Twenty-eighth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1942

Second Federal Reserve District

CONTENTS

Federal Reserve Bank of New York

March 11, 1943.

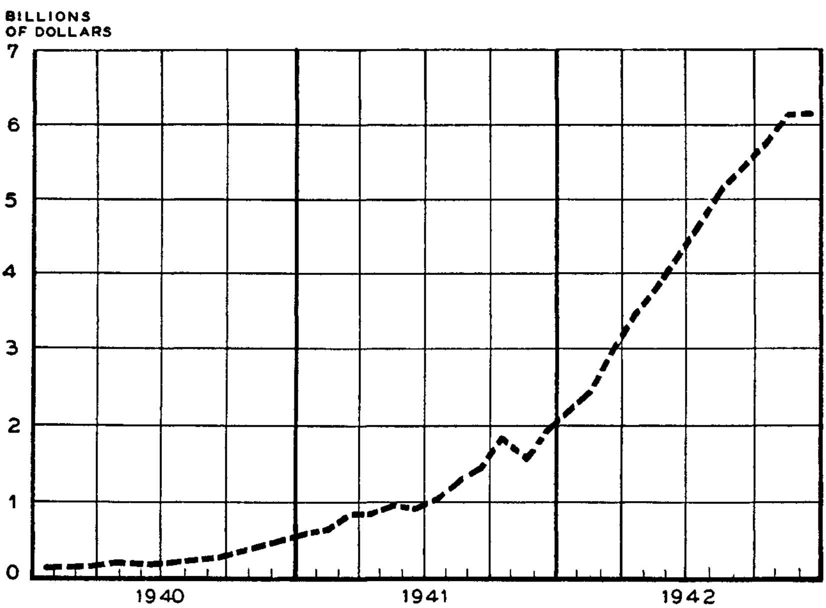
To the Stockholders of the
Federal Reserve Bank of New York:

I am pleased to transmit herewith the twenty-eighth annual report of the Federal Reserve Bank of New York reviewing the year 1942.

ALLAN SPROUL,
President.

Federal Reserve Bank of New York
Twenty-Eighth Annual Report

The year 1942 provided the first opportunity to observe the effects of total war upon our economy. To get a better perspective, it may be helpful to make some comparisons with the last war. In both cases, we did not enter the war until it had been going on for some time. Our entry in April, 1917, occurred in the thirty-third month of the war, and our entry in December, 1941, in the twenty-eighth. But in the present war our military preparations were begun much sooner under the defense program of June, 1940; and in the year 1941, the military expenditures were already as large as those of 1918. This is one way of indicating how vastly greater is our military program in the present war. Perhaps an even more striking indication is the fact that in the earlier war our peak of industrial production was reached at about the time of our entry into the war, and little change occurred thereafter during the war period. Equally striking is the fact that in 1918 we were still producing a million



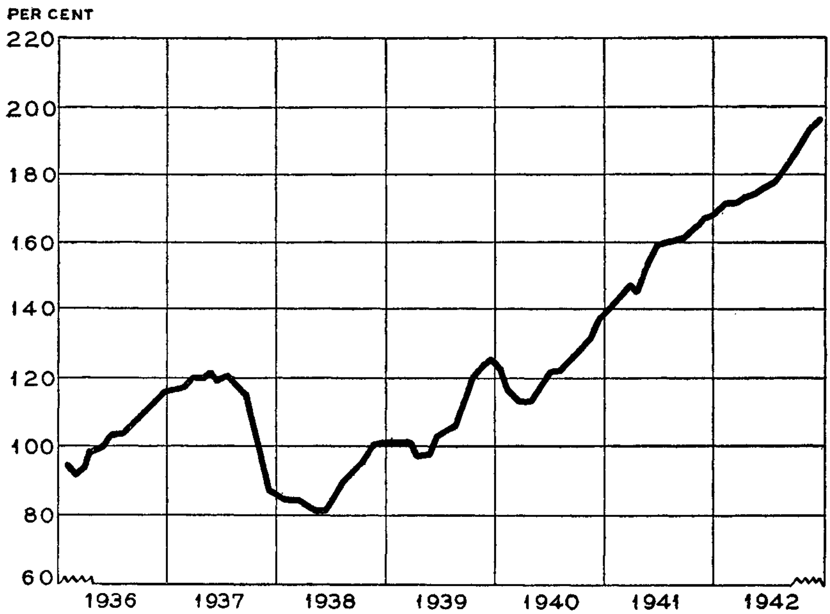
Expenditures for War by the U. S. Government

passenger automobiles, whereas this time such automobile production was virtually suspended in February, 1942, soon after our entry into the war.

Facts like these demonstrate how much more seriously we are taking our present war effort. It was in 1942 that this effort began really to unfold. Since Pearl Harbor, the war program has been stepped up with astonishing rapidity. The President's budget message in January, 1942, gave us our first financial picture of what total war means, but that estimate of $56 billion of military expenditures for the fiscal year 1943, though more than four times as large as the national defense expenditures of 1941, has been twice revised upward. It is now estimated by the Bureau of the Budget that military expenditures in the fiscal year 1943 will be $77 billion, and total Federal expenditures $84 billion. In January of this year, the President's budget message estimated that military expenditures in the fiscal year 1944 would be $100 billion, and total Federal expenditures for all purposes other than debt retirement, $107 billion. One can get some idea of the magnitude of these figures by recalling that our total national income in the calendar year 1939 was about $71 billion. Even allowing for the fact that prices have risen, we come out with the conclusion that the Government alone will soon be spending, mainly for military purposes, more than was spent during such peacetime years as 1929 or 1939 by the entire nation for all purposes. During the calendar year 1942, Federal Government expenditures totaled about $58 billion, inclusive of Government corporations, of which $52 billion were for war purposes.

Despite the vastly greater scale of our war effort, comparisons with the last war show that so far we have been more successful in combating inflation. Until the spring of 1941, there was a marked similarity in the movement of wholesale prices in the two wars, a roughly horizontal movement for about a year followed by a gradual but accelerating rise, and many fears were at that time expressed that this similarity might continue. Our question was whether the great price rise, of about 50 per cent, which occurred between the middle of 1916 and the middle of 1917 was about to be repeated, and this was part of a larger question, whether for the war as a whole we would repeat the earlier experience with prices. From 1915 to 1920, wholesale prices rose almost 150 per cent, and the cost of living about doubled before the postwar deflation set in. Looking back, we can now see how much more fortunate our experience has been, thus far, than in the last war. The total rise of wholesale prices since the war began in 1939 has been only about one third as compared with about 83 per cent for the corresponding period of the last war, and the rise in the cost of living has been about 22 per cent compared with 36 per cent in the same period of the last war.

For our success thus far in avoiding a more substantial degree of inflation, despite our huge war program, chief importance must be given to the expansibility of our economy. There has been much discussion over the past two decades about the technological potentialities of the modern highly industrialized state. During the thirties, despite much wishful thinking to the contrary, it became increasingly apparent that Germany was building her great war machine, not primarily by tightening her belt, but by improving her industrial organization and technique. This was the origin of the "guns or butter" argument that came into so much prominence in the early part of the war. A survey of our experience in 1942 reveals that despite the growing, and of course entirely correct, emphasis on the need for restricting civilian consumption, this kind of restriction has in fact up till now been very moderate for the nation as a whole, and the major emphasis has been on expansion of production.



Index of Physical Volume of Industrial Production of the Board of Governors of the Federal Reserve System, Adjusted for Seasonal Variation (1935-39 average = 100 per cent)

A few statistics on the growth and composition of our national income will make this fact clear. The estimated net national income has grown from $70.8 billion in the calendar year 1939 to $94.7 billion in 1941, and to $117 billion in 1942; and the estimated gross national product has grown from $88.1 billion in 1939 to $119.4 billion in 1941, and to $152 billion in 1942. Even allowing for the fact that the price level has risen by one third since 1939, this undoubtedly represents a rate of expansion of physical production that is without any parallel in economic history. It seems safe to add that it is a rate of expansion that no one prior to the war would have been prepared to prophesy.

If now we turn to the behavior of consumption expenditures during the same period, we can see how slight, thus far, has been our reliance upon restriction of consumption as the means of avoiding inflation. According to the most recent Department of Commerce survey, total consumption of commodities and services, valued at 1941 prices, was estimated at $65.9 billion in the calendar year 1939, $75.8 billion in 1941, and $74 billion in 1942. These figures become even more striking when it is recalled that the flow of durable consumers' goods, in which the conflict between military and civilian demands for materials became acute in 1941, was last year drastically reduced. Allowing, for example, for the fact that expenditures on automobiles and automotive products were reduced from $5.9 billion in 1941 to $3 billion in 1942, the flow of other goods and services to consumers was actually greater in 1942 than in the previous year. It is apt to be overlooked, moreover, that the official statistics of consumer expenditures do not include governmental expenditures on ordinary civilian goods for the armed forces. Taking these expenditures into account, we must conclude that thus far there has been no real contraction of consumption; on the contrary, the year 1942 probably represents a new high record of consumption expenditures. It is true that, especially in the latter half of 1942, some consumption was out of previously accumulated inventories. Nevertheless, that we could at the same time spend $52 billion for war purposes and yet avoid serious inflation must, as was suggested earlier, be due primarily to the extraordinary expansibility of our production.

The second major reason for our comparative success in avoiding inflation thus far has been the use of direct controls. In January, 1942, the Emergency Price Control Act was approved, and this was followed in April by the much more comprehensive General Maximum Price

Regulation. These measures have greatly reduced the rise both in wholesale prices and in the cost of living. The general index of wholesale prices had risen 19 per cent during the year preceding January, 1942, but between January and October of 1942 it rose only 4 per cent, and the Office of Price Administration has estimated that since the more general control of prices went into effect last May, the monthly rate of increase of wholesale prices has been cut by about four fifths. This effect has been all the more surprising in view of the fact that our anti-inflation policies were still far from comprehensive. Our fiscal policy has at all times lagged seriously behind the theoretical requirements, and we have had a large and growing surplus of income in the hands of consumers, an "inflationary gap" which Mr. Byrnes, Economic Stabilization Director, has recently estimated as $16 billion. Throughout 1942, moreover, there was still no general resort to rationing of civilian consumption, and even the price control was only partial, with continuing uncertainties with regard to whether and how wage rates and agricultural prices would be brought under control. The growing realization of the need for a more comprehensive and better coordinated anti-inflation policy resulted in the amendment of the Price Control Act on October 2, and the creation by the President on October 3 of the Office of Economic Stabilization, measures which have extended the control over food prices and have resulted in bringing wage rates under some restraint.

Despite our comparative success in avoiding serious inflation thus far, there have been signs of late that we may be entering a more critical phase of our war effort. In recent months, there has been a more pronounced rise of farm prices, and a growing fear of a vicious spiral of rising cost of living and wage rates. Hourly earnings in industry have continued to rise more rapidly than the cost of living, and the payment of time and a half for overtime beyond 40 hours per week would seem bound to accentuate this tendency as the 48-hour week goes into more general effect. The situation with regard to manpower, materials, and equipment is becoming rapidly tighter. We are facing in 1943, the withdrawal of several millions from the labor market into the armed forces at the same time that employment must be increased by several millions if the demands of the war program and the food program are to be met. In the face of these signs of growing strain upon resources, it will become increasingly necessary to heighten the emphasis upon control of consumption, by a combination of increased taxation in the income brackets where income has increased, absorption of substantial amounts of current incomes through sales of Government securities to the public, rationing, and more comprehensive price and wage controls, and to rely less than we have done heretofore on continued general expansion of production.

