Twenty-ninth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1943

Second Federal Reserve District

Federal Reserve Bank of New York

March 31, 1944.

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

I am pleased to transmit herewith the twenty-ninth annual report of the Federal Reserve Bank of New York reviewing the year 1943.

Allan Sproul,
President.

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SERVING THEIR COUNTRY

At the end of 1943 more than 700 members of the bank's staff had joined the armed forces of the United States, and are now serving their country in all branches of the services and in all parts of the world. The directors, officers, and staff of the bank take pride in their service.

The management of the bank also appreciates the quality of the service of the employees who continued as members of the staff during the year. The work of the Federal Reserve Bank of New York contributes directly and indirectly to the war effort. It could not be carried on without the understanding and the willing work of all members of the staff.

Allan Sproul,
President.

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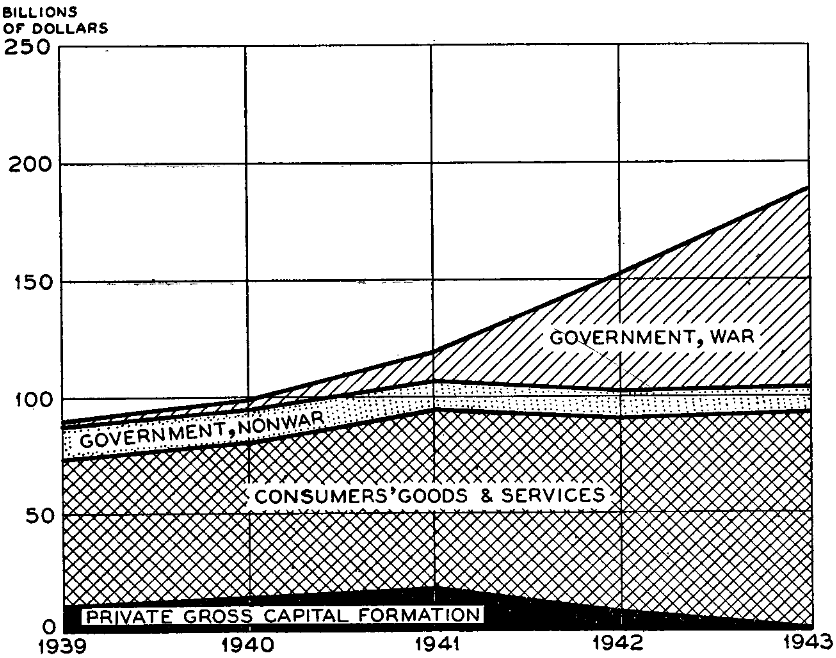
In 1943 this country's war production about reached its peak. Though there will doubtless be many adjustments within the production program, the expansion phase seems virtually completed. It began with the outbreak of war in 1939, and our own defense program of June 1940, was sharply stepped up in 1942 following Pearl Harbor and our entry into the war, and continued at a rate which diminished progressively in each quarter of 1943 as full mobilization was approached.

In its totality, the increase of output has been extraordinary. Until recent years statisticians talked of a growth trend of about three to four per cent a year. In the late thirties, after observation of Germany's achievements in building her war machine, the view was expressed that under rigid totalitarian controls a country of high technological capacity could for a period expand its output by as much as ten per cent a year. But in the present war, in the four years from 1939 to 1943, our gross national product has been increased from 88.6 billion dollars to 186.8 billion. Even allowing for the fact that the price level has risen about one third this expansion of output surpasses anything of which the world had any previous experience.

A companion fact scarcely less noteworthy is that, broadly speaking, the economic conduct of the war has not been for this country a belt-tightening process. Despite the fact that there has been much diversion of manpower and resources from civilian to military uses, and a virtual elimination of consumer durable goods, the fact seems to be that American consumption in 1943 was in the aggregate about as high as in any previous war year and substantially above 1939. The Department of Commerce estimates of output of consumer goods and services rose from 61.7 billion dollars in 1939 to 74.6 billion in 1941 and 90.5 billion in 1943. What these figures appear to indicate when corrected for the rise in prices is that consumption rose markedly in the years prior to our own entry into the war, when the rise in cost of living was still only slight, and reached an all-time record in 1941; and that the apparent further rise since that time has been about offset by the rise of prices.

Gross National Product of the United States



(Department of Commerce estimates)

There has been much comment on the year 1941 as indicating what a high-consumption economy the United States became under the stimulus of the defense program but before price controls, rationing, production controls, and taxation had begun seriously to restrain consumption. Since 1941, however, we have had not only the controls but an increase in war expenditure from 12.5 billion dollars to 83.7 billion in 1943. In accounting for the continued high level of consumption one fact to bear in mind is that *total* production for civilian use has shown some decline, even before correction for price rise. Gross private capital formation has been virtually eliminated, dropping from 19 billion dollars in 1941 to 1 billion in 1943. Governmental nonwar expenditure, including State and local, has also declined moderately. How our economy has been streamlined for the two basic purposes of war production and consumers' needs is best indicated by the fact that in 1941 these two categories combined were 73 per cent of gross national product, and in 1943, 93 per cent; war goods and services amounted to 10 per cent and consumers' goods and services to 63 per cent of the total in

1941, while in 1943 the war portion was 45 per cent and the consumers', 48 per cent of the gross national product.

One had best preserve some caution in accepting at face value the consumption estimates of 1943. One thing especially hard to measure is the decline in quality of consumer goods in wartime. Taking this into account, cost of living has probably risen more and real consumption been less well maintained than the figures indicate. One must bear in mind also the unequal impact of the war on different categories of goods. Wholesale prices of foods and farm products have risen much more than commodities in general, with the result that in the cost of living food has gone up about twice as much as the index as a whole. Within the aggregate of consumption, moreover, some classes and income groups, and notably the white collar workers, really have found war a belt-tightening process. Yet for the community as a whole it seems a conservative conclusion that consumption has risen substantially since 1939; it can only mean that the reduced consumption of some groups has been more than offset by the increased consumption of others. Such high consumption in the face of the unparalleled war effort, and without more serious inflationary pressures than have thus far appeared, must be ascribed basically to the extraordinary powers of production of this country which our war program has revealed.

Another outstanding, and closely related, fact about the war has been the accumulation of wartime savings. Though consumption has been high, the net inflow of money incomes to the community, after taxes and Government borrowing, has been much in excess of the consumer goods and services available. That this "inflationary gap" has not produced more upward pressure on prices than has occurred has been one of the most surprising developments of the war. One can hazard tentative explanations. To some extent it may indicate a desire to hold money idle because of uncertainties about the future. Probably more important has been the absence of consumer durable goods. In the past, as between periods of low and high national income, the great fluctuations have been in the durable goods. What the present experience seems to demonstrate is that even when such goods are not available the expansion of consumption in other directions is comparatively moderate. One might well ask why the excess income does not flow into investment, which now would mean into Government securities. To a considerable and an increasing extent this has happened, and it should go further in the future. But the differences in motivation and habituation as between spending and investing incomes make it a slow process and one requiring continuing pressure. Perhaps the largest underlying fact about wartime saving is the absence of any general popular fear about inflation, for when that is present it practically always shows itself in a desire to run away from money into other things even at rising prices, and indeed because of them. At present the community, though in the aggregate still well supplied with excess income, seems not inclined to reach for goods. But we must bear constantly in mind that a vicious spiral of inflation, if for any reason it got started, would have much to feed upon.

One of the most striking aspects of the great expansion of wartime production has been its relation to the mobilization of manpower and employment. The total labor force from January 1941 to January 1944 increased from 54 million to 60.9 million. Of this increase it has been estimated that about 2 million consisted of the normal growth in the working population and the remainder of persons who would not normally be employed — youths under the usual working age, workers past retirement age, and women normally at home. But from this labor force 9.4 million were taken into the armed forces during the period, and 1.3 million were added to Federal war agencies, leaving a net available labor force of 49 million in January 1944 as against 52.8 million* in January 1941, or a net contraction of 3.8 million workers. Our greatest problem has been how, with this contracting labor force, to carry through the war production program. That we have done it without contraction of consumption in the aggregate makes the performance more remarkable.

The answer appears to be threefold. There has been first the taking up of slack in employment. It is a rather astonishing fact, and one not without significance for the future, that as late as January 1941, with production already substantially above any previous level in our history, it was estimated that there were still 7.7 millions of unemployed. By January 1944 unemployment had been reduced to 800,000, which is perhaps some 2 million less than could be expected in conditions of normal peacetime full employment and indicates how tight the manpower situation became by 1943. In consequence, despite the mobilization of the armed forces and the expansion of Federal war agencies, there was an increase in civilian employment in the three-year period from 45.1 million to 48.2 million. A second and even more important factor has

* In January 1941, of a total labor force of 54 millions, one million was in the armed forces and 0.2 million in Federal war agencies, leaving a total available labor force of 52.8 millions.

been the increase in the average work week from 38.1 hours in 1940 to 45 hours in 1943. The combined increase in numbers employed and hours worked is equivalent to an increase of about one fourth in the effective labor force. Clearly a large part of the explanation of the increased output is to be found in shifts to more productive employment and to improved equipment and technique. What questions this aspect of our experience may raise for postwar employment and national income would carry us beyond the scope of this report.

The facts reviewed above—about production, consumption, incomes, and manpower—are the basic economic and physical facts about the war. They have provided the underlying conditions for the operation of the anti-inflationary policies of Government. That, broadly considered, these underlying conditions have been so favorable constitutes the main reason for the comparative success of our anti-inflation program. That the program has been relatively successful is perhaps best seen by comparisons with the last war. In 1939-1943 wholesale commodity prices as measured by the Bureau of Labor Statistics index rose 38 per cent, against a rise of 102 per cent in 1914-1918. The cost of living index in the same periods rose 26 per cent in this war and 63 per cent in the last. The entire rise of wholesale prices last time, to the peak in 1920, was 148 per cent over 1914 and in cost of living 110 per cent. How we shall fare at the end of an equal period remains to be seen, but thus far the record has been markedly better. It should be noted too that, at their first World War peak, Federal expenditures probably amounted to less than a third of the gross national product, as against about 47 per cent in 1943. The price control mechanism created in 1942 and supplemented to some degree last year, coupled with the basically favorable economic performance, has held prices on a remarkably even keel during the past year. The wholesale price index averaged only 4 per cent higher in 1943 than in 1942 while the cost of living index rose about 6 per cent.

The over-all price picture for the war to date, however, fails to indicate how divergent have been the movements of different price categories. All commodities except farm products and food have risen only 22 per cent, against 96 per cent in the first war; farm products have risen 100 per cent against 110 per cent in the last war, and food prices 57 per cent, as against 107 per cent last time. What the comparisons do not reveal is that many prices today are as high or higher than in the last war, because the starting level in 1939 was in so many cases higher than in 1914. Except for foods, our general commodity price rise, at wholesale, since 1939 has been smaller than in Canada, United Kingdom, and Australia. But retail food prices in this country have risen twice as much as in Britain or Australia and nearly 50 per cent more than in Canada. The higher wholesale prices in the other countries reflect the longer and greater strain of the war. The lower retail food prices, however, appear to be due mainly to the differences in the price-control programs—in part to the greater use of subsidies abroad, but much more, it would seem, to the operation of the parity price formulae and other limitations in the application of price controls to our agricultural products.

Of basic importance for the avoidance of an inflationary price spiral is the behavior of agricultural prices and of wage rates. Farmers and next to them wage earners have had the fastest rise in incomes during the war, and agricultural prices and wage rates have presented some of the most controversial questions about the economic conduct of the war. A rise in agricultural prices relative to others does not in itself warrant adverse comment. Such a relative rise always occurs in wars and in periods of rising peacetime national income—and a relative fall in depressions. It must be recalled too that in the present instance the rise has been from the comparatively low base, relative to industrial prices and wage rates, which prevailed in the thirties, and has to some extent been necessary to bring out increased production and keep workers on the farm in the face of the high wages available in war industries. The danger is that the rise may be carried too far.

As regards wage incomes and wage rates, the problem is more complex than appears on the surface. In discussions of the efforts to hold to the "Little Steel" formula, the point has been repeatedly made by the critics that wage rates have risen much more than the cost of living. According to the official figures, hourly earnings of factory workers have risen about 52 per cent as against a rise of 26 per cent in cost of living. But this high figure reflects the shift of workers from low-wage to high-wage industries, as well as the actual raising of wage rates and the effect of overtime penalty rates. It has been estimated that the actual rise in the price of factory labor between 1939 and July 1943 was about 32 per cent. This correction somewhat weakens the argument that the advance of wage rates threatens to produce inflation by forcing price increases to cover costs, which in turn would lead to further wage increases in the familiar vicious spiral. But it should be borne in mind that the upgrading of labor involved in this switching of employment implies impairment of labor efficiency, which is a hidden factor in costs, just as deterioration of quality of products is a hidden factor in cost of living. Moreover, the formula apparently so generally adopted that increases in wage rates should cover increases in living costs is itself questionable if not accompanied by measures to absorb the rise in total labor incomes. An effective anti-inflationary policy must embrace always the two-sided approach of controlling, on the one hand, the effects of rising production costs on prices and, on the other, the effects of rising incomes on demand for the limited supply of goods and services available.

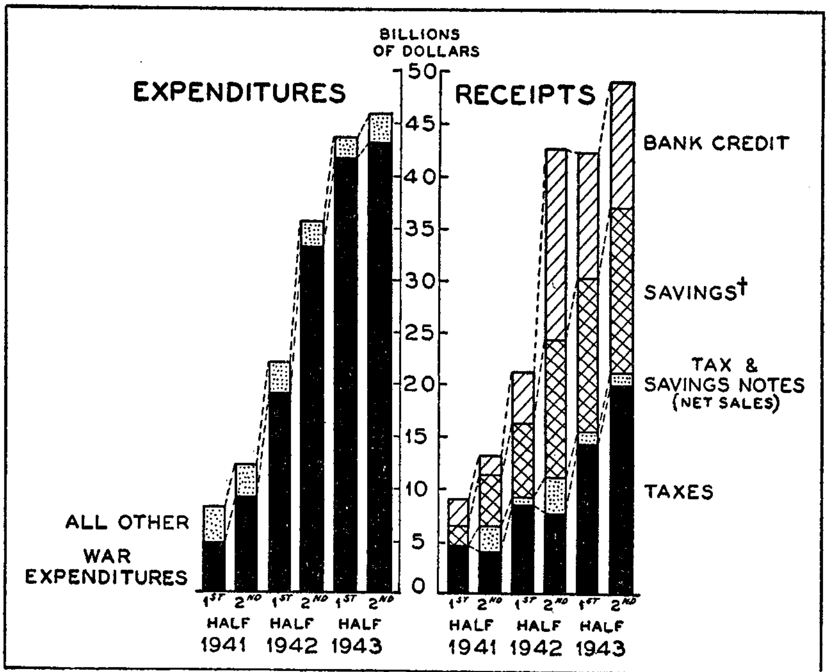
In concluding this broad survey of some of the main economic features of the war, and before coming to the more detailed discussion of monetary and fiscal developments in 1943, we may venture some comments upon the economic outlook for 1944. There are signs that we have reached and even passed the stage of most acute pressures on our economy. Both industrial production and the gross national product are rapidly leveling off. The raw materials situation has been easing markedly. There seem to be definite signs that the manpower problem as a whole will not become more serious although it obviously may remain critical as to particular skills and industries; since November there has been a drop in the number of places classified as acute labor shortage areas. There have been some sizable cuts in previously authorized military expenditures, and it seems even probable that actual expenditures will run somewhat under the budget estimates. None of this implies any slackening of the war effort, but is to a large extent a natural consequence of the completion of the mobilization program, and of savings realized through productive efficiency. One of the chief reasons for economic strain during the expansion phase of a war production program is that for a considerable period resources must be used to construct new, and convert old, plant and equipment in order to produce the final products wanted. How this kind of pressure has relaxed is shown by the fact that in 1943 Government outlays for industrial plant construction were 40 per cent below 1942, and in the last three months of the year were 75 per cent below such expenditures in the last quarter of 1942. As to output of civilian goods, it seems probable that the next change will be upward, although the expansion may be only slight until the European war has ended.

How much danger of inflation there will be will depend upon the policies pursued. The need for retaining, and in some directions for strengthening, our anti-inflationary policies will continue to be of primary importance not only for the remainder of the war period but very probably also during the period of transition to peace. Besides the wartime savings and the accumulated domestic demands for goods, we shall have to consider the effects of international demands upon us during the transition period. Relief and reconstruction in Europe will undoubtedly call for large amounts of American food products, raw materials, and equipment. We shall very likely also be called upon to pay in goods for the large amounts of materials which we have been importing, particularly from the Latin American countries, for war production and civilian needs. During the war, owing both to lack of shipping and to our concentration on war production, this trade has been one-sided and has resulted in a rapid accumulation here of gold and dollar balances by these countries. If all these demands, domestic and foreign, were permitted to converge upon our markets without restraint before reconversion to peacetime production had been completed, there would be serious danger of disorderly price increases and other dislocations in our economy, and we might easily have, as after the last war, a boom followed by collapse. Until we can see our way safely past such dangers it would be most unwise to remove anti-inflationary controls.

War Financing During 1943

The effort to finance war expenditures by inflation resistant methods fell short of our hopes in 1943 but exceeded our expectations. Total Government expenditures (90 billion dollars), while not as large as had been estimated at the beginning of the year, were more than 32 billion dollars greater than in 1942. Over half of the increase in expenditures was covered by increased Government revenues—chiefly from individual and corporation income taxes. Most of the remainder was financed through increased sales of Government securities to nonbank investors. Consequently, although the total amount borrowed by the Treasury during the year was 57 billion dollars as compared with 48 billion in 1942, the amount of Government securities absorbed by commercial and Federal Reserve Banks was only slightly greater in 1943 than in 1942, and was substantially less than had been indicated by some forecasts early in the year on the basis of the budget estimates set forth in the President's message to Congress in January 1943. Nevertheless, the amount of Government financing through the banks, directly or indirectly, was very large—24½ billion dollars—and efforts were made to

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



† NET ABSORPTION BY NONBANK INVESTORS OF GOVERNMENT SECURITIES OTHER THAN TAX AND SAVINGS NOTES.

reduce the volume of such financing, both by further proposals for increasing tax revenues and by further efforts to sell Government securities to investors other than banks. It appeared probable, toward the end of 1943, that the amount of bank financing of Government expenditures during 1944 could be substantially reduced.

The accompanying diagram shows, by six-month periods, the amount of war and other expenditures of the Federal Government during the past three years and its receipts from various sources during the same half-year periods. In reviewing the sources of Government receipts in relation to expenditures, it will be noted that the amount of Government receipts from security sales during the latter half of 1942 was substantially greater than the amount needed to cover Government expenditures during that period. This excess of borrowing produced an increase of approximately 7 billion dollars in the Treasury working balance, which has since been maintained at a relatively high level. In the first half of 1943, Treasury borrowings were slightly less than net Government expenditures, and in the latter half moderately in excess of expenditures.

Another aspect of the problem of war finance and inflation presents itself in the relation of Treasury receipts to increases in the national income. It appears that the net national income in 1943 (147 billion dollars) was about 27½ billion greater than in 1942. Taxes paid by individuals increased by something like 12 or 13 billion dollars during the year, and net purchases of Government securities by nonbank investors increased by approximately 11 billion. It appears, therefore, that the amount of income remaining for consumer expenditure was only slightly larger in 1943 than in 1942. The amount of such income continued to be substantially greater, of course, than the amount of consumer goods and services available valued at 1942 prices. Part of the excess was absorbed in an increase in prices in 1943. A considerably larger part, as in the preceding year, appears to have been added to savings in forms other than direct or indirect investments in Government securities. These savings appear in the statistics as increases in currency circulation and in bank deposits. They have no inflationary effect so long as they remain relatively idle, but they constitute a continuing threat to the effective maintenance of price control while the supply of civilian goods necessarily remains restricted, even though large.

War expenditures continued to increase fairly rapidly during the first quarter of 1943, but leveled off thereafter at around 7 billion dollars a month. Some parts of the war program, including the production of airplanes and ships, continued to expand throughout the year, but construction of war plants and, to a smaller extent, of army camps and other military establishments, did not need to continue at previous levels, and there were "cutbacks" in some parts of the munitions program. Reduced prices for war materials, as volume output made possible more efficient production, also played a part in holding down the cost of the war program. Total war expenditures during 1943 amounted to approximately 83 billion dollars, and total Government expenditures were 90 billion dollars, or about 8 billion less than the amount indicated for the calendar year by the budgets for the fiscal years 1942-43 and 1943-44.

While Government expenditures fell short of the huge totals indicated by budget estimates, Government revenues substantially exceeded the amounts indicated by the January budget figures. The estimates for the two fiscal years indicated that during the calendar year 1943 net revenue receipts would amount to approximately 28 billion dollars. Despite the fact that no general increase in tax rates was effected during the year, actual net receipts of the Treasury amounted to more than 34½ billion dollars and were more than double the net receipts of 16.3 billion in 1942. A substantial increase in revenues was anticipated by the budget estimates because of the rising national income and stiff increases in taxation under the Revenue Act of 1942, most of the provisions of which became fully effective in 1943, but actual receipts were considerably larger than estimated. The difference is attributable largely to the effects of the Current Tax Payment Act of 1943 (as a result of which individual taxpayers were required to pay, in 1943, the estimated taxes on their income during that year rather than on their income of the preceding year).* Another factor tending to increase Treasury receipts above the amount estimated at the beginning of the year was a substantial volume of cash refunds (about 1½ billion dollars) on renegotiated war contracts completed in 1942.

Despite overestimates of expenditures and underestimates of receipts, the Treasury was a continuous and heavy borrower in 1943. The excess of expenditures remaining to be financed by sales of Treasury securities was a little over 55 billion dollars, compared with about 41 billion in 1942.† The success of the First War Loan drive in December 1942 set the general pattern for selling such a huge quantity of securities, and two War Loan drives were the main reliance of the Treasury in selling its securities during 1943.

The form of selling organization was changed during the year and was expanded with each succeeding drive. In the First War Loan drive there were Victory Fund Committees organized on the basis of Federal Reserve Districts, and War Savings staffs organized by States. The existence of two separate sales organizations resulted in some overlapping and duplication of effort. For the Second War Loan drive in April a War Finance Committee was set up in each Federal Reserve District, headed by the President of the Federal Reserve Bank, with a view to

* At the beginning of 1944 it appeared likely that total Government revenues during the year would amount to at least 40 billion dollars, without giving effect to the provisions of the revenue act then under consideration by Congress. Collection of individual income taxes on the basis of income during the current year, rather than on income of the preceding year, will mean that increases in income will immediately be reflected in increasing Treasury receipts. In addition, the provision of the Current Tax Payment Act, under which taxpayers with a tax liability for 1942 (or for 1943 if lower) of more than 50 dollars will be required to pay at least one eighth of the tax liability for that year by March 15, 1944, will produce further funds for the Treasury. The tax bill which became law early in 1944 is expected to bring in an additional 2 billion dollars during its first year, not all of which will be collected in 1944, however, and not all of which will be net additional revenue to the Treasury because of the accompanying freezing of payroll taxes.

† Actual borrowing was 57 billion in 1943 and 48 billion in 1942; consequently the Treasury's working balance increased from about 3 billion dollars at the end of 1941 to nearly 10 billion at the end of 1942, and 11½ billion at the close of 1943.

effecting greater coordination of effort between the two selling organizations. Substantial progress was made but certain organizational difficulties remained. In preparation for the Third War Loan drive in September and October, the Treasury decided to organize the sales staff entirely along State lines. A War Finance Committee was appointed in each State and given sole responsibility for the sale of all types of securities during drives.

While the drive method was immediately successful in producing a huge volume of subscriptions, the amount of sales to individuals was considered disappointing, in view of the rapid growth of wartime incomes, and the amount of securities taken directly and indirectly by the commercial banks continued to be very large. The selling effort in successive drives, therefore, was directed increasingly to sales of securities to individual investors, with secondary emphasis on sales to other nonbank investors. In the First and Second War Loans, limited (but large) issues of two types of securities were offered for commercial bank subscription. In the Third War Loan the offering of securities to commercial banks was reduced, timed to follow the conclusion of the drive, and not included in the total sales during the drive. In the Fourth War Loan, beginning on January 18, 1944, there was no offering to commercial banks.*

The accompanying table compares the sales of Government securities to nonbank investors in the First, Second, and Third War Loan drives and shows the improvement in sales to individuals. The increase in such sales was proportionately greater than for any other class of subscriber, except State and local governments.

These data, however, conceal a substantial use of bank credit in the successive drives, both in the form of loans to finance subscriptions by nonbank purchasers, and in the form of bank buying of outstanding securities from other investors, who were thus enabled to increase their subscriptions. The rise in loans on securities, by weekly reporting banks throughout the country (measured from the low point preceding each drive to the high point during the drive) was about 700 million dollars in the First War Loan, approximately 1,275 million dollars in the Second, and more than 1,800 million dollars in the Third. Most of the expansion in security loans in connection with the First War Loan occurred at

* Except for an arrangement whereby such banks could purchase certain types of securities in amounts up to 10 per cent of their savings deposits or $200,000, whichever was less.

banks in the Second Federal Reserve District, but increasing amounts of loans were reported by banks in other parts of the country during the Second and Third War Loans.

Preceding and during each drive there were also substantial sales of holdings of outstanding securities by insurance companies, savings banks, and other investors to obtain additional funds for the purchase of securities offered during the drives. The greater part of the securities sold for this purpose were purchased by the commercial banks. Subsequent to each drive these banks were the principal purchasers of securities sold by speculative subscribers, who financed their subscriptions with bank loans and liquidated their holdings within relatively short periods. It is estimated that, in addition to Government securities acquired by commercial banks by direct subscription, during and following the War Loan drives, the banking system (including commercial and Federal Reserve Banks) acquired through purchases in the market a total of approximately 2,400 million dollars of Government securities in the four months November 1942—February 1943, more than 3 billion in the four months March-June 1943, and nearly 4 billion in the four months August-November 1943.

Comparison of Sales to Nonbanking Investors in the First, Second, and Third War Loan Drives

(In millions of dollars)

Type of investor	United States			Second Federal Reserve District		
	First War Loan	Second War Loan	Third War Loan	First War Loan	Second War Loan	Third War Loan
Individuals, partnerships, and personal trust accounts	1,593	3,290	5,377	387	737	1,021
Insurance companies	1,699	2,408	2,620	1,038	1,426	1,600
Mutual savings banks	620	1,195	1,508	405	730	895
Dealers and brokers*	886	544	894	817	439	629
State and local governments	200	503	795	29	71	116
Corporations and other investors	2,593	5,145	7,120	1,138	1,892	2,072
Total nonbanking (excluding Federal agencies)	7,591	13,085	18,313	3,814	5,295	6,334
Federal agencies	270	391	630	1	7	9
Total	7,860	13,476	18,943	3,815	5,302	6,343

*For the Second drive, dealers' allotments earmarked for distribution to nonbanking investors were credited to the appropriate nonbanking investor classes. In the other two drives, no such redistribution was made.

Note: Figures are rounded and do not necessarily add to totals.

By assembling data for four-month periods including each of the first three War Loan drives, and making adjustment for all of the factors cited above, a fair comparison of sales of Government securities to bank and nonbank investors can be obtained. The results are set forth in the following table which shows the estimated increases in Government security holdings of the two principal classes of investors for these periods.

(In billions of dollars)

Period	Nonbank holdings	Bank holdings*
November 1942 — February 1943	+ 9.9	+ 9.5
March — June 1943	+10.5	+10.3
August — November 1943	+14.2	+ 9.2

* Including Federal Reserve Banks as well as commercial banks.

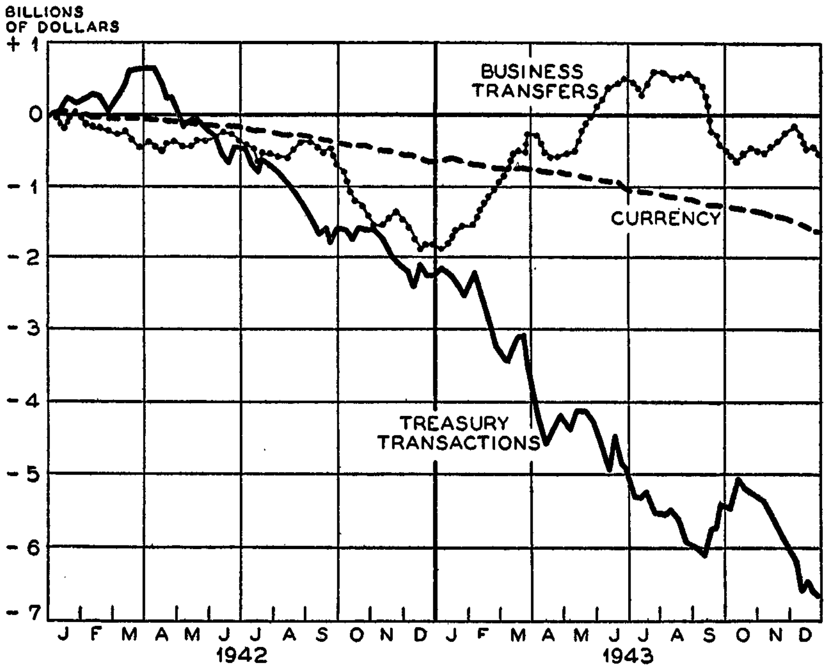
These estimates indicate that little progress was made between the First and Second War Loan drive periods in increasing the proportionate sales of Government securities to nonbank investors, but that substantial progress was made in the Third War Loan drive period. One further factor should be mentioned in assessing the non-inflationary character of our war financing, however. It is probable that an increasing proportion of the net absorption of securities by nonbank investors in successive War Loan drives has been and will be the result of purchases paid for out of current income, and that a correspondingly smaller proportion of purchases has been and will be made with previously accumulated funds. A real increase, from one War Loan to the next, in the purchase of Government securities by individuals out of current incomes would be a distinctly anti-inflationary development.

On the whole the record of war financing in 1943 indicates a substantial measure of success in the efforts to finance war expenditures more largely by taxation and sales of Government securities to nonbank subscribers. It still leaves much to be desired, however, and indicates the need for continuing and intensified efforts to obtain a greater flow of individual incomes into the financing of the war.

Money Market Developments in 1943

The almost continuous drain on the reserves of New York City "money market" banks, which developed after the first quarter of 1942, continued during 1943. As in the earlier period, the largest factor contributing to this movement was the transfer of funds on Treasury account —Treasury receipts from security sales and tax collections in the New York area continued to exceed by a wide margin Government disbursements in the area, including Treasury checks deposited in New York City banks to the credit of concerns operating in other parts of the country. The average weekly volume of Government checks deposited in New York City banks was considerably greater in 1943 than in 1942, reflecting the increased magnitude of the war program. At the same time, payments of Federal taxes out of accounts maintained in this District were considerably greater than in 1942, and payments for Government securities, including withdrawals from War Loan depositaries of the proceeds of security sales, also increased greatly. Consequently, as the accompanying chart indicates, the net outflow of funds from this District through Government transactions, while subject to

Principal Factors Accounting for Movements of Funds Into and Out of Reserve Balances of Member Banks in Second Federal Reserve District (Cumulative since January 1, 1942; (+) = gain to reserve balances; (—) = loss to reserve balances)



some interruptions, was on the whole at a rate fully as rapid as during the last 9 months of 1942.

On the other hand, the flow of funds between this District and other parts of the country through commercial and financial transfers resulted in a net inflow in 1943, reversing the outflow in 1942. The direction of the flow of funds through such transactions was strongly outward during the Second War Loan drive in April, and increased in volume in September and early October in connection with the Third War Loan drive, but the general movement was inward in the periods between drives. One factor in this inflow appears to have been the purchase of securities by banks and other investors in other parts of the country following War Loan drives, which no doubt reflected, at least in part, the distribution of securities purchased by dealers and others, with borrowed funds, during the drives. In addition there appears to have been some tendency for funds to accumulate in the New York deposit accounts of business organizations. Such accounts were drawn down sharply for the purchase of securities in the War Loan drives and for the year as a whole the increase was probably of rather moderate proportions. The reduction in business accounts in connection with the drives was not limited to