an improved outlook for political stability in Mexico, lent considerable strength to the peso and by the middle of October the dollar rate had recovered to \$0.2062, or about the level prevailing before the break in December, 1939. The Cuban peso fluctuated considerably during the year, its discount against the dollar moving within a range of  $12\frac{1}{8}$  per cent, reached in March, and  $7\frac{1}{8}$  per cent, to which it recovered in October following reports that negotiations were under way for an Export-Import Bank loan to the Cuban Republic. At the end of 1940 the Cuban peso was quoted at a discount of  $8\frac{5}{8}$  per cent, compared with  $11\frac{5}{8}$  a year earlier.

The only significant fluctuation among the Far Eastern exchanges occurred in the currency of the National Government of the Republic of China. Through the efforts of the Anglo-Chinese exchange fund, this currency was maintained above 6 cents until the first of May, when, accompanying rumors that the fund's resources were nearing the point of exhaustion, the control withdrew its support. The rate dropped to  $4\frac{1}{2}$  cents, but quickly recovered, touching 6 cents again in early June. Subsequently, the dollar value fluctuated irregularly between 5 and  $6\frac{1}{2}$  cents.

### Capital Movements

The past year of war witnessed further disturbance in the balance of payments between the United States and foreign countries. The reported net gain of gold from abroad—the usual symptom of dislocation—reached during 1940 the unprecedented amount of \$4,100,000,000, or more than \$1,000,000,000 above the record breaking total of 1939. This heavy movement of gold was not, however, primarily the result of an uncontrolled flight of private capital to this country, as had been the case in the large gold inflow of previous years. The underlying cause was to a great extent to be found in other items in the balance of payments—mainly in our rapidly expanding merchandise export surplus. Although the trade balance has been “favorable” for many years, heavy foreign purchases of war materials and other products needed for manufacture of the implements of war, especially by the British, raised the export surplus for 1940 to \$1,400,000,000, the largest since 1921. An additional

factor contributing to the disturbance in the balance of payments during 1940 was the reduction in American tourist expenditures abroad, which in the past had provided foreigners with the means of paying for a good many of their net commodity purchases in this country. Foreigners were thus faced with an increasing need for dollars at a time when their receipts of dollars had diminished.

With the extension of some form of governmental foreign exchange control to many of those countries from which the capital inflow had originated before the war, reported international capital movements have come to be confined largely to those for foreign official accounts, or other transactions having the approval of the monetary authorities. Published data on transfers of capital between this country and abroad during the period from January 4 to December 31, 1940, indicated a net inward movement of \$804,000,000, or considerably less than the previous year's reported net inflow of \$1,196,000,000.

The past year's influx of capital had two significant aspects. The first and most important was that \$658,000,000, or about 80 per cent, of this net inflow represented a movement of funds to this market on the part of foreign central banks and governments. The second is that most of this inflow for account of foreign central banks and governments remained in idle bank balances. In this latter respect the inflow was similar to that of 1939, except that in that year a much greater percentage was for private account. In both years the movement was in contrast to previous inflows, particularly in the three years ended with 1937, when foreign purchases of American securities, together with the repatriation of foreign obligations, accounted for about half of the \$3,400,000,000 capital inflow during the period. The changing character of the international movement of capital during recent years may be readily seen from the table on page 33, showing the movement of various types of capital between the United States and abroad during the past six years.

The past year's increase in the funds held in New York by foreign central banks and governments was due to a number of factors, the most important of which was the liquidation of European gold reserves. The most striking example of this was the \$323,000,000 net increase in "official" funds in New York last June, accompanying a net gain of \$726,000,000 of gold from abroad.

One of the heaviest sellers of gold since the war began was, of course, the British control. However, since the proceeds of this liquidation of British gold reserves were used to finance large wartime purchases, no increase in official British balances here resulted. According to data released by Secretary Morgenthau, the heavy outlays during the sixteen months ended in December, 1940, required the expenditure not only of current receipts of dollars and of the proceeds of the liquidation of a large part of United Kingdom gold reserves, but also of dollar assets requisitioned from private holdings. (This subject is discussed more fully in a subsequent section of this report.)

Although the gold inflow was the principal factor, other important influences contributed to the building up of other foreign "official" funds during 1940. One of these was some repatriation of capital held here for private foreign account—a movement which began with the shift of the center of the war from France and the Low Countries to England and was later reinforced by fears that the "freezing" here of property of the invaded countries might be extended to cover property of other countries. As a result, certain foreign monetary authorities, particularly the Swiss who previously had supported their currency against any depreciation, undoubtedly were in a posi-

#### Movement of Capital between the United States and Foreign Countries(a)

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

	Total capital movement	Banking funds			Security transactions			
		Total	Central bank funds in N.Y. (b)	Other	Total	Domestic securities	Foreign securities	Brokerage balances
1935.....	+ 1,413	+ 965	+ 10	+ 955	+ 448	+ 317	+ 125	+ 6
1936.....	+ 1,196	+ 397	+ 71	+ 326	+ 799	+ 601	+ 191	+ 7
1937.....	+ 802	+ 256	+ 163	+ 93	+ 546	+ 245	+ 267	+ 34
1938.....	+ 415	+ 331	+ 10	+ 321	+ 84	+ 57	+ 27	—
1939.....	+ 1,196	+ 1,132	+ 288	+ 844	+ 64	— 85	+ 116	+ 33
1940								
First quarter.....	+ 112	+ 89	— 3	+ 92	+ 23	— 21	+ 36	+ 8
Second quarter.....	+ 357	+ 344	+ 383	— 39	+ 13	— 21	+ 24	+ 10
Third quarter.....	+ 315	+ 352	+ 190	+ 162	— 37	— 47	+ 7	+ 3
Fourth quarter.....	+ 20	+ 61	+ 88	— 27	— 41	— 52	+ 11	—
Total, 1940.....	+ 804	+ 846	+ 658	+ 188	— 42	— 141	+ 78	+ 21

(a) Source: United States Treasury.

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

tion to acquire a considerable amount of dollar exchange offered by private holders, Swiss and others, anxious to withdraw their capital from the United States. Another factor in the increase in foreign "official" funds during the latter part of 1940 was the requisitioning of private holdings of dollar exchange.

The international movement of capital for so-called private account, which, as mentioned above, on balance was relatively insignificant for the year as a whole, was inward through April, but gave way to an outward movement following the German occupation of Denmark, Norway, and the Low Countries. During 1940, the net inflow of "private" banking funds amounted to \$188,000,000.

This accumulation of banking funds in the United States for so-called private foreign account, however, was partially offset by a \$42,000,000 net outflow of capital on security account. According to the reported data, foreigners disposed on balance of \$141,000,000 of American securities. The principal selling of stocks, of course, came from British holders—especially the British control, which requisitioned private holdings of 233 dollar security issues during the year. Although the reported figures indicate that British net sales of American stocks and bonds amounted to \$67,000,000 during this period, there is reason to believe that the total amount liquidated was considerably larger, particularly since it has been officially announced that the total liquidation for the first sixteen months of the war amounted to \$334,000,000. Aside from certain technicalities, such as foreign buying through London in the early months, the incompleteness of the reported figures can in large part be ascribed to sales effected by direct negotiations which did not go through reporting channels.

The remainder of the reported foreign liquidation of American securities was largely for Asiatic accounts, net sales for such accounts amounting to \$70,000,000. Although Swiss investors were reported to have acquired \$36,000,000 (net) of American securities through the end of May, rather substantial selling developed after the French capitulation. As a result, net purchases of only \$3,000,000 were recorded for Switzerland for the entire year 1940. Italian interests also were rather active in our security markets during the year, acquiring a net amount of \$31,000,000 of American securities through September. Subsequently, however, a steady liquidation occurred, possibly induced

by fears that our Government might take measures to "freeze" additional foreign assets in this country. By the end of the year a large part of the previous acquisitions had been sold.

The repurchase by foreigners of their own securities either through redemption or purchase before maturity continued during 1940, when a net amount of \$78,000,000 of foreign securities was taken back by foreigners.

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

January 4 to December 31, 1940 (a)

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

	Banking funds	Security transactions (b)	Total
United Kingdom .....	- 66	-66(c)	-132
France .....	+203	- 1	+202
Germany .....	+ 11	- 1	+ 10
Italy .....	- 11	+ 8	- 3
Netherlands .....	- 26	+11	- 15
Switzerland .....	+136	+ 3	+139
Other Europe .....	+155	+15	+170
<b>Total Europe .....</b>	<b>+402</b>	<b>-31</b>	<b>+371</b>
Canada .....	+163	+19	+182
Latin America .....	+102	+21	+123
Asia .....	+175	-50	+125
All other .....	+ 4	- 1	+ 3
<b>Grand total .....</b>	<b>+846</b>	<b>-42</b>	<b>+804</b>

(a) Source: United States Treasury Department. (b) Including the movement in brokerage balances. (c) Excludes unreported foreign sales of American securities.

The volume of unidentified transactions in the balance of payments increased further during the past year, even surpassing the previous year's large total of \$1,037,000,000. As against the net foreign sales of \$4,100,000,000 of gold here during 1940, only \$804,000,000 can be accounted for by the reported net inflow of capital, and even when the export surplus of \$1,400,000,000 and other items in the balance of payments, including advance and capital assistance payments to American concerns by the British and French, are taken into account, the "residual" item will approach \$1,500,000,000. In the past the transfer of foreign funds in this country to accounts which appear to be domestic, together with the immigration of refugees with dollar holdings which cease to be classified as "foreign"

assets upon the arrival of the refugees, had, no doubt, been largely responsible for the increasing volume of unaccounted for items. While the movement of private funds to this country through methods which escape the reporting system may have diminished with the tightening of exchange control abroad during the past year, nevertheless, it probably continued to contribute to the large "residual."

### British Gold and Dollar Operations

Although it is impossible to determine, from published data alone, the extent and character of British dollar and gold operations for the calendar year 1940, the figures presented by Secretary Morgenthau to the Congress at its hearings on the Lend-Lease bill give a detailed picture of the operations for the first sixteen months of war (September 1, 1939 to December 31, 1940). Since this information supplied many data which previously could be estimated only by indirect methods, it is now possible to assemble a more or less complete balance of payments for the sterling area's gold and dollar transactions, and a summary is given in the accompanying table.

As these data indicate, the British Empire, excluding Canada and Newfoundland, expended \$4,346,000,000 in gold and dollars during the first sixteen war months. Of this amount, \$1,800,000,000 was used for imports from the United States, including \$660,000,000 for British Government purchases, delivered by the end of 1940. A large loss of dollar exchange also occurred through the withdrawal of \$735,000,000 of capital from Great Britain, of which \$300,000,000 represented the use by American importers of foreign-owned unofficial sterling balances for payment of British Empire merchandise, and an additional \$235,000,000 represented the liquidation of a short forward position in dollars, incurred before the war. Another item of importance is the \$720,000,000 which the British authorities placed at the disposal of American concerns, either as advance payments against orders, or as capital assistance for the purpose of expanding productive capacities and thus speeding deliveries.

Nearly one half of the total outlays during the sixteen month period was financed by current receipts of gold and dollars, the largest sources of exchange being the sale of \$965,000,000 of newly mined and privately dishoarded gold and receipts from merchandise exports and various services, of which

**Estimated Balance of Gold and Dollar Payments of the British Empire,  
Exclusive of Canada and Newfoundland (a)**

(In millions of dollars)

	September 1, 1939 - December 31, 1940		
	Receipts	Expenditures	Net receipts (+) or expenditures (-)
<i>Trade and Service Items</i>			
<i>Merchandise</i>			
With U. S. ....	845	1,800 (b)	— 955
With other areas (c) .....	50 (d)	550 (d)	— 500
Total .....	895	2,350	—1,455
<i>Services</i>			
Shipping .....	35	133	— 98
Interest and dividends .....	85	88	— 3
Other .....	50	24	+ 26
Total .....	170	245	— 75
<i>Gold</i>			
Liquidation of United Kingdom reserves ...	1,746	—	+1,746
Sale of newly mined and dishoarded gold ...	965	—	+ 965
Gold payments by Empire countries to Canada and Newfoundland, net (e) .....	—	225	— 225
Total .....	2,711	225	+2,486
<i>Capital</i>			
Liquidation of American securities .....	334		
Liquidation of dollar balances .....	236 (f)		
Withdrawal of capital from sterling area ...		735 (g)	
“Capital Assistance” and advance payments to American concerns .....		720	
Total .....	570	1,455	— 885
<i>Residual</i> .....		71	— 71
Total .....	4,346	4,346	0

(a) All figures used in this table are based on data furnished by the British Treasury and released by the U. S. Treasury.

(b) Includes only payments for those purchases against which delivery was made. Advance and “capital assistance” payments are excluded.

(c) Excludes Canada and Newfoundland.

(d) In addition to trade and services, this figure reflects to some extent certain other transactions requiring gold and dollars.

(e) Represents the settlement of the net balance due to Canada and Newfoundland on all transactions with the Empire, after allowance is made for \$330,000,000 of “Canadian assistance” to the United Kingdom. This assistance took the form of repatriation of British-held Canadian securities and an increase in sterling balances held by Canada. It should be noted that the figures in this table exclude Canada’s trade and other transactions with the United States.

(f) Composed of a \$240,000,000 reduction in private British balances, partially offset by a \$4,000,000 increase in official balances.

(g) Includes \$300,000,000 of foreign-owned “free” sterling sold to American importers of British Empire goods.

\$1,015,000,000 came from the United States alone. The remainder of the expenditures was covered by the liquidation of assets held before the war began, including the disposal of \$1,746,000,000 of gold reserves and \$570,000,000 of short and long term dollar assets.

### Gold Movements

Total net imports of gold from abroad were \$4,744,500,000 during 1940. After allowance is made for an increase of \$644,700,000 in the total amount of gold held under earmark for foreign accounts at the Federal Reserve Banks, the reported net gain of gold from abroad amounted to \$4,099,800,000, by far the largest amount for any year on record. Reported imports from Canada (a large part of which obviously came originally from other countries) amounted to \$2,622,500,000 and from England

#### Gold Movements by Countries

(In thousands of dollars)

Country	Exports to	Imports from	Net imports
Argentina .....	....	\$ 59,072	\$ 59,072
Australia .....	....	103,777	103,777
Bolivia .....	\$4,781	67	4,714*
Canada .....	171	2,622,501	2,622,330
Colombia .....	....	23,999	23,999
England .....	17	633,100	633,083
France .....	....	241,778	241,778
Hong Kong .....	....	26,176	26,176
India .....	....	49,989	49,989
Italy .....	....	43,935	43,935
Japan .....	....	111,739	111,739
Mexico .....	6	29,886	29,880
Netherlands .....	....	63,260	63,260
Netherlands Indies ..	....	20,583	20,583
Norway .....	....	33,405	33,405
Philippines .....	3	38,630	38,627
Portugal .....	....	75,087	75,087
South Africa .....	....	183,739	183,739
Sweden .....	....	161,489	161,489
Switzerland .....	....	90,320	90,320
U.S.S.R. (Russia) ...	....	30,851	30,851
Yugoslavia .....	....	16,310	16,310
All Other .....	17	89,774	89,757
<b>Total .....</b>	<b>\$4,995</b>	<b>\$4,749,467</b>	<b>\$4,744,472</b>

\* Net export.

\$633,100,000, which together accounted for about three quarters of the total from all countries. Sizable amounts were received also from France, South Africa, Sweden, Japan, and Australia. Gold movements during 1940, by countries of shipment or destination, are summarized in the accompanying table. Some of the gold imports shown in the table were earmarked for foreign account upon arrival, but such operations are not reported by countries.

### Foreign Property Control

On April 10, 1940, following the invasion of Denmark and Norway by German military forces, an Executive Order No. 8389 was issued by the President, amending Executive Order No. 6560 dated January 15, 1934, regulating transactions in foreign exchange, transfers of credit, and the export of coin and currency. The effect of this executive order was to "freeze" all property in the United States of Denmark and Norway and their nationals, except as transactions involving such assets were permitted by regulations or licenses issued by the Secretary of the Treasury, and to require reports on such property in this country. By subsequent executive orders and amendments up to the end of 1940, the "freezing" of foreign assets in the United States was extended successively to Belgium, the Netherlands, Luxembourg, France, Latvia, Estonia, Lithuania, and Rumania.

Regulations issued under these executive orders required that an application be filed for a license to execute any transaction affecting the property of these countries and their nationals. General licenses were issued by the Treasury Department from time to time, however, which permitted the execution of certain specified types of transactions without the filing of applications, but with the requirement, in many cases, that reports of transactions under such general licenses be made to the Federal Reserve Bank in the respective districts. The Federal Reserve Banks, as fiscal agents of the United States, were assigned the task of receiving, reviewing, and transmitting to the Treasury Department such applications with recommendations as to the granting or declination of licenses, and of issuing licenses in cases approved by the Treasury. The Treasury adopted a policy of issuing general authorizations to the Federal Reserve Banks to dispose of certain classes of applications without reference to the Treasury Department, which resulted during the year in an increasing number of applications being acted upon by the Federal Reserve Banks. At the end of the year almost 50 per cent

of the cases handled at this bank were being disposed of without reference of the applications to the Treasury Department.

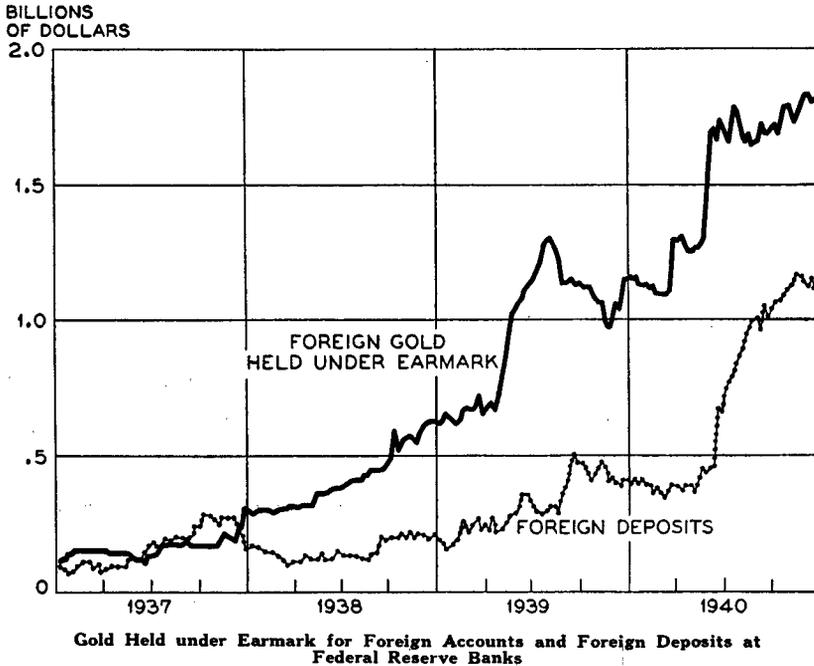
In this bank a special department was organized to handle this work. As finally set up the department was placed under the immediate direction of an assistant vice president and a department manager with approximately 120 employees.

Practically from the beginning, applications for licenses were received by this bank at the rate of several hundred a day. The number of applications reached a maximum of nearly 800 a day near the end of June. While the list of countries to which the "freezing" orders were made applicable was gradually enlarged, the completion of transactions which were in progress at the time when the "freezing" orders were first applied tended to offset the expansion of the volume of assets involved, and thus to limit the number of applications filed. Nevertheless, the work continued in large volume to the end of the year, and by that time more than 90,000 applications had been received at this bank.

### **Foreign Relations**

There was considerable activity during the whole year in foreign accounts maintained at this bank and the balances in these accounts increased substantially, standing at the end of the year at \$1,130,945,000 as compared with \$397,380,000 at the end of 1939 and \$199,211,000 at the close of 1938. These deposits reached a record high level of \$1,166,232,000 on November 28, 1940. Gold held under earmark for foreign accounts also attained a new high level on December 10, 1940 at \$1,831,346,000. At the end of the year the total of earmarked gold amounted to \$1,807,673,000 as compared with \$1,163,004,000 a year previous.

Of the four short term loans, secured by gold earmarked at this bank, which had been extended to a foreign central bank in 1939 to meet its seasonal requirements, two loans totaling \$5,020,000 were outstanding at the end of that year; these were fully repaid early in 1940. An additional loan of the same nature, in the amount of \$1,000,000, was made to the same bank in February, 1940 and repaid in May. Beginning in August, a series of short term loans totaling \$1,357,000 (including \$410,000 of renewals), likewise for seasonal requirements and secured by gold earmarked at this bank, was granted to a Latin American central bank; the aggregate of these loans outstanding at the end of the



year was \$947,000. All of these loan operations were effected by this bank with the approval of the Board of Governors of the Federal Reserve System, in behalf of itself and other Reserve Banks.

The year under review witnessed the complete repayment of the remaining participation of the Federal Reserve Banks in the credit originally extended to the National Bank of Hungary in 1931 jointly by a group of central banks and the Bank for International Settlements. The Federal Reserve Banks' original participation in this credit had amounted to \$5,000,000, but had been reduced to \$1,830,000 by the end of 1939.

Balances held abroad at the end of 1940 by this bank, in its own behalf and in behalf of other Reserve Banks, were substantially unchanged from the 1939 year-end level, namely, the equivalent of \$46,700; of this amount, \$25,800 is repayable in United States dollars and the remainder in foreign currencies. No commercial bills denominated in foreign currencies were held at any time during the year; as mentioned in this bank's previous annual report, the small amount of such bills formerly held had been liquidated by October, 1939.

### Membership Changes in 1940

During 1940 there was a revival of interest in membership in the Federal Reserve System on the part of State chartered banks and Trust companies, a class of institutions with which membership is voluntary. In the Second Federal Reserve District eight such institutions became members, and a number of others submitted applications which were under consideration at the end of the year. The percentage of member banks, both National and State chartered, to all commercial banks in the District rose slightly, notwithstanding the fact that eleven members were combined with other banks.

The tables below show the classification of banks in this District according to their charters, and the record of changes in membership during 1940.

#### Number of Member and Nonmember Banks in Second Federal Reserve District at End of Year

(Exclusive of Mutual Savings banks and Industrial banks)

TYPE OF BANK	December 31, 1940			December 31, 1939		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks .....	587	0	100	596	0	100
State banks .....	46	100	32	43	107	29
Trust companies .....	132	131	50	129	138	48
<b>Total .....</b>	<b>765</b>	<b>231</b>	<b>77</b>	<b>768</b>	<b>245</b>	<b>76</b>

#### Changes in Federal Reserve Membership in Second District During 1940

Total membership beginning of year .....	768
<b>Increases:</b>	
State banks admitted .....	3
Trust companies admitted .....	5
Newly chartered member State bank organized to succeed a National bank .....	1
<b>Total increases .....</b>	<b>9</b>
<b>Decreases:</b>	
Member banks combined with other members .....	9
Member banks combined with nonmembers .....	2
National bank succeeded by newly chartered member State bank .....	1
<b>Total decreases .....</b>	<b>12</b>
<b>Net decrease .....</b>	<b>3</b>
<b>Total membership end of year .....</b>	<b>765</b>
<b>Nonmember banks combined with members .....</b>	<b>4</b>

### Operations of the Bank During 1940

The following table shows the volume of operations, in number and dollar amounts, in the departments of the bank where the work can be measured readily by counting the number of transactions.

The volume of operations in most departments of the bank, particularly in services rendered to business and the public generally, were somewhat larger in 1940 than in the previous year. This increase in volume accompanied expanded indus-

	1940	1939
Number of Pieces Handled		
Bills discounted:		
Applications .....	506	773
Notes discounted .....	569	933
Industrial advances:		
Notes discounted .....	4	76
Commitments to make industrial advances .....	1	5
Bills purchased in open market† .....	....	119
Currency received and counted .....	674,867,000	657,400,000
Coin received and counted .....	952,255,000	931,986,000
Checks handled .....	215,326,000	208,359,000
Collection items handled:		
United States Government coupons paid* .....	4,709,000	5,018,000
All other .....	1,909,000	1,970,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations .....	1,144,000	1,281,000
All other .....	236,000	427,000
Wire transfers of funds .....	180,000	194,000
Amounts Handled		
Bills discounted .....	\$35,431,000	\$38,853,000
Industrial advances:		
Notes discounted .....	35,000	275,000
Commitments to make industrial advances .....	10,000	231,000
Bills purchased in open market for own account .....	....	828,000
Currency received and counted .....	3,114,447,000	3,096,368,000†
Coin received and counted .....	100,830,000	94,785,000
Checks handled .....	79,649,341,000	76,502,457,000
Collection items handled:		
United States Government coupons paid* .....	571,898,000	545,532,000
All other .....	1,595,295,000	1,783,187,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations ....	12,324,357,000	16,845,724,000
All other .....	1,457,309,000	3,255,959,000
Wire transfers of funds .....	29,770,676,000	29,077,778,000

† Includes number purchased by this bank for System Account.

\* Includes coupons from obligations guaranteed by the United States.

‡ Revised.

trial activity in the latter half of the year induced chiefly by the National defense program. On the other hand, the lending operations of the bank in 1940 were again smaller than in the previous year, reflecting a reduction in the number of member bank applications for rediscounts and advances, and a reduction in the number of inquiries for loans for working capital from business organizations that were unable to obtain funds from other sources.

### Financial Statement

A decrease of \$128,000,000 (from \$776,000,000 to \$648,000,000) during 1940 in "Total bills and securities" held by the New York Reserve Bank is shown in the following year-end condition statement. This reduction in earning assets consisted almost wholly of a net decline in the security holdings of the System Open Market Account, which was occasioned to a considerable extent by the operations discussed under "Federal

(In thousands of dollars)

ASSETS	Dec. 31, 1940	Dec. 31, 1939
Gold certificates on hand and due from U. S. Treasury .....	\$ 9,757,527	\$ 7,225,434
Redemption Fund—Federal Reserve notes .....	972	1,619
Other cash .....	51,324	71,716
<b>Total reserves .....</b>	<b>\$ 9,809,823</b>	<b>\$ 7,298,769</b>
<b>Bills discounted:</b>		
Secured by U. S. Government obligations, direct and guaranteed .....	\$ 245	\$ 90
Other bills discounted .....	491	2,258
<b>Total bills discounted .....</b>	<b>\$ 736</b>	<b>\$ 2,348</b>
<b>Industrial advances .....</b>	<b>\$ 1,756</b>	<b>\$ 2,035</b>
<b>U. S. Government securities, direct and guaranteed:</b>		
Bonds .....	\$ 379,573	\$ 419,593
Notes .....	265,782	351,944
<b>Total U. S. Government securities, direct and guaranteed .....</b>	<b>\$ 645,355</b>	<b>\$ 771,537</b>
<b>Total bills and securities .....</b>	<b>\$ 647,847</b>	<b>\$ 775,920</b>
Due from foreign banks .....	\$ 17	\$ 18
Federal Reserve notes of other banks .....	4,773	4,336
Uncollected items .....	234,525	245,508
Bank premises .....	9,701	9,895
Other assets .....	13,229	17,226
<b>Total assets .....</b>	<b>\$10,719,915</b>	<b>\$ 8,351,672</b>

Reserve Policy" on preceding pages, and to some extent by a smaller participation of this bank, in favor of other Reserve Banks, in the security holdings of the System Open Market Account through the quarterly reallocations of the System Account portfolio. With respect to other items in the "Total bills and securities" group, discounts for member banks held to very low levels, other bills discounted were reduced chiefly through repayment of foreign loans on gold discussed in the "Foreign Relations" section on a preceding page, and industrial advances—as well as commitments to make such advances—decreased somewhat further during 1940.

The expansion in "Total reserves" and in "Total deposits" of this bank reflected the continued large inflow of gold from other countries. As a preceding section of the report has indicated, the increase in foreign deposits reflected chiefly undischarged proceeds of foreign official sales of gold to the Treasury, some of which was held under "foreign property control" by Executive Order. The increase in "Other deposits" reflected larger balances for nonmember clearing accounts and the addition of one sizable nonmember account opened during the year.

(In thousands of dollars)

LIABILITIES	Dec. 31, 1940	Dec. 31, 1939
Federal Reserve notes in actual circulation . . . . .	\$ 1,576,404	\$ 1,269,922
Deposits:		
Member bank—reserve account . . . . .	\$ 7,556,979	\$ 6,319,837
U. S. Treasurer—General Account . . . . .	131,605	139,593
Foreign . . . . .	633,979	136,108
Other deposits . . . . .	492,197	165,323
Total deposits . . . . .	\$ 8,814,760	\$ 6,760,861
Deferred availability items . . . . .	\$ 201,083	\$ 199,137
Other liabilities . . . . .	175	873
Total liabilities . . . . .	\$10,592,422	\$ 8,230,793
Capital accounts:		
Capital paid in . . . . .	\$ 51,096	\$ 50,972
Surplus (Section 7) . . . . .	56,447	53,326
Surplus (Section 13b) . . . . .	7,070	7,109
Other capital accounts . . . . .	12,880	9,472
Total capital accounts . . . . .	\$ 127,493	\$ 120,879
Total liabilities and capital accounts . . . . .	\$10,719,915	\$ 8,351,672
Ratio of total reserves to deposit and Federal Reserve note liabilities combined . . . . .	94.4%	90.9%
Commitments to make industrial advances . . . . .	\$ 700	\$ 1,803

## Income and Disbursements

In 1940, earnings of this bank showed an increase over the preceding year because of increased income from holdings of United States Government securities, which was attributable to a lengthening in the average maturity and a resulting increase in the average yield. As a consequence of larger earnings and no appreciable change in net expenses of operation, current net earnings in 1940 were \$5,644,000 compared with \$3,899,000 in 1939. The addition of \$3,408,000 of profits derived from the sale of United States Government securities, together with other receipts and smaller deductions than in 1939, brought net earnings to \$9,555,000, compared with \$4,831,000 in 1939.

Net earnings provided for the usual 6 per cent dividends to member banks, amounting in 1940 to \$3,065,000, and for a transfer of \$6,529,000 to ordinary surplus (Section 7). As in the previous year, however, ordinary surplus then was reduced by the transfer of the profit from the sale of United States Government securities (\$3,408,000) to reserves for contingencies in "Other capital accounts."

**Profit and Loss Account**  
**For the calendar years 1940 and 1939**  
(In thousands of dollars)

	1940	1939
Earnings .....	\$ 12,985	\$ 11,211
Net expenses .....	7,341	7,312
Current net earnings .....	\$ 5,644	\$ 3,899
Additions to current net earnings:		
Profits on sales of U. S. Government securities	\$ 3,408	\$ 1,262
All other .....	638	94
Total additions .....	\$ 4,046	\$ 1,356
Deductions from current net earnings:		
Losses and reserves for losses on industrial advances	\$ 103	\$ 405
All other .....	32	19
Total deductions .....	\$ 135	\$ 424
Net earnings .....	\$ 9,555	\$ 4,831
Dividends paid .....	\$ 3,065	\$ 3,055
Transferred to surplus (Section 7) .....	6,529	2,125
Transferred from surplus (Section 13b) .....	—39	—349
Surplus (Section 7) beginning of year .....	\$ 53,326	\$ 52,463
Addition as above .....	6,529	2,125
	\$ 59,855	\$ 54,588
Transferred to other capital accounts .....	3,408	1,262
Surplus (Section 7) end of year .....	\$ 56,447	\$ 53,326

### Changes in Directors and Officers

On December 31, 1940 Owen D. Young, Chairman of the Board of Directors, relinquished that office. The following resolution concerning Mr. Young was adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on January 2, 1941:

On December 31, 1940, Owen D. Young, Chairman of the Board of Directors of the Federal Reserve Bank of New York, completed nearly eighteen years of service to this institution. Mr. Young was first elected as a Class B director of the bank for a term beginning in January 1923. He was appointed a Class C director on January 13, 1927, and was Deputy Chairman from January 1927 through 1935, and from June 1936 to January 1938. He was then appointed Chairman of the Board for the three year term which he has now completed, and to our great regret he has decided to relinquish this office.

Mr. Young's service to the bank has been longer than that of any other director. But his contribution to the bank's development can not be measured in years. Its measure is found in his devotion to the public interest, in his ability to discern broad economic and social trends and in his wisdom which caused him always to seek and to give weight to the human factor in monetary and credit problems. For him to become a director of a central bank was to become a central banker by the study and practice of that profession. Through the most trying periods in the life of the Federal Reserve System he has been a dominant figure in the councils of the Federal Reserve Bank of New York, and he has contributed largely to the development of domestic and international banking and credit policy.

The Federal Reserve Bank of New York feels deeply its debt to Owen D. Young, a great American, who found in this institution an opportunity for long continued public service. The Board of Directors of the bank, by this minute, records and acknowledges this debt.

At a regular election in the autumn of 1940, Leon Fraser, President, The First National Bank of the City of New York, was elected by member banks in Group 1 as a Class A director for a term of three years beginning January 1, 1941, to succeed William C. Potter, New York, N. Y., whose term expired December 31, 1940. At the same time, Donaldson Brown, Vice Chairman of the Board and Vice President of General Motors Corporation, New York, N. Y., was elected by member banks in

Group 1 as a Class B director for a term of three years beginning January 1, 1941, to succeed Thomas J. Watson, New York, N. Y., whose term expired on December 31, 1940.

In December, 1940, the Board of Governors of the Federal Reserve System designated Beardsley Ruml, Treasurer, R. H. Macy & Co., Inc., New York, N. Y., Chairman and Federal Reserve Agent of this bank for the year 1941, to succeed Owen D. Young, whose term as director expired December 31, 1940, and appointed Edmund E. Day, President, Cornell University, Ithaca, N. Y., Deputy Chairman for the year 1941. In December, also, the Board of Governors of the Federal Reserve System reappointed Howard Kellogg, Buffalo, N. Y., as a director of the Buffalo Branch for a term of three years beginning January 1, 1941.

The directors of this bank appointed Raymond N. Ball, President, Lincoln-Alliance Bank and Trust Company, Rochester, N. Y., as a director of the Buffalo Branch for a term of three years beginning January 1, 1941, to succeed William A. Dusenbury, Olean, N. Y., whose term expired December 31, 1940.

The directors of this bank reappointed Robert M. O'Hara, Managing Director of the Buffalo Branch for the year 1941.

#### Changes in Officers

On April 11, 1940, it was announced that George L. Harrison, President of this bank, would resign that office to become President and Chief Executive Officer of the New York Life Insurance Company, New York, N. Y., as of July 1, 1940; a later announcement on June 24, 1940, stated that because of extraordinary conditions which had developed since the earlier announcement, the Board of Directors of the Federal Reserve Bank of New York, with the concurrence of the Board of Governors of the Federal Reserve System and with the consent of the Board of Directors of the New York Life Insurance Company, had requested Mr. Harrison to defer his resignation from the Presidency of the Federal Reserve Bank of New York until December 31, 1940; in December, it was announced that Mr. Harrison's resignation had been accepted effective December 31, 1940 and that he would assume office as President and Chief Executive Officer of the New York Life Insurance Company on January 1, 1941.

The following resolution was adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on January 2, 1941:

The resignation of George L. Harrison as President of the Federal Reserve Bank of New York on December 31, 1940, brings to an end a notable career of public service in the Federal Reserve System.

Mr. Harrison joined the legal staff of the Federal Reserve Board before the opening of the Federal Reserve Banks in November 1914. He has been an official of the System continuously since that time, except for a brief period during the war of 1914-18. In June 1920, Mr. Harrison came to the Federal Reserve Bank of New York as a Deputy Governor, and in November 1928, following the death of Benjamin Strong, he was elected Governor of the bank. For the past twelve years, he has been this bank's chief executive officer, and a leading member of the System committees which contribute to the formulation of banking and credit policy.

The period of his leadership has been one of extraordinary difficulties. It has encompassed the collapse of the speculative boom in the United States in 1929, the credit and financial debacle in Europe in 1931, the banking crisis in this country in 1933, the long period of recovery from the deep depression of those years, and the outbreak of the present European war. Through these critical times Mr. Harrison has brought this institution to higher standards of performance in its banking operations and has developed within it a growing capacity to meet and cope with the difficult problems of central banking policy. His own contribution, however, has gone beyond what he has built into the Federal Reserve Bank of New York and is recorded high in the annals of the banking and credit crises of the period, within the nation and among the nations.

The Board of Directors of the Federal Reserve Bank of New York in this minute records its thanks to George L. Harrison for his devotion to the work of the bank through more than twenty years, its recognition of those qualities of leadership which have made his services to the bank and to the nation outstanding, and its appreciation of those qualities of friendliness and tolerance which have made association with him a continuing pleasure. The best wishes of the Board go with him in his new work.

On December 19, the Board of Directors of the bank announced the appointment of Allan Sproul, formerly First Vice President, as President to succeed Mr. Harrison, and the appointment of Leslie R. Rounds, formerly a Vice President, as

First Vice President to succeed Mr. Sproul, both appointments to become effective January 1, 1941.

On June 28, 1940, it was announced that Herbert H. Kimball, Assistant Vice President and Secretary, had resigned as Secretary of the bank in order that he might devote his entire time to the work of the newly created Foreign Property Control Department, and Horace L. Sanford, formerly Assistant Secretary, was appointed Secretary. At the same time, William F. Treiber, Assistant Counsel, was appointed Assistant Secretary. Mr. Sanford and Mr. Treiber continued to hold, respectively, the positions of Manager of the Research Department and Assistant Counsel.

William A. Scott, Manager of the Government Bond Department and a member of the staff of the bank since 1919, died on August 28, 1940.

Effective January 3, 1941, the Board of Directors of this bank appointed James M. Rice, formerly an Assistant Vice President, a Vice President; William H. Dillistin, formerly Assistant Vice President, was appointed General Auditor of the bank; George W. Ferguson, formerly General Auditor, was appointed Assistant Vice President; Robert H. Brome and John H. Wurts, of the Legal Department, were appointed officers with the title of Assistant Counsel.

#### Member of Federal Advisory Council

At its meeting on January 2, 1941, the Board of Directors of this bank, selected George L. Harrison, President and Chief Executive Officer of the New York Life Insurance Company, New York, N. Y., formerly President of the Federal Reserve Bank of New York, to serve as a member of the Federal Advisory Council for the Second District during the year 1941.

**Directors and Officers**

		DIRECTORS	<i>Term Expires Dec. 31</i>
<i>Class</i>	<i>Group</i>		
A	1	LEON FRASER ..... President, The First National Bank of the City of New York, New York, N. Y.	1943
A	2	OTIS A. THOMPSON ..... President, The National Bank and Trust Company of Norwich, Norwich, N. Y.	1941
A	3	NEIL H. DORRANCE ..... President, The First National Bank and Trust Company of Camden, Camden, N. Y.	1942
B	1	DONALDSON BROWN ..... Vice Chairman of the Board and Vice President, General Motors Corporation, New York, N. Y.	1943
B	2	WALTER C. TEAGLE ..... Chairman, Board of Directors, Standard Oil Company (New Jersey), New York, N. Y.	1941
B	3	ROBERT T. STEVENS ..... President, J. P. Stevens & Co., Inc., New York, N. Y.	1942
C		BEARDSLEY RUMML, <i>Chairman</i> ..... Treasurer, R. H. Macy & Co., Inc., New York, N. Y.	1941
C		EDMUND E. DAY, <i>Deputy Chairman</i> ..... President, Cornell University, Ithaca, N. Y.	1942

DIRECTORS—BUFFALO BRANCH

*Term  
Expires  
Dec. 31*

MARION B. FOLSOM ..... Treasurer, Eastman Kodak Company, Rochester, N. Y.	1941
GILBERT A. PROLE ..... Genesee Farm Supply Company, Batavia, N. Y.	1942
HOWARD KELLOGG ..... President, Spencer Kellogg and Sons, Inc., Buffalo, N. Y.	1943
FRANK F. HENRY ..... Director, General Mills, Inc., Buffalo, N. Y.	1941
GEORGE F. RAND ..... President, The Marine Trust Company of Buffalo, Buffalo, N. Y.	1942
RAYMOND N. BALL ..... President, The Lincoln-Alliance Bank and Trust Company, Rochester, N. Y.	1943
ROBERT M. O'HARA, <i>Managing Director</i> .....	1941

MEMBER OF FEDERAL ADVISORY COUNCIL

GEORGE L. HARRISON

President and Chief Executive Officer, New York Life Insurance Company,  
New York, N. Y.

## OFFICERS

ALLAN SPROUL, *President*

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

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GEORGE W. FERGUSON,  
*Assistant Vice President*                      SILAS A. MILLER,  
*Assistant Vice President*  
J. WILSON JONES,  
*Assistant Vice President*                      ARTHUR PHELAN,  
*Assistant Vice President*  
HERBERT H. KIMBALL,  
*Assistant Vice President*                      HAROLD V. ROELSE,  
*Assistant Vice President*  
JOHN W. MCKEON,  
*Assistant Vice President*                      VALENTINE WILLIS,  
*Assistant Vice President*

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DUDLEY H. BARROWS,  
*Manager, Cash Department*                      ROBERT F. McMURRAY,  
*Manager, Safekeeping Department*  
ROBERT H. BROME,  
*Assistant Counsel*                              HORACE L. SANFORD, *Manager, Research  
Department, and Secretary*  
WESLEY W. BURT,  
*Manager, Government Bond Department*      WILLIAM F. SHEEHAN,  
*Manager, Bank Examinations Depart-  
ment, and Chief Examiner*  
DONALD J. CAMERON,  
*Manager, Foreign Department*                      INSLEY B. SMITH,  
*Manager, Bank Relations Department*  
FELIX T. DAVIS,  
*Manager, Check Department*                      FREDERICK STOCKER,  
*Manager, Cash Custody Department*  
NORMAN P. DAVIS,  
*Manager, Foreign Property Control  
Department, and Manager, Security  
Loans Department*                              TODD G. TIEBOUT,  
*Assistant Counsel*  
EDWARD O. DOUGLAS,  
*Manager, Personnel Department*                      WILLIAM F. TREIBER,  
*Assistant Counsel and  
Assistant Secretary*  
EDWIN C. FRENCH,  
*Manager, Collection Department*                      RUFUS J. TRIMBLE,  
*Assistant Counsel*  
MARCUS A. HARRIS,  
*Manager, Securities Department*                      CHARLES N. VAN HOUTEN,  
*Manager, Security Custody Department*  
MYLES C. McCAHILL,  
*Manager, Service Department*                      JOHN H. WURTS,  
*Assistant Counsel*

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

## OFFICERS—BUFFALO BRANCH

ROBERT M. O'HARA,  
*Managing Director*                              REGINALD B. WILTSE,  
*Assistant Manager*  
HALSEY W. SNOW,  
*Cashier*