Developments in War Financing during 1942

The extraordinary rate of increase in expenditures for war brought about a corresponding increase in the magnitude of the problem faced by the Treasury in financing these expenditures. Throughout the year much emphasis was placed upon increased taxation and the sale of Government securities to individuals in order to draw off surplus purchasing power of the public, and thus to lessen the inflationary pressure on prices. In his budget message in January, the President advocated an increase of at least $9 billion in the annual rate of taxation. No specific tax program was presented at that time, but in March the Treasury presented to Congress a program for raising the amount proposed by the President. Included in the program were substantial increases in income tax rates applicable to individuals, higher excess profits taxes and surtaxes on corporation incomes, and higher excise taxes. The Treasury also proposed various changes in tax laws for the purpose of closing "loopholes". These and other proposals were under consideration by Congress throughout the spring and summer and into the autumn. In October the Revenue Act of 1942 became law. It provided for numerous increases in income and excise tax rates, for a substantial lowering of personal exemptions which added greatly to the number of income tax payers, and also for a "Victory tax" of 5 per cent on all incomes of individuals in excess of $12 a week, the tax on wages and salaries to be deducted at the source beginning in January, 1943. It was estimated that the total yield of all Federal taxes, including social security taxes, would amount to approximately $24½ billion in the fiscal year 1942-43, and about $30 billion for the first full year in which they were payable (the calendar year 1943), as compared with Federal revenue receipts of less than $14 billion in 1941-42 and about $8 billion in 1940-41.

Various proposals for further increases in taxation were under consideration at the end of the year.* Among the more important obstacles to be overcome were the uneven distribution of the increase in the national income and the fact that most individuals (including millions of new

* In his annual budget message to the Congress, presented on January 11, 1943, the President recommended an effort "to collect not less than sixteen billion dollars of additional funds by taxation, savings, or both, during the fiscal year 1944."

taxpayers) have probably never adopted the practice of setting aside out of their current incomes the amounts required to pay their income taxes. This overhanging income tax debt complicated all consideration of otherwise desirable proposals for more collection of taxes at the source, and pointed to the need of some form of "Pay-as-you-go" or "Pay-as-you-earn" plan.

Despite the rapid increase in Federal tax revenues during the past year, Treasury deficits grew at an extraordinary rate as war expenditures mounted. In the effort to finance a large part of the deficit through sale of securities to the public, the War Savings bond program was stepped up markedly. There was an intensification of the drive conducted by the War Savings Staff throughout the country to obtain as full participation as possible, by industrial and other employees, in arrangements for payroll deductions for the purchase of War Savings bonds. Great numbers of additional employers, and others, were qualified as issuing agents for the sale of such bonds. An extensive advertising program was launched. As a result of these efforts, sales of War Savings bonds through payroll allotment plans increased rapidly from less than $30 million in January to about $370 million in December, and substantial amounts of the bonds were sold to other subscribers throughout the year. Total sales amounted to more than $9 billion. In this District, sales of War Savings bonds totaled about $1.8 billion. However, this still left very large amounts to be borrowed by other methods.

In this situation the Federal Reserve System recognized that it had a dual responsibility: first, to assist in promoting the financing of the war, and second, and of equal importance, to direct its policies toward keeping at a minimum the amount of war financing done through the banking system, in order to limit the additions to the money supply which are a consequence of bank purchases of securities. The discharge of the first responsibility, which has involved providing the commercial banks with the reserve funds necessary to their support of the financing program, has been relatively simple. The second task has been and is more difficult.

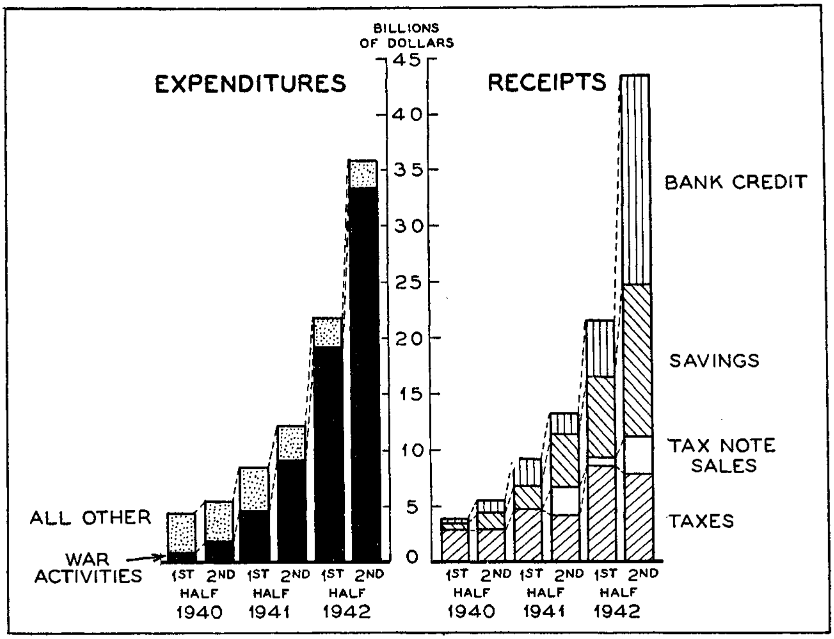
It was realized that the Savings Bond program would not reach all potential individual investors, and that it was necessary also to intensify efforts to sell Government securities to institutions that act as custodians of the savings of the public, and to trust funds, corporations, and other public and private bodies. The Federal Reserve Banks, the commercial banks, and the securities industry volunteered their services in promoting such sales. In May, Secretary Morgenthau announced his acceptance of a plan of organization, proposed by the Federal Reserve System and the National Committee of the Securities Industry for War Financing, under which a "Victory Fund Committee" would be appointed in each Federal Reserve District, under the chairmanship of the President of the Federal Reserve Bank.* These committees direct the efforts of sales organizations drawn largely from the banking and securities industries, but using other sales personnel wherever it can be recruited. Under these district committees, regional subcommittees were appointed and large numbers of salesmen were recruited to solicit subscriptions to Government security issues in periodic drives. The work of these organizations was primarily directed toward promoting the sales of Government securities to others than commercial banks.

Despite efforts to sell Government securities to nonbank investors, it appeared, as the year progressed, that an increasing proportion of the Government deficit was being financed through the banking system. In the autumn about 55 per cent of Treasury borrowing was absorbed by the commercial banks, and only about 45 per cent by other investing institutions and the general public. As a result, there was an accelerated rise in the money supply in the form of bank deposits. As this increase in the money supply was adding to the purchasing power of the public at a rate that threatened the control of prices, the need for greater efforts to finance war expenditures outside the banks became apparent, and a change in Treasury borrowing methods was adopted at the end of the year.

---

* The membership of the Victory Fund Committee in the Second Federal Reserve District is as follows:

Mr. Allan Sproul (Chairman), President, Federal Reserve Bank of New York.
Mr. H. M. Addinsell, Chairman of Executive Committee, The First Boston Corp.
Mr. Winthrop W. Aldrich, Chairman, Chase National Bank.
Mr. H. K. Corbin, President, Fidelity Union Trust Company of Newark.
Mr. Leon Fraser, President, First National Bank of New York.
Mr. Albert H. Gordon of Kidder, Peabody & Co.
Mr. George L. Harrison, President, New York Life Insurance Company.
Mr. August Ihlefeld, President, Savings Banks Trust Company.
Mr. Robert Lehman of Lehman Brothers.
Mr. Edwin P. Maynard, Chairman of the Board, Brooklyn Trust Company.
Mr. Walter J. Monro, Vice President, Schoellkopf, Hutton & Pomeroy, Inc., Buffalo.
Mr. William C. Potter, Chairman of Executive Committee, Guaranty Trust Company.
Mr. Lewis G. Harriman, President, Manufacturers and Traders Trust Co. of Buffalo.
Mr. Gordon S. Rentschler, Chairman, National City Bank.
Mr. Joseph P. Ripley, Chairman of the Board, Harriman Ripley & Co., Inc.
Mr. Emil Schram, President, New York Stock Exchange.
Mr. J. C. Traphagen, President, Bank of New York.



U. S. Government Expenditures and Sources of the Financing of Such Expenditures

Treasury borrowing was virtually suspended during November, except for weekly sales of Treasury bills, sales of Savings bonds and Tax notes, and a sale of certificates of indebtedness, largely for refunding purposes, on November 2. Near the end of the month a Victory Loan drive to be conducted during December was announced, the stated objective of which was to raise at least $9 billion through the sale of a variety of securities. The drive was conducted by the Victory Fund organizations in each district, under the general direction of the Secretary of the Treasury. Total sales of all Treasury securities, including War Savings bonds, amounted to approximately $12.9 billion during the month, of which about 60 per cent was taken by investors other than commercial banks. The success of this drive gave assurance that the periodic drive method would be continued and that, in place of monthly Treasury financing operations, intensified selling campaigns at less frequent intervals would be used.

Although the Victory Loan drive was highly successful as to the total amount of money raised and represented a substantial accomplishment in placing securities outside the commercial banks, there remained much work to be done if the financing program was to play its proper role in the general anti-inflation offensive. While in this District 72,000 subscriptions were received (a far larger number than in any previous financing operation during the current war period), more intensive selling to a much larger group appeared to be required by the developing gap between the amount of funds in consumers' hands and the amount of consumer goods on which those funds could be spent.

The payroll allotment plan developed by the War Savings Staff has, of course, reached a much greater number of individuals, but the war financing program as a whole should draw off much larger amounts of current incomes. A vastly larger number of individuals should be saving a greater part of their incomes and making their savings available for the financing of the war by buying Government securities. To facilitate saving and the purchase of Government securities, the familiar partial payment procedure is also available, the purchasers obtaining a temporary bank loan to carry the securities until they are able to complete payment. A joint statement of bank supervisory authorities issued in November indicated that banks would not be criticized for making such loans on a short term or amortization basis.* This increasing pressure for sales of Government securities to every individual able to save part of his income, however, must not be allowed to degenerate into a futile round of purchase and redemption. The redemption privilege carried by the Series E, F, and G Savings Bonds is meant to be used only in cases of urgent necessity. It is a disservice to the country to purchase such bonds and to redeem them shortly thereafter in the absence of compelling need. Government securities purchased should be held through the war and for such longer periods as may be necessary to avert inflationary consequences of the spending of the funds.

Commercial bank participation in Treasury financing, of course, continued to be important, even during the December drive. And, as in the case of previous Treasury financing operations, a disproportionate part of the securities offered continued to be taken in this District. The persistent tendency throughout most of the year for sales of Treasury securities, together with Federal tax revenues, to exceed Government disbursements in this area gave rise to a more or less continuous outflow of funds from New York and created a problem for the Federal Reserve System of keeping the New York money market adequately supplied with reserves.

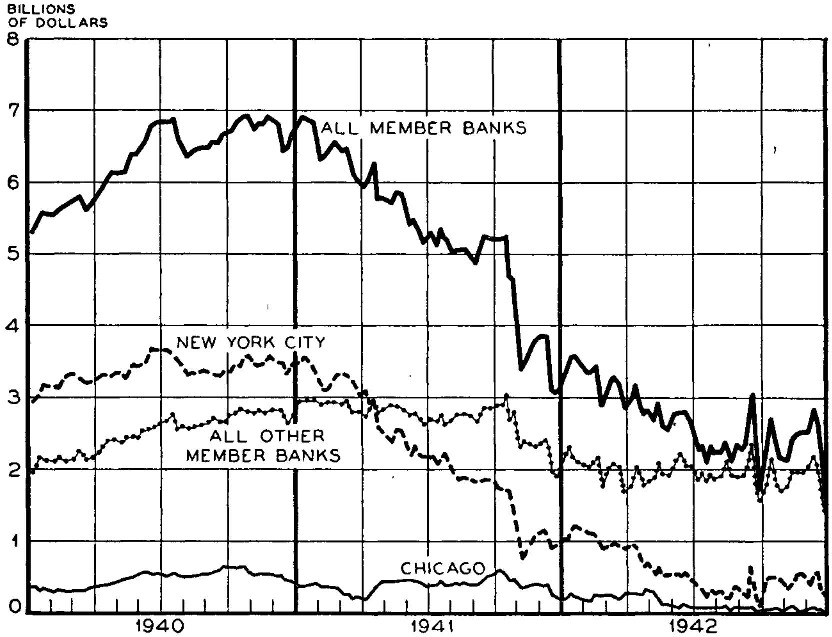
* Joint Statement of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Executive Committee of the National Association of Supervisors of State Banks.
(See Federal Reserve Bulletin, December, 1942, pp. 1174-1175.)

Developments in the New York Money Market

The annual report of this Bank for 1941 reviewed the rapid and disproportionate shrinkage in the excess reserves of New York City member banks, as compared with other member banks, and the reasons for that tendency (outflows of funds through Treasury and commercial transactions, which were only partly offset by a much reduced inflow of foreign gold). In the early part of 1942 the downward trend in the excess reserves of New York City banks was halted temporarily. Federal tax revenues increased substantially, and no "new money" financing operation by the Treasury was required, with the exception of one issue of $1½ billion of Treasury bonds in the latter part of February. In paying for their allotments of this issue, the New York City banks made liberal use of the War Loan Deposit Account method of payment, and thus postponed any substantial effect on their cash reserves. Meanwhile deposits of Government checks in New York City banks increased rapidly in volume, so that, on balance, those banks had some net gain of funds through Government transactions during the first quarter of the year.

A rapid change in the situation developed in April, however, which persisted more or less continuously through the remainder of the year. Federal revenues fell off sharply after the March income tax period; the rate of war expenditures accelerated rapidly; frequent and substantial calls for the repayment of War Loan deposits by banks were issued by the Treasury, starting early in April; and the volume of Treasury financing through the sale of "market" securities was rapidly accelerated. Usually from 40 per cent to more than one half of the new issues were taken in this District. Although the banks here made payments for the new securities increasingly through book credits to War Loan deposit accounts, Treasury calls for payments from such accounts came so frequently that this method of payment had the effect only of delaying slightly the drain on the reserves of banks in this District, especially the New York City banks.

There was also a cumulative withdrawal of funds from New York by business concerns. In addition, banks in this District, in common with banks throughout the country, had to meet a persistent public demand for currency. Finally, out-of-town banks drew on their balances with New York banks from time to time during the year, although the crediting of interest on securities held for such banks and of other collections



Excess Reserves Held by Member Banks

for their accounts, prevented an appreciable net reduction in such balances for the year as a whole.

As a result of these influences, excess reserves of New York City banks melted away rapidly. By the middle of July total excess reserves of New York City member banks were slightly below $200 million, as compared with $1 billion at the beginning of the year. Even this figure did not adequately reflect the position of the New York City banks at that time, as these banks then held approximately $2½ billion of demand deposits due to other banks throughout the country, much of which was subject to withdrawal, without notice, if and when those banks saw fit to employ their idle funds. Nevertheless, the New York banks gave vigorous support to each new Treasury financing, supported by the assurances of the Federal Reserve System that adequate reserve funds would be supplied as the need arose. The continued effective functioning of the New York money market was necessary to the success of the Treasury financing program. In effect, the New York market provides an outlet not only for its proportionate share of each security issue, but also for the residual amounts that are not taken up by other parts of the country. Furthermore, the New York market is called upon from time to time to absorb selling of securities by the rest of the country. The capacity and the stability of the New York money and security markets, therefore, were one of the primary considerations of Federal Reserve policy during the year.

Federal Reserve Policy

Two of the principal objectives of Federal Reserve policy during 1942 were forecast in a statement issued by the Board of Governors of the Federal Reserve System on December 8, 1941 (the day after the Japanese attack on Pearl Harbor), which read in part as follows:

> "The System is prepared to use its powers to assure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements."

These two objectives were: first, the maintenance of adequate member bank reserves, and, second, the maintenance of stability in the market for Government securities. A third objective which soon attained a primary position in Federal Reserve policy was to assist in the diversion of increasing amounts of the incomes of individuals to the repayment of debts and to the financing of the war, thus helping to counteract wartime inflationary tendencies.

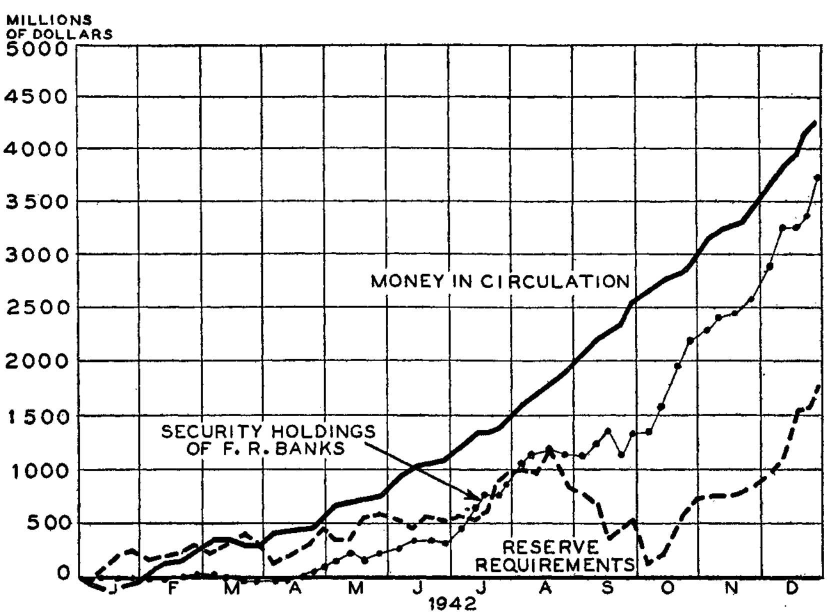
The first two of these objectives may be discussed together, as they are closely related. The need to supply additional reserve funds to the banks of the country grew out of the heavy drain on bank reserves resulting from a rapid increase in the amount of money in circulation, and the large increase in member bank reserve requirements accompanying the growth of deposits.

As for the objective of maintaining stability in the Government security market, no attempt was made to "peg" security prices at fixed levels. On the other hand, there was general agreement that a progressive rise in money rates during the period of war financing would be inadvisable, as it would be an inducement to investors to postpone the employment of their funds until they could obtain higher rates of return, or, alternatively, would require successive conversions of the earlier, lower-yielding securities into the later, higher-yielding securities. Furthermore, such a trend in interest rates would add materially to the interest burden of the rapidly rising public debt, and might cause severe depreciation in the market value of the longer term securities previously outstanding.

No particular problem with respect to either was encountered during the first quarter of 1942. The reserve position of member banks was characterized by the continuance of a large volume of excess reserves, there were no large scale Treasury financing operations, and there was a good demand for outstanding Government obligations. From the beginning of the second quarter, however, excess reserves of member banks declined with considerable rapidity, and a question which had previously been raised but had not pressed for a solution, again came up for discussion: What should be regarded as an adequate amount of excess reserves in view of the magnitude of financing operations with which the Treasury was faced? No definite answer to this question was found, but the evidence obtained through experience during the year seemed to indicate that the measure of adequacy was a changing one. As the commercial banks gained experience with the money flows of the war period, their investment policies also changed and there was a gradual abandonment of the tendency to regard any fixed amount of excess reserves as a minimum, below which they should not go in employing their available funds. At first there was a tendency on the part of many banks to assume that, when they purchased new issues of Treasury securities, they would sustain a corresponding loss of reserves, but they found that their payments for Government securities were largely offset (in varying degrees at individual banks, of course) by customers' deposits of funds representing Government disbursements. With this change in attitude toward the maintenance of excess reserves, growing out of wartime experience, the amount of excess reserves required to assure satisfactory response to Treasury offerings of new securities tended downward.

In approaching the problem of maintaining stability in the Government security market, it was recognized that, while a rising trend in the general level of money rates would be undesirable, some adjustment in short term money rates would be appropriate. The extremely low levels to which yields on short term Government securities had fallen were attributable to the rapid accumulation of surplus funds and limited demands in previous years, and it did not seem reasonable to expect the maintenance of such rates in a period of heavy demands for funds and diminishing surplus supplies. The maximum rate for long term Treasury financing tended early to become fixed at 2½ per cent, but yields on short term securities were permitted to rise gradually until they provided moderate rates of return. Thereafter the whole range of rates showed more stability, although moderate variations in market yields on securities of various maturities occurred in response to shifting demand and supply. Reserve System operations contributed materially to holding such fluctuations within comparatively narrow limits. This did not require, to any considerable extent, operations conducted solely for the purpose of supporting the market, as operations conducted for the purpose of maintaining adequate reserves in the banks accomplished, at the same time, the purpose of taking off the market securities for which other buyers were not readily available. A contributing influence in holding down the interest rate structure in the face of the huge financial requirements of the Treasury undoubtedly was the desire of investing institutions and individuals to do their part in the financing of the war, a consideration which led them to invest much more heavily in comparatively low-yielding securities than would the profit motive alone under other circumstances.

Several steps were taken by the Federal Reserve System toward the attainment of these two objectives of keeping the banks adequately supplied with funds and minimizing fluctuations in market prices of Government securities. First and most important were purchases of Gov-



Principal Factors Accounting for Changes in Excess Reserves of Member Banks (Cumulative since January 1, 1942)

ernment securities by the Federal Reserve Banks under the direction of the Federal Open Market Committee. Occasional purchases were made during the first quarter of the year, but in comparatively small volume, and System holdings of securities showed no net increase for that period. Beginning early in April, however, purchases were made in increasing volume and with little interruption during the remainder of the year. Between April 8 and December 30, total holdings of United States Government direct and guaranteed obligations by all Federal Reserve Banks increased by $3,746,000,000, an amount roughly comparable to the drain on bank reserves caused by the increase in the amount of currency in circulation during that period.

As a means of promoting wider distribution of Treasury bills and encouraging investment by banks of temporarily idle funds, with assurance as to the liquidity of such investments, the Board of Governors on April 30 announced that the Federal Open Market Committee had directed the Federal Reserve Banks to purchase for the System Open Market Account all Treasury bills that might be offered to them on a discount basis at the rate of ⅜ per cent per annum. This action was measurably successful in broadening the market for Treasury bills. A further step in the direction of making Treasury bill investments more attractive was taken on August 7, 1942, when the Board of Governors made the following announcement:

> "The Federal Open Market Committee has supplemented its direction of April 30, 1942, to the Federal Reserve banks to purchase all Treasury bills that may be offered to such banks on a discount basis at the rate of ⅜ per cent per annum, by a further direction that any such purchases shall, if desired by the seller, be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of a like amount and maturity at the same rate of discount."

With the support of this program, the weekly offerings of Treasury bills were progressively increased from $150 million in the first four months of the year, to $600 million in December; the banks were thus provided with a means of obtaining a small rate of return on temporarily idle funds, and with a means of ready access to Federal Reserve funds when they had need for additional reserves.

Reserve funds were also supplied to member banks by a reduction of reserve requirements against demand deposits in central reserve cities — New York and Chicago. In view of the fact that banks in these cities had been subject to a cumulative loss of funds arising out of the disproportionate amount of Treasury financing as compared with Government disbursements in those centers, the Board of Governors announced a reduction effective August 20, 1942, in the reserve required against demand deposits in central reserve city banks from 26 per cent to 24 per cent. The drain on the reserves of these banks continued, and the excess reserves created by lowering reserve requirements quickly were dispersed thoughout the country. The Board of Governors announced further reductions from 24 per cent to 22 per cent, effective September 14, and to 20 per cent, effective October 3. This reduced the percentage reserve requirements of central reserve city banks to the same levels as for reserve city banks, and no further changes were made during 1942. The initial effect of these reductions was to release approximately $1 billion of reserves in New York City and approximately $225 million of reserves in Chicago. These reductions in required reserves were an important though temporary factor in the maintenance of a comfortable reserve position in banks in the two largest money and investment centers of the country during the year.

While the primary effect of Reserve Bank open market operations and the lowering of reserve requirements of central reserve city banks was to add to the excess reserves of the banks in the principal centers, the secondary effects extended to banks all over the country. Treasury borrowing took money from those centers and Government expenditures disbursed the proceeds of such borrowing in every community. It was apparent, however, that Government expenditures would not distribute the funds evenly so that all banks throughout the country would experience a gain of deposits. Banks that did not share proportionately in the increase in deposits might nevertheless be subject to losses of reserves through currency withdrawals or other transactions, so that it would be difficult for them to share in the war financing program unless direct means of replenishing their reserves on advantageous terms were available. Consequently, to enable such banks to obtain additional reserves at low cost when the need arose, this Bank, and the eleven other Reserve Banks, established, in October, a discount rate of ½ per cent for advances to member banks secured by Government obligations maturing or callable in one year or less. This rate supplemented the established rate of 1 per cent for advances secured by longer term Government obligations and for rediscounts of eligible paper, and provided an incentive to banks to obtain additional reserves, as occasion required, against the pledge of some of their short term securities, instead of selling such securities to meet temporary needs for reserves.

As the war financing proceeded, it became apparent that if there were to be a change from the situation in which the efforts of the System necessarily were directed mainly toward the maintenance of adequate supplies of funds in the principal money centers, a wider distribution of Government securities must be achieved, so that there would be a closer balance between Treasury receipts and Government expenditures in the various parts of the country. Many banks, having become accustomed during recent years to holding considerable amounts of idle funds, continued that practice and even added to the volume of their idle funds as their deposits increased, directly or indirectly as a result of war expenditures. Consequently, it became necessary for the large city banks to absorb new issues of Treasury securities in amounts substantially greater than their excess reserves. The latter banks, in order to effect payment for the securities allotted to them, made liberal use of the War Loan deposit account procedure, by which they avoided immediate, heavy drains on their cash position, but subsequently had to meet Treasury calls for payments in instalments from such accounts. During the periods covered by such withdrawals, they usually experienced substantial offsets in the form of deposits of Government checks, but frequently it became necessary for them to sell some of their Government securities, directly or indirectly, to the Reserve Banks in order to maintain their reserves at the required levels.

In an effort to encourage wider participation in the war financing by all member banks in this District, the President of this Bank addressed a communication to the banks on October 30, in which he called attention to the importance of participation by all banks in the war financing program, and pointed out that under present conditions the policy of continuing to hold substantial amounts of idle excess reserves is no longer appropriate or desirable.* The communication also called attention to the establishment of the discount rate of ½ per cent for advances to member banks secured by Government securities maturing or callable within one year, and to other measures taken to assure the banks that they would be provided with the necessary reserves.

As a further measure to assist the banks in doing their proportionate share in support of the war financing program, another communication was sent to all banks in the District on November 20, calling their attention to the advantages of qualifying for War Loan deposit accounts if

* Circular No. 2534 of the Federal Reserve Bank of New York.

they had not already done so.† These accounts, which were developed during the first World War, permit banks that qualify as special depositaries of the Government to make payment for Treasury securities purchased, not only for themselves but for their customers as well, by deposits to the credit of the Government on their own books. These deposits are subsequently withdrawn by the Treasury in instalments, as needed to meet Government expenditures. As the funds withdrawn by the Treasury are almost immediately returned to the banking system in the form of private deposits, through Government disbursements, there is little change in aggregate deposits as a result of these transactions. Although the disbursal of Government funds does not penetrate to all communities and banks in exact proportion to the purchase of Government securities, the effects on the reserve positions of the banks are reduced to a minimum by the use of this method.

This War Loan deposit account procedure had been quite commonly used during the first World War and for some years thereafter, but, to a considerable extent, had fallen into disuse in recent years because of the huge accumulation of funds in the banks in excess of the ability of the banks to employ them. The number of banks qualified for War Loan deposit accounts had fallen to a little over 3,000 (out of a total of about 14,000), and only about 2,000 of the accounts were active. As a result of the circular sent out by this Bank and similar communications issued by Federal Reserve Banks in other districts, the number of banks qualified for War Loan deposit accounts had increased at the end of December, 1942 to more than 5,000.

In the latter part of the year legislative measures were under consideration which would make the use of War Loan deposit accounts still more attractive and advantageous to the banks. It was proposed that the Federal Reserve Act be so amended as to eliminate, for the war period, the application of both the assessment of the Federal Deposit Insurance Corporation and the member bank reserve requirement to War Loan deposit accounts. At public hearings shortly after the end of the year, this proposal had the support of representatives of the Federal Deposit Insurance Corporation and the Federal Reserve System. It was pointed out that use of such accounts greatly mitigates the effects of war financing on the reserve positions of banks, and that their general use is highly desirable at this time. The Federal Deposit Insurance Corporation

† Circular No. 2548.

assessment primarily, and the reserve requirement to a lesser extent, have been an obstacle in numerous cases to the qualification by banks for War Loan deposit accounts. Since these accounts are fully secured by Government securities deposited in the Federal Reserve Banks, no risk with respect to the deposits is assumed by the Federal Deposit Insurance Corporation. And, as the growth of War Loan deposit accounts is determined not so much by the desire of banks to add to their investments as by Treasury needs for funds to finance war expenditures, it seems appropriate in war time to promote the use of such accounts to facilitate war financing by eliminating the reserve requirements ordinarily applicable to them.

The combined effect of all these measures—large open market operations by the Federal Reserve System, the arrangements for the purchase and resale of Treasury bills by the Reserve Banks at a fixed rate, the lowering of reserve requirements of central reserve city banks, the establishment of a very low discount rate for advances to member banks secured by short term Government obligations, and steps to promote more general use by banks of War Loan deposit accounts—has been to enable the banks to contribute largely to the financing of the war, without undue strain on their reserve positions, and, at the same time, to maintain the degree of stability in the market for Government securities necessary to the success of Government financing operations.

Thus far little use has been made of the borrowing privilege. Most banks have not yet reached the point where they have found it necessary to obtain advances from the Reserve Banks to enable them to carry their share of Government obligations and at the same time meet the credit needs of their customers. But there are also indications that many banks may still have some reluctance to resume the use of the Reserve Bank loan method of obtaining needed reserves, which was commonly employed prior to 1934 but has largely fallen into disuse in subsequent years because of the great accumulation of excess reserves. In view of the great change that has occurred in the demand for funds relative to the supply during the war period, and the rapid shifting of funds which is bound to occur in such a period, it should now be regarded as entirely proper and desirable for banks to make use of Reserve Bank advances to the extent and for such periods as may be necessary to enable them to do their share in the financing of the war and to meet customers' demands on them for funds. This method is one of the most flexible, and is the most generally available for adjusting the reserve positions of individual banks to their changing requirements.

Actions taken by the Federal Reserve System toward the achievement of the third objective — the diversion of increasing amounts of the incomes of individuals to the repayment of debts and to the financing of the war — included the following:

1. Further restrictions on the extension of instalment credit to consumers and the application of restrictions to charge account credit;
2. A statement urging banks to take steps to encourage the reduction of individual debts through amortization of bank loans;
3. Promotion of the organization and effective operation of the Victory Fund organization in pursuance of the objective of financing the war as largely as possible outside the commercial banks, at the same time avoiding developments in the banking situation which might lead the banks to compete actively with other investors for the securities issued.

On May 6 the Board of Governors of the Federal Reserve System announced the adoption of an amendment to Regulation W which imposed further restrictions on extensions of consumer credit. Among the changes made in the regulation were a broadening of the list of articles to which the regulation applied, a shortening of the maximum permissible maturity of instalment credit for most listed articles from 15 months to 12 months, and an increase in the required down payment for most of such articles to 33⅓ percent. The scope of the regulation was also broadened to include charge accounts. Also single payment loans of $1,500 or less were limited to 90 days' maturity. The effect of these further restrictions was to accelerate the liquidation of consumer credit, which had been under way for some months, thus absorbing fairly sizable amounts of the increases in consumers' incomes.

At the same time a joint statement was issued by the Board of Governors, the Comptroller of the Currency, and the Board of Directors of the Federal Deposit Insurance Corporation, which referred to one part of the President's special message to Congress of April 27 urging the paying off of debts, and suggested to the banks the desirability of arranging for the amortization of bank loans to consumers. The statement indicated that examiners of these bank supervisory agencies were being instructed to ascertain whether debts of individuals were being reduced, and the circumstances which might be preventing the reduction of such debts. Furthermore, on June 17, the Chairman of the Board of Governors sent a letter to all banks, which referred to a meeting held in Washington for the discussion of the use of credit in connection with the accumulation of inventories of consumers' goods, and indicated that there had been complete agreement that the accumulation of inventories of such goods should be discouraged. The cooperation of the banks was enlisted in helping to achieve that objective.

The organization of a Victory Fund Committee in each Federal Reserve District to promote the financing of war expenditures as largely as possible outside the commercial banks has been referred to previously in this report. The Federal Reserve Banks participated in the organization of these Committees and assisted in various ways in promoting their effective operation. In each district the President of the Federal Reserve Bank serves as Chairman of the Victory Fund Committee, and in this District the Secretary of the Bank serves also as Secretary of the Victory Fund Committee. The staff of the Committee is housed in this Bank, and the bank organization has endeavored to cooperate with the staff of the Committee in promoting its work. A steady growth and development of the Victory Fund organization occurred during the year, and there was evidence of its increasing effectiveness, which was best demonstrated by the success of the Victory Loan Drive in December. Still further growth and effectiveness of the organization is planned for 1943.

In pursuing the objective of financing war expenditures as largely as possible through sales of securities to the general public and to institutions other than commercial banks, so as to avoid any more additions than necessary to the purchasing power of the public through expansion of commercial bank credit, the Federal Reserve System has endeavored to maintain a banking situation which, while providing the banks with sufficient funds to enable them to give the required amount of support to the war financing program, at the same time would not permit such excessive accumulations of idle funds in the banks as to lead them to absorb an undue proportion of the Government security issues. It has been felt that if banks were kept supplied with unduly large amounts of idle funds, they would be kept under pressure to increase their investments and thus would tend to compete actively with other investors for the securities issued, instead of limiting their absorption of securities to the amounts remaining after the demands of other investors had been satisfied. Thus an unnecessary and undesirable expansion of bank credit might result which would tend to accentuate inflationary pressures. These considerations pointed to the conclusion that, instead of undertaking to maintain an arbitrarily determined amount of excess reserves in the banks, it would be preferable for the Federal Reserve System to take into account developments in the investment policies of the banks, and to determine System policies with respect to the reserve position of member banks in the light of such developments. In general, the experience gained during 1942 indicated that the amount of excess reserves, relative to the amount of securities to be absorbed by the banks, which is required to assure the success of war financing operations, is a gradually diminishing one.

War Work of the Bank

The central banking system of a country at war inevitably must devote a major part of its energies to promoting and assisting in the financing of the war program. That has been true of the Federal Reserve Bank of New York, and of the Federal Reserve System, during the past year. Most of the questions of policy which had to be decided during the year arose out of the rapid growth in war expenditures, and the efforts which are being made to counteract the inflationary tendencies always present in a war period. This absorption in the war program was accompanied by a rapid expansion in the volume of work and in the personnel of the Bank which began in 1941 and was accelerated in 1942. The number of employees increased from 2,482 at the end of 1940, to 3,069 a year later, and to 3,847 at the end of 1942. Most of the expansion was in departments of the Bank that are almost exclusively engaged in fiscal agency operations — that is, in work performed as bankers for the Government in the Second Federal Reserve District.

The greatest expansion occurred in the Government Bond Department, the number of employees in which increased from 66 at the end of 1940 to 761 at the end of 1942, including the newly established Savings Bond Redemption Department. The rapid growth of this department was required by the tremendous increase in the amount of Government expenditures to be financed, and the much greater increase in the number of securities to be issued owing to the participation in war financing by millions of individuals of relatively small means, as well as by banks and other business and financial institutions and the wealthier investors. As the table on page 31 indicates, the number of Government securities issued, redeemed, and exchanged (including War Savings bonds delivered to the numerous institutions that have qualified as issuing agents) rose to nearly 20 million in 1942 as compared with less than 4 million in 1941, and a little over 1 million in 1940. The increase in dollar volume, although very large, was, of course, much less than the increase in the number of securities handled.

As the volume of War Savings bonds in the hands of the public increased, there was an accompanying increase in the number of bonds presented for redemption, mostly of $25 and $50 denominations. However, the dollar amount of Savings bonds redeemed averaged only about 3/10 per cent per month of the amount outstanding of all series. Nevertheless, the task of handling these redemptions was one of increasing magnitude and a special department (the Savings Bond Redemption Department) was set up by this Bank at 51 Pine Street to receive bonds presented for redemption and promptly to issue checks in payment for the bonds.

Several other departments of the Bank have been largely engaged in handling financial operations for the Government and its subsidiary corporations, most of which operations are now related to war activities. Among these departments are the Securities Department, the R.F.C. Custody Department, the Credit Department, and the Foreign Funds Control Department. Still other departments, such as the Check Department, the Foreign Department, and the Security Custody Department, also engage in fiscal agency operations.

Next to the Government Bond Department, the R.F.C. Custody Department showed the largest growth during 1942. The Reconstruction Finance Corporation and its various subsidiaries are now engaged almost exclusively in war activities, including the construction of production facilities for the manufacture of war materials, the procurement of stock piles of strategic materials, the operation of the Government's war damage insurance program, and other projects directly related to the war effort. The Federal Reserve Banks, acting as fiscal agents, custodians, and depositaries for the Reconstruction Finance Corporation and its subsidiaries, actively participate in the administrative aspects of the Corporation's program.

This Bank disburses, by checks drawn on the Treasurer of the United States, the amount of loans and other payments made by the Reconstruction Finance Corporation and its various subsidiaries, and receives, examines, and holds notes and collateral of borrowers. Many thousands of transactions were involved in these operations.

Among the subsidiaries of the Reconstruction Finance Corporation for which this Bank handles financial transactions are the Defense Plant

Corporation, which purchases and leases plants for war production and makes such facilities available to others engaged in war work, the Defense Supplies Corporation, the Rubber Reserve Company, and the Metals Reserve Company, which are primarily engaged in purchasing, holding, and selling strategic and critical materials and supplies, and the War Damage Corporation which insures buildings and other property against loss or damage resulting from enemy attack or action of our own armed forces in resisting enemy attack. A very sizable task, which was handled by the Bank for the Defense Supplies Corporation in 1942 (and continued in 1943), was that of making payments for new and used automobile tires and tubes received by the Corporation from consumers; up to the end of 1942 the R.F.C. Custody Department made payments for approximately 226,000 tires and tubes.

For the War Damage Corporation the Bank received from insurance companies and verified during the last six months of 1942 approximately 2,500,000 tickets or advices, relating to approximately 1,250,000 war damage insurance policies written by insurance companies for the War Damage Corporation during that period.

A considerable expansion of the Credit Department also was required during the past year to handle a new type of work assigned to the Bank as fiscal agent of the Government. Under an Executive Order issued by the President of the United States on March 26, 1942, the Federal Reserve Banks were assigned the task of acting on behalf of the War Department, the Navy Department, and the Maritime Commission in arranging for loans by member banks and other financing institutions to businesses engaged in war production, with guarantees to the financing institutions of the ultimate payment of stated percentages of such loans. These loans, which are arranged under a regulation issued by the Board of Governors of the Federal Reserve System, are now commonly referred to as "Regulation V" loans. Members of the Credit Department interview prospective applicants for such guarantees, receive applications, investigate and analyze the financial condition of the businesses, and transmit the applications, together with the recommendation of the Bank, to Washington for approval. Upon receipt of authorization from the Government departments in Washington, the Bank issues guarantees and undertakes to service the loans in certain respects.

The rapid development of the Foreign Funds Control Department of the Bank (formerly the Foreign Property Control Department), which handles the work of the Bank as agent of the Treasury Department in the administration in this District of the Executive Order under which the property of a number of countries and their citizens or residents are "frozen" and transactions permitted only under licenses, was reviewed briefly in the annual reports of this Bank for 1940 and 1941. The more routine work of this department in handling applications for licenses to engage in transactions involving blocked accounts was somewhat reduced during the past year, partly as a result of the issuance of additional general licenses, under which licenses for specific transactions are not required, and partly owing to the interferences with normal trade which have resulted from the entrance of this country into the war. On the other hand, the work of the department in assisting the Treasury Department in the detection and prevention of financial transactions involving interests of Axis countries or others, which might interfere with the war effort, has been considerably expanded during the past year. At the end of 1942 the work of the department still required the services of about 275 employees. The department outgrew its quarters in the Bank in 1941, and since that time has been occupying the fifth and sixth floors of the building at 70 Pine Street.

As bankers to the Government, this Bank maintains deposit accounts for the Government on its books, receives subscriptions for offerings of Treasury securities to finance war and other expenditures of the Government, allots the securities to subscribers and receives payments, collects tax checks and other revenues, pays Government checks issued by disbursing officers and interest coupons, purchases and sells securities for various Government accounts, and holds in custody securities for such accounts as well as stocks of unissued Treasury securities.

Altogether, these various operations of the Bank as fiscal agent of the Government represent a sizable part of the total operations of the Bank.

There was also a further moderate expansion in the general operations of the Bank, largely as a result of war activities. The rapid growth of industrial payrolls required the issuance of larger amounts of currency than in any previous year, and the volume of check clearing operations also increased considerably.

Because of the magnitude of the increase in the Bank's operations, the matter of maintaining an adequate staff presented some difficulties during the past year. In addition to hiring a large number of additional employees to handle the increased volume of work, it was necessary also to replace members of the Bank's staff who entered the armed forces of the country (numbering nearly 500 at the end of 1942), and also to replace a considerable number of employees who resigned during the year to enter the civilian services of the Government or were attracted by employment opportunities in war industries or other activities. Suitable replacements became increasingly difficult to obtain as the year progressed.

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

	1942	1941
Number of Pieces Handled†		
Bills discounted:		
Applications	585	613
Notes discounted	585	767
Industrial advances:		
Notes discounted	1	2
Commitments to make industrial advances	2	4
Currency received and counted	735,507,000	707,022,000
Coin received and counted	1,325,127,000	1,165,826,000
Checks handled	236,600,000	229,994,000
Collection items handled:		
United States Government coupons paid*	4,799,000	4,733,000
All other	1,730,000	1,950,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations	19,776,000	3,746,000
All other	242,000	247,000
Wire transfers of funds	165,000	182,000
Amounts Handled		
Bills discounted	$106,361,000	$82,249,000
Industrial advances:		
Notes discounted	10,000	25,000
Commitments to make industrial advances	145,000	1,205,000
Currency received and counted	3,804,765,000	3,444,867,000
Coin received and counted	129,409,000	124,163,000
Checks handled	124,910,720,000	97,404,120,000
Collection items handled:		
United States Government coupons paid*	703,483,000	601,755,000
All other	1,711,466,000	1,760,296,000
Issues, redemptions, and exchanges by fiscal agency department:		
United States Government direct obligations	46,726,911,000	19,567,068,000
All other	2,567,823,000	2,442,628,000
Wire transfers of funds	42,120,814,000	37,340,974,000

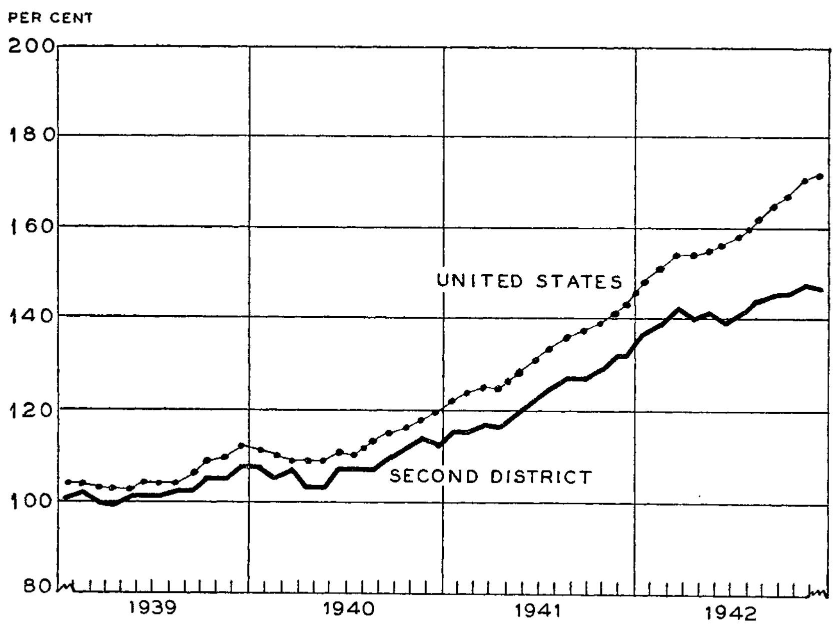
† Two or more checks, coupons, etc., handled as a single item are counted as one "piece."

* Includes coupons from obligations guaranteed by the United States.

War Effects on the Second Federal Reserve District

War effects on the economy of this District have been so numerous and so varied, that it is difficult even to summarize some of the principal developments within a brief space. In general, it may be said, however, that despite the location in this District of a number of large aircraft and instrument factories, shipyards, and munitions plants, the District shared to a smaller extent than a number of others in the contracts for war materials. As the accompanying diagram indicates, the increase in the estimated income of the District during the war period, while very substantial, has been less than for the country as a whole. It is estimated that the percentage of the national income received by this District declined from about 20 in 1939 to somewhat over 18 in 1942.

The impact of the war program on the different communities within the District varied widely. New York City, because of the predominance among its manufacturing industries of consumers' goods lines, especially clothing, and the importance of its distributive trades (including not only wholesale and retail businesses, but also large exporting, importing,



Indexes of Income in the Second Federal Reserve District and in the United States, Adjusted for Seasonal Variation (Based on data reported in Business Week; 1935-37 average = 100 per cent)

and shipping industries), experienced more of the adverse effects and less of the stimulating effects of the war than many of the large cities in other parts of the country. Industrial employment in the City has increased rather substantially during the war period, but a considerable amount of unemployment persisted long after labor shortages developed in many other communities. Registrations for sugar rations in May, 1942 indicated a reduction in the population of New York City since the 1940 census. The reduction is attributable partly, but not entirely, to the effects of the draft and enlistments in the armed forces. In the latter part of the year special efforts were made to obtain war contracts for the industries of the City which, together with seasonal employment and continued inductions of men into the military services, appear to have reduced considerably the number of unemployed workers in the City.

In contrast to the New York City situation, large increases in employment occurred in a number of other cities in the District as a result of the receipt of war contracts, especially in localities where metal-working industries predominate. In some instances, notably Bridgeport, Connecticut, and the Buffalo-Niagara area, the increases in employment in war industries have been so large that labor shortages and housing problems developed. Other localities listed as areas of approximate balance between labor supply and demand — that is, where the readily available labor supply appeared to be fully employed at the end of 1942 — include Stamford, Connecticut, the Albany, Elmira, Rochester, and Utica areas in New York State, and the Jersey City, Long Branch, Morristown, Newark, Paterson, and Perth Amboy areas in New Jersey. In a number of other localities, the available labor supply was expected to be exhausted within about six months. Only New York City, Yonkers, and Central Long Island were listed as areas of labor surplus. The accompanying table shows the comparative increases in industrial employment in a number of localities or areas of the Second Federal Reserve District as reported by the State Department of Labor and the United States Bureau of Labor Statistics.

On the whole, it appears that the war industries of the District have been manned largely by workers drawn from surrounding territories, and by women not previously employed, although in certain areas, such as the Bridgeport and Buffalo-Niagara areas, there was probably a considerable amount of migration from more distant places.

Percentage Increases in Factory Employment, August, 1939 to December, 1942

Buffalo, N. Y.	135
Albany-Schenectady-Troy, N. Y.	132
Bridgeport, Conn.*	118
Paterson, N. J.*	94
Syracuse, N. Y.	70
Utica, N. Y.	60
Rochester, N. Y.	48
Elizabeth, N. J.*	48
Newark, N. J.*	45
Kingston-Newburgh-Poughkeepsie, N. Y.	35
Yonkers, N. Y.*	33
New York City	29
Binghamton-Endicott-Johnson City, N. Y.	21
Jersey City, N. J.*	16

* Data for these cities are from United States Bureau of Labor Statistics and represent percentage increases over 1939 average; data for all other localities are from the Division of Statistics and Information, New York State Department of Labor.

As in other districts, the agriculture of this District was hampered during the past year by the drain of workers to war industries and the effects of the draft, but on the whole it appears to have been possible to obtain enough migratory labor and inexperienced help to supplement the available supply of local farm labor to avoid serious crop losses in 1942.

The varying impact of the war program on the various communities was reflected in the relative growth of bank deposits. Here again, the percentage increase in deposits in New York City banks fell far short of the increase for the country as a whole, and was considerably exceeded in a number of other cities in the Second District. Government checks, representing payments on war contracts held by large corporations and other Government disbursements, were deposited in New York City banks in increasing volume, and near the end of the year averaged about $400,000,000 a week, but a large part of the proceeds was withdrawn, doubtless to cover payrolls, purchases of materials, and other business expenses. Furthermore, as was indicated earlier in this report, a disproportionate amount of war financing was done in New York City, with the result that there was a persistent outflow of funds during much of the year through Treasury operations. For the year as a whole, deposits, other than War Loan deposit accounts of the Government, showed a net increase of 5 per cent in New York City as compared with an increase of 17 per cent for all member banks. As the following table indicates, however, there were substantially larger increases in deposits in a number of other cities in the District, especially in those which participated largely in war contracts.

Increase in Member Bank Deposits, Exclusive of U. S. Government Deposits, between December 31, 1941 and December 31, 1942

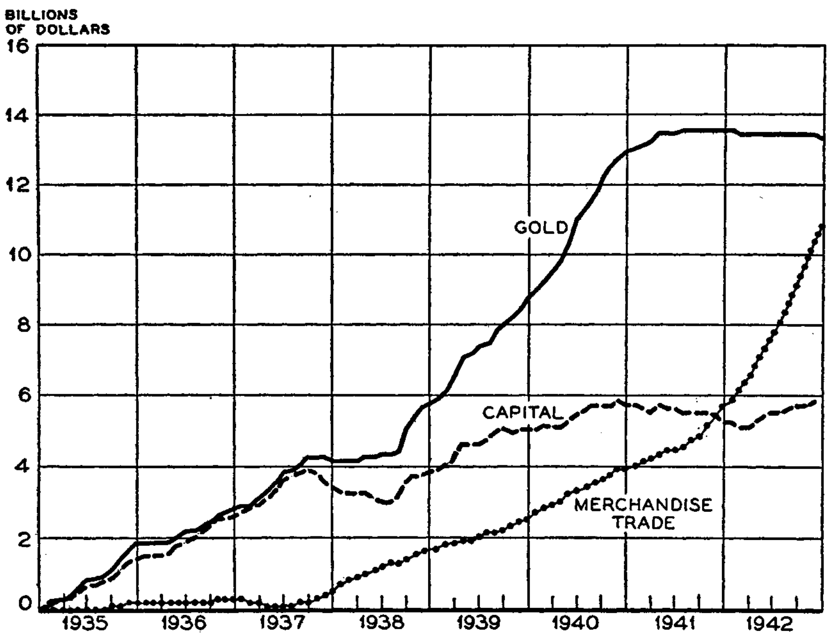
	Per cent increase
United States, all member banks	17
New York City, central reserve city banks	5
Schenectady, N. Y.	28
Bridgeport, Conn.	27
Utica, N. Y.	19
Rochester, N. Y.	17
Newark, N. J.	16
Syracuse, N. Y.	16
Paterson, N. J.	14
Buffalo, N. Y.	11
Jersey City, N. J.	4
Albany, N. Y.	1

The securities distributing and brokerage businesses had a dull year on the whole, although the volume of security trading increased considerably in the latter part of the year. Flotations of new capital issues fell to the lowest level since 1933, reflecting in part the inability of corporations to make capital expenditures except for war production facilities which were largely financed by the Government, and in part a substantial reduction in borrowings by State and local governments. Refunding operations, also, were greatly reduced.

International Movement of Capital and Gold and the Foreign Exchanges

Capital and Gold Movements

The transition of most of the world from a peacetime to wartime economy had, as might be expected, further far-reaching effects during 1942 on the character of the balance of payments between the United States and foreign countries. As a result of the virtually world-wide application of controls over gold and the foreign exchanges, gold and capital movements are now largely on a government-to-government basis and such international transfers of private capital as do occur in general are permitted only if they do not detract from the war effort. Even in the case of official transfers, credit arrangements by Government agencies, undertaken principally to facilitate the movement of goods between Allies, have to a large extent eliminated the need of cash settlement of balances arising from the international flow of goods. Foreign trade in turn is no longer influenced by the usual peacetime consideration of maintaining some degree of balance, but primarily by the need of war materiel at the



Net Movement of Gold, Capital, and Merchandise between the United States and Abroad (Cumulative movements since January 1, 1935. Gold movement based on changes in U. S. gold stock, exclusive of domestic production)

various fronts and the productive and shipping facilities available to satisfy the demand.

The changing character of the United States balance of international payments is indicated in the preceding diagram, showing the cumulative movement of gold, capital, and merchandise trade for the past eight years. It can be seen that the excess of our merchandise exports over imports rose precipitously during 1942. Total exports from the United States amounted to $7,826,000,000, or 52 per cent above the 1941 total. At the same time, imports from abroad declined 18 per cent from the previous year's total to $2,743,000,000, although this amount excludes goods purchased abroad which were not imported during 1942. While in previous years the "favorable" trade balance of the United States had been a substantial factor in this country's acquisition of most of the world's gold supply, there was actually some reduction in our gold stock during 1942, despite a merchandise export surplus which was the largest on record. The explanation lies primarily in the fact that of the year's total exports, considerably more than one half was made under the lend-lease program. Exports on a cash basis, amounting to $3,158,000,000, were, in fact, only slightly larger than our cash imports, excluding goods purchased and accumulated in stock piles abroad.

During the year under review therefore the trade surplus of the United States was chiefly offset in the balance of international payments by what may be considered a special type of foreign loan, rather than by a reduction in foreign holdings of gold and dollar exchange, as had been the case in other recent years. To the extent that our lend-lease assistance has not been offset by reciprocal aid given to us, our claims on the recipients of lend-lease aid constitute, in a technical sense, an "export" of American capital. Some indication of the magnitude of this "export" may be seen from the fact that from March, 1941 through December, 1942 the total of goods transferred and services rendered under the Lend-Lease Act amounted to $8,253,000,000, of which $7,009,000,000 occurred during 1942. Toward the end of the year, lend-lease aid was being provided at an annual rate of about $10,000,000,000.

In addition to lend-lease assistance, outright financial aid has been rendered to many anti-Axis countries. The largest single recipient of credit during 1942 was China. In April $200,000,000 was made available out of the $500,000,000 aid to China authorized by the Congress in

March, 1942. Furthermore, a number of countries received considerable amounts of dollar exchange in payment of our expenses in connection with our military and other operations abroad.

Inasmuch as these credits and payments made a large supply of dollars available at a time when the lend-lease program reduced foreigners' needs of dollar exchange, 1942 witnessed a material rise in foreign-owned funds held in the United States. According to the published figures, foreign banking funds in this country rose by $394,000,000 for the first eleven months of 1942; most, or $312,400,000, of the increase was for the account of foreign central banks, governments, and their agencies. When a further reduction in American banking funds abroad and international security transactions are taken into consideration, the recorded "inflow" of funds during this period amounted to $530,900,000, and this amount excludes funds used for the purchase and earmarking of gold here during the year.

This movement, which followed a sizable reduction in foreign holdings of dollar exchange in 1941, resumed the "inflow" which had persisted for several years prior to 1941. It should be emphasized, however, that the 1942 movement differed greatly in nature from that of the earlier years. The movement in 1942 was an "inflow" only in the sense that there was an increase in the amount of dollars owned by foreigners, resulting from an excess of cash payments made to foreigners over cash payments received from foreigners. It was, in fact, much more than offset by the unreported "outflow" of American capital arising from our foreign lending including lend-lease operations. The movement in the earlier years, on the other hand, reflected a conversion of foreign currency or other means of payment into dollar assets — it reflected an actual inflow of foreign capital. The prospect of capital gains seems to have been one of the primary motives during the three years ended 1937, when $1,200,000,000 of a reported capital inflow of about $3,400,000,000 represented the foreign purchase of American securities. With the development of political tension in Europe, however, considerations of speculative gains appear to have become subordinated to the factor of safety, as capital fled from Europe in the months leading up to the actual outbreak of war. In contrast to the inward transfer in 1935-1937, about 90 per cent of the $1,600,000,000 inflow recorded during 1938 and 1939 remained in the form of idle bank balances.

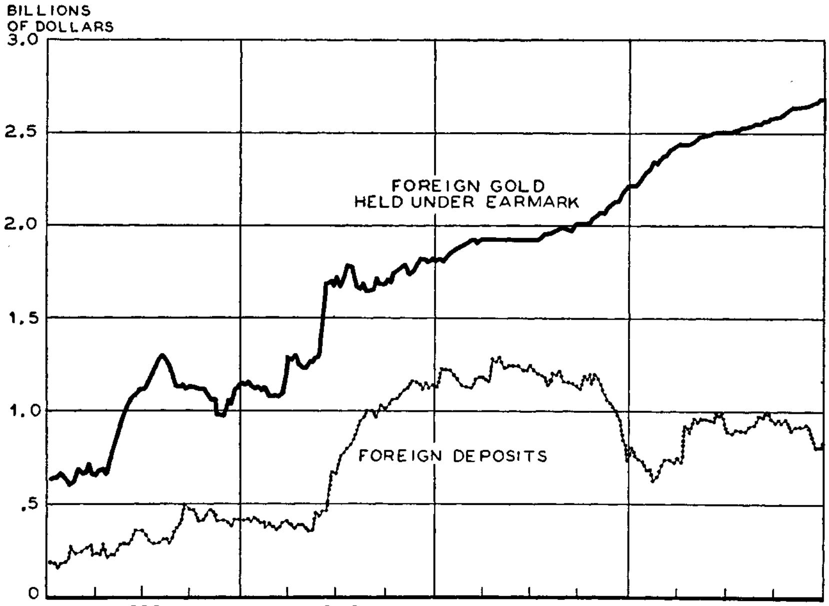
With the outbreak of war and the prompt application of foreign exchange control by the belligerents, the flight of capital from Europe subsided greatly, but the building up of foreign funds in this country continued, as the Allies began a large scale liquidation of their gold reserves and American securities in order to accumulate dollar exchange for the prosecution of the war. Indicative of this second major change in the character of the inward movement, the reported inflow of about $700,000,000 during 1940 was predominantly for official foreign account. The table below shows the reported movement of capital, by types of funds, for the past eight years.

Reported Movement of Capital between the United States and Foreign Countries
(In millions of dollars; capital inflow + or outflow —)

	Total capital movement	In banking funds			Through security transactions			
		Total	"Official" (a)	Private	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	+ 434	+ 318	— 5	+ 323	+ 116	+ 58	+ 58	—
1939	+ 1,177	+ 1,146	+ 304	+ 842	+ 31	— 86	+ 84	+ 33
1940	+ 706	+ 853	+ 658	+ 195	— 147	— 245	+ 78	+ 20
1941	— 497	— 287	— 147	— 140	— 210	— 262	+ 52	—
1942 through Nov. 30	+ 531	+ 504	+ 312	+ 192	+ 27	+ 55	— 11	+ 3

(a) Since July, 1942, includes funds held for account of foreign central banks, central governments, and their agencies; prior to that date included only certain foreign funds held with the Federal Reserve Bank of New York and commercial banks in New York City.

Another development changing the previous pattern of the balance of payments was the increased interest shown in gold as a monetary reserve by foreign central banks and governments. Concurrently with the accumulation of dollar exchange, foreigners converted an appreciable amount of dollars into gold to be held under earmark at the Federal Reserve Banks. The extent of these operations may be seen from the fact that a total of 19 foreign central banks and governments purchased and earmarked gold here during 1942, and the total amount rose $458,400,000 during the year to $2,673,800,000, the largest amount ever held under earmark. The large scale acquisition of gold, which, in fact, began around the middle of 1941, appears to have been associated principally with the accumulation of dollar exchange by many countries whose gold reserves had been under heavy strain in the prewar years either because of their adverse trade balance with this country or for



Gold Held Under Earmark for Foreign Accounts and Foreign Deposits in Federal Reserve Banks

other reasons. To the extent that the recent foreign purchases of gold were accomplished through the use of newly acquired dollars, the result constitutes a salutary redistribution of the world's gold supply which would contribute to the establishment of a sound basis for exchange stability after the war.

Foreign Exchanges

Contrary to the experience of the last war, the foreign exchanges in the present war, by and large, have displayed a greater degree of rate stability as hostilities have progressed. Underlying this stability has been the widespread application of rigid foreign exchange control, which, although not entirely effective in establishing stability in the early months of the war, had been well established by the end of 1940. While foreign exchange quotations are now largely a matter of official control and the monetary authorities are reluctant to make changes in the midst of a war, other developments arising out of the war have also contributed to the stability. One of these has been the growing use of credit arrangements for settlement of international balances. In the case of the United States, the lend-lease program has provided for the transfer of vast amounts of war materiel without the necessity of monetary settlement, thus avoiding an otherwise inevitable strain on the exchanges of our Allies despite the exchange controls. Another important factor of stability, which in part is an outgrowth of the first, has been a further consolidation of individual currencies into more clearly defined blocs. At the same time, each bloc has become more isolated from the others (except as between the dollar and sterling areas) as the war has virtually brought to a halt most commercial and financial transactions between areas.

Unlike the Axis-controlled areas, where consolidation has been accomplished largely by military conquest, the development of the Allied currency blocs has reflected a strengthening and widening of prewar systems. The development of a better defined dollar area has resulted from a number of factors arising out of the war. In the first place, there has been a shift in the foreign trade of Latin America toward the United States, following the interruption of trade with Europe at the outbreak of war in 1939. The strengthening of the dollar area has also been facilitated by Export-Import Bank loans and various agreements with Latin American countries designed to stabilize their currencies vis-à-vis the dollar. Finally, a greater degree of consolidation among the Western Hemisphere exchanges has been accomplished by the control over Axis and other foreign funds which was initiated by the United States and subsequently adopted by most of the Latin American Republics.

Foreign Relations

Deposits of foreign central banks and governments at the Federal Reserve Banks amounted to $792,800,000 on December 31, 1942, little changed from the figure a year earlier. Reflecting, however, considerable interest of foreign central banks and governments in acquiring United States Government securities, the total of such securities held by this Bank for foreign account at the end of 1942 amounted to $481,000,000, an increase of $319,000,000 for the year. In addition, there was the increase of $458,400,000 in earmarked gold holdings for foreign account, commented upon previously in this report. Largely as a result of the increases in United States Government securities and earmarked gold, the total amount of funds held by the Reserve Banks for foreign account rose $791,000,000 during the year to reach a new high figure of nearly $4,000,000,000.

Balances which this Bank holds abroad for its own and other Federal Reserve Banks' accounts showed virtually no change during 1942. There continued to be no holdings of commercial bills denominated in foreign currencies.

A series of six short term loans, secured by gold earmarked at this Bank, were made to a Latin American central bank during 1942. These loans were made for the purpose of providing dollar exchange, an adequate supply of which was not being promptly obtained because of wartime delays in the shipment of export products to the United States. By the end of the year, four of the loans had been repaid, and the outstanding balance owed on December 31, 1942 was $2,500,000. This loan operation was effected by this Bank with the approval of the Board of Governors of the Federal Reserve System and was participated in by other Reserve Banks.

Foreign operations, conducted by this Bank as fiscal agent of the United States, increased considerably during 1942. With the United States at war, the scope of governmental transactions of a foreign nature naturally widened and in this connection this Bank acted as agent of the Treasury and of certain Government agencies.

Financial Statements

Statement of Condition

Money market events during 1942 are reflected in the changes shown in the accompanying statement of condition of the Federal Reserve Bank of New York. Total reserves declined $1,282,058,000 owing largely to heavy outflows of funds to other districts through Government and business transactions, partly offset by payments to this Bank by other Reserve Banks for securities purchased in the New York market for System Open Market Account and allotted to them. Increases in the reserves of member banks in most of the Southern and Western districts gave indications of the destinations of the funds, and presumably reflected the effects of war expenditures and larger agricultural receipts in

(In thousands of dollars)

Assets	Dec. 31, 1942	Dec. 31, 1941
Gold certificates on hand and due from U. S. Treasury	$ 6,855,451	$ 8,164,207
Redemption Fund—Federal Reserve notes	1,364	1,047
Other cash	73,223	46,842
Total reserves	$ 6,930,038	$ 8,212,096
Bills discounted:		
Secured by U. S. Government obligations, direct and guaranteed	$ 235	$ 615
Other bills discounted	1,062	75
Total bills discounted	$ 1,297	$ 690
Industrial advances	$ 611	$ 1,098
U. S. Government securities, direct and guaranteed:		
Bonds	$ 713,273	$ 385,295
Notes	343,553	204,177
Certificates	265,889	
Bills	372,606	2,724
Total U. S. Government securities, direct and guaranteed	$ 1,695,321	$ 592,196
Total bills and securities	$ 1,697,229	$ 593,984
Due from foreign banks	$ 18*	$ 18*
Federal Reserve notes of other banks	7,019	4,493
Uncollected items	382,789	316,326
Bank premises	9,823	10,507
Other assets	21,947	11,148
Total assets	$ 9,048,863	$ 9,148,572
* After deducting participations of other Federal Reserve Banks of	29	29

those areas. Holdings of all types of United States Government securities increased $1,103,000,000 to $1,695,000,000, the highest level on record, reflecting this Bank's share in securities purchased in execution of the System policy of maintaining adequate reserves in member banks and maintaining orderly markets for Government securities.

Federal Reserve notes of this Bank in actual circulation rose $689,085,000 in 1942, thus continuing at a somewhat accelerated pace the growth in previous years, accompanying the rapid growth of industrial payrolls.

Reserve balances of member banks in this District showed a net reduction of $610,238,000 during the year to $5,029,391,000. Payments to the Treasury mainly for new security issues purchased in the Second District exceeded Government disbursements, mainly for war expenditures, by some $2,260,000,000. In addition, the member banks had to meet transfers to other districts of approximately $1,900,000,000 of commercial and banking funds, while the rise in currency circulation in

(In thousands of dollars)

LIABILITIES	Dec. 31, 1942	Dec. 31, 1941
Federal Reserve notes in actual circulation	$ 2,799,735	$ 2,110,650
Deposits:		
Member bank—reserve account	$ 5,029,391	$ 5,639,629
U. S. Treasurer—General Account	144,933	220,654
Foreign	367,578*	306,991*
Other deposits	303,762	475,283
Total deposits	$ 5,845,664	$ 6,642,557
Deferred availability items	$ 271,518	$ 266,815
Other liabilities	342	143
Total liabilities	$ 8,917,259	$ 9,020,165
Capital accounts:		
Capital paid in	$ 53,653	$ 51,806
Surplus (Section 7)	58,001	56,651
Surplus (Section 13b)	7,070	7,070
Other capital accounts	12,880	12,880
Total capital accounts	$ 131,604	$ 128,407
Total liabilities and capital accounts ..	$ 9,048,863	$ 9,148,572
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	80.2%	93.8%
Commitments to make industrial advances	$ 261	$ 460
* After deducting participations of other Federal Reserve Banks of	424,034	464,634

the District is estimated at $680,000,000. Reductions in member bank balances through these transactions, however, were compensated for to a large degree by payments for $3,450,000,000 of Government securities purchased for System Open Market Account and for this Bank's own account and by other transactions.

Income and Disbursements

Gross earnings of the Bank rose $2,663,000 during 1942, owing mainly to the interest received from the enlarged portfolio of Government securities, and net expenses increased $905,000, leaving a gain in current net earnings of $1,758,000. The higher expenses were occasioned almost entirely by increases in employee compensation, and by rising costs incident to the supplying of a greater volume of Federal Reserve currency to the public.

Profit and Loss Account
For the Calendar Years 1942 and 1941
(In thousands of dollars)

	1942	1941
Earnings	$ 14,078	$ 11,415
Net expenses	8,880	7,975
Current net earnings	$ 5,198	$ 3,440
Additions to current net earnings:		
Profits on sales of U.S. Government securities	$ 967	$ 386
All other	7	9
Total additions	$ 974	$ 395
Deductions from current net earnings:		
Retirement system	$ 1,122	
Special reserve on bank premises	482	$ 480
Losses and reserves for losses on industrial advances (net)		50
All other		3
Total deductions	$ 1,604	$ 533
Net earnings	$ 4,568	$ 3,302
Paid United States Treasury (Section 13b)	$ 34	
Dividends paid	3,184	$ 3,098
Transferred to surplus (Section 7)	1,350	204
Surplus (Section 7) beginning of year	$ 56,651	$ 56,447
Addition as above	1,350	204
Surplus (Section 7) end of year	$ 58,001	$ 56,651

Additions to current net earnings amounted to $974,000, about 2½ times as much as in 1941, and were ascribable, as in late years, to profits accruing from sales of Government securities. Overshadowing these additions were deductions aggregating $1,604,000, principally for the Retirement System and special chargeoffs on bank premises. Net earnings (after all charges) rose $1,266,000 to $4,568,000.

Net earnings provided for the usual 6 per cent dividend to member banks amounting to $3,184,000, and left $1,350,000 for transfer to ordinary surplus.

Membership Changes in 1942

The growth in membership in the Federal Reserve System of State chartered banks and trust companies continued during 1942 but at a much less rapid rate than in 1941. In the Second District nine such banks joined the System and at the end of the year there were (including the national banks) 799 members in this District, representing 82 per cent of the total number of commercial banks in the District, and about 95 per cent of the total assets of those banks. A large New York City bank joined the System in April and the eight other new members were banks in New York State. There was a decrease in the number of national banks resulting from mergers with other banks, and two national banks went into voluntary liquidation.

The tables below give in detail the changes in membership for 1942 with comparative figures for 1941.

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

(Exclusive of Savings Banks and Industrial Banks)

Type of bank	December 31, 1942			December 31, 1941		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	574	0	100	580	0	100
State banks and trust companies	225	178	56	217	187	54
Total	799	178	82	797	187	81

Changes in Federal Reserve Membership in Second District During 1942

Total membership beginning of year	797
Increases:	
State banks and trust companies admitted	9
Decreases:	
Member banks combined with other members	4
Member bank combined with nonmember	1
Voluntary liquidation	2
Total decreases	7
Net increase	2
Total membership end of year	799

Changes in Directors and Officers

On August 20, 1942, it was announced that Randolph E. Paul, a Class C director of this Bank, having been appointed General Counsel of the Treasury Department, had resigned as a director.

At a regular election in the autumn of 1942, Warren W. Clute, Jr., President, Glen National Bank of Watkins Glen, Watkins Glen, N. Y., was elected by member banks in Group 3 as a Class A director for a term of three years beginning January 1, 1943, to succeed Neil H. Dorrance of Camden, N. Y., whose term expired December 31, 1942. Carle C. Conway, Chairman of the Board and President, Continental Can Company, Inc., New York, N. Y., was reelected by member banks in Group 3 as a Class B director to serve for a term of three years beginning January 1, 1943.

George F. Rand, a director of the Buffalo Branch since January, 1940 and also from 1929 to 1936, died on November 19, 1942. In December, 1942, the directors of this Bank appointed Lewis G. Harriman, President, Manufacturers and Traders Trust Company, Buffalo, N. Y., as a director of the Buffalo Branch for a term of three years, beginning January 1, 1943, to succeed Mr. Rand whose term was to expire December 31, 1942.

In December, 1942, the directors of this Bank appointed Howard Kellogg as chairman of the board of directors of the Buffalo Branch, to succeed Gilbert A. Prole whose term was expiring at the end of the year. The Board of Governors of the Federal System reappointed Mr. Prole, of the Genesee Farm Supply Company, Batavia, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1943.

The directors of this Bank reappointed Reginald B. Wiltse as Managing Director of the Buffalo Branch for the year 1943.

In December, 1942, the Board of Governors of the Federal Reserve System appointed William I. Myers, Head of the Department of Agricultural Economics, Cornell University, Ithaca, N. Y., as a Class C director for a term of three years, beginning January 1, 1943 to succeed Edmund E. Day, President of Cornell University, Ithaca, N. Y., whose term expired December 31, 1942.

The Board of Governors of the Federal Reserve System redesignated Beardsley Ruml, Chairman and Federal Reserve Agent for this Bank for the year 1943.

Changes in Officers

Effective April 1, 1942, Harold A. Bilby, became Assistant Secretary of the Bank continuing as an Acting Manager of the Foreign Property Control Department; Donald J. Cameron, formerly Manager of the Foreign Department, became Assistant General Auditor; Felix T. Davis formerly Manager of the Check Department, became Manager of the R. F. C. Custody Department; Horace L. Sanford, formerly Manager of the Research Department, and Secretary, became Manager of the Foreign Department; William F. Treiber, formerly Assistant Secretary and Assistant Counsel, became Secretary of the Bank, continuing as Assistant Counsel. Effective the same day, Norris O. Johnson, formerly Chief of the Domestic Research Division of the Research Department, was appointed Manager of the Research Department.

On June 11, 1942, Harold A. Bilby, formerly Acting Manager of the Foreign Property Control Department, became Manager of the Check Department, continuing as Assistant Secretary; and Charles N. Van Houten, formerly Manager, Security Custody Department, became a Manager of the Foreign Property Control Department.

On June 19, 1942, William M. Kettner, formerly Chief, Security Custody Division of the Security Custody Department, became Manager, Security Custody Department. On July 31, 1942, John H. Wurts, formerly Assistant Counsel, became a Manager of the Government Bond Department.

Effective September 25, 1942, Harry M. Boyd, Chief of the Bond Division of the Government Bond Department, was appointed Manager of the newly created Savings Bond Redemption Department.

Effective January 8, 1943, Horace L. Sanford, formerly Manager of the Foreign Department, was appointed an Assistant Vice President, and Daniel J. Liddy, formerly Chief of the Foreign Accounts Division, Foreign Department, was appointed Manager of the Foreign Department.

Effective the same day, Robert H. Brome, became Assistant Secretary of the Bank, succeeding Harold A. Bilby who continued as Manager of the Check Department. Mr. Brome also continued as Assistant Counsel.

Member of Federal Advisory Council

At its meeting on January 7, 1943, the Board of Directors of this Bank reappointed George L. Harrison, President of the New York Life Insurance Company, New York, N. Y., to serve during the year 1943 as the member of the Federal Advisory Counsel for the Second Federal Reserve District.

Directors and Officers

DIRECTORS

Class	Group		Term Expires Dec. 31
A	1	LEON FRASER President, The First National Bank of the City of New York, New York, N. Y.	1943
A	2	WILLIAM J. FIELD President, Commercial Trust Company of New Jersey, Jersey City, N. J.	1944
A	3	WARREN W. CLUTE, JR. President, Glen National Bank of Watkins Glen, Watkins Glen, N. Y.	1945
B	1	DONALDSON BROWN Vice Chairman of the Board, General Motors Corporation, New York, N. Y.	1943
B	2	FREDERICK E. WILLIAMSON President, The New York Central Railroad Company, New York, N. Y.	1944
B	3	CARLE C. CONWAY Chairman of the Board and President, Continental Can Company, Inc., New York, N. Y.	1945
C		BEARDSLEY RUML, *Chairman* Treasurer, R. H. Macy & Co., Inc., New York, N. Y.	1944
C		WILLIAM I. MYERS Head of Department of Agricultural Economics, Cornell University, Ithaca, N. Y.	1945
C		VACANCY	

DIRECTORS—BUFFALO BRANCH

	Term Expires Dec. 31
HOWARD KELLOGG, *Chairman* President, Spencer Kellogg and Sons, Inc., Buffalo, N. Y.	1943
MARION B. FOLSOM Treasurer, Eastman Kodak Company, Rochester, N. Y.	1944
GILBERT A. PROLE Genesee Farm Supply Company, Batavia, N. Y.	1945
RAYMOND N. BALL President, Lincoln-Alliance Bank and Trust Company, Rochester, N. Y.	1943
ROBERT R. DEW President, Dunkirk Trust Company, Dunkirk, N. Y.	1944
LEWIS G. HARRIMAN President, Manufacturers and Traders Trust Co., Buffalo, N. Y.	1945
REGINALD B. WILTSE, *Managing Director*	1943

MEMBER OF FEDERAL ADVISORY COUNCIL

GEORGE L. HARRISON,
President, New York Life Insurance Company,
New York, N. Y.

OFFICERS

ALLAN SPROUL, *President*

LESLIE R. ROUNDS, *First Vice President*

RAY M. GIDNEY, *Vice President*

L. WERNER KNOKE, *Vice President*

WALTER S. LOGAN, *Vice President, and General Counsel*

JAMES M. RICE, *Vice President*

ROBERT G. ROUSE, *Vice President*

JOHN H. WILLIAMS, *Vice President*

EDWARD O. DOUGLAS, *Assistant Vice President*

GEORGE W. FERGUSON, *Assistant Vice President*

J. WILSON JONES, *Assistant Vice President*

HERBERT H. KIMBALL, *Assistant Vice President*

SILAS A. MILLER, *Assistant Vice President*

ARTHUR PHELAN, *Assistant Vice President*

HAROLD V. ROELSE, *Assistant Vice President*

HORACE L. SANFORD, *Assistant Vice President*

VALENTINE WILLIS, *Assistant Vice President*

TODD G. TIEBOUT, *Assistant General Counsel*

RUFUS J. TRIMBLE, *Assistant General Counsel*

LOREN B. ALLEN, *Manager, Credit Department*

DUDLEY H. BARROWS, *Manager, Cash Department*

HAROLD A. BILBY, *Manager, Check Department*

HARRY M. BOYD, *Manager, Savings Bond Redemption Department*

ROBERT H. BROME, *Assistant Counsel, and Assistant Secretary*

WESLEY W. BURT, *Manager, Government Bond Department*

FELIX T. DAVIS, *Manager, R.F.C. Custody Department*

NORMAN P. DAVIS, *Manager, Foreign Funds Control Department, and Manager, Security Loans Department*

EDWIN C. FRENCH, *Manager, Collection Department*

MARCUS A. HARRIS, *Manager, Securities Department*

WILLIAM A. HEINL, *Manager, Personnel Department*

NORRIS O. JOHNSON, *Manager, Research Department*

WILLIAM M. KETTNER, *Manager, Security Custody Department*

DANIEL J. LIDDY, *Manager, Foreign Department*

MYLES C. MCCAHILL, *Manager, Service Department*

ROBERT F. MCMURRAY, *Manager, Safekeeping Department*

WILLIAM F. SHEEHAN, *Manager, Bank Examinations Department, and Chief Examiner*

INSLEY B. SMITH, *Manager, Bank Relations Department*

FREDERICK STOCKER, *Manager, Cash Custody Department*

WILLIAM F. TREIBER, *Assistant Counsel, and Secretary*

CHARLES N. VAN HOUTEN, *Manager, Foreign Funds Control Department*

JOHN H. WURTS, *Manager, Government Bond Department*

WILLIAM H. DILLISTIN, *General Auditor*

DONALD J. CAMERON, *Assistant General Auditor*

OFFICERS—BUFFALO BRANCH

REGINALD B. WILTSE, *Managing Director*

HALSEY W. SNOW, *Cashier*

GEORGE J. DOLL, *Assistant Cashier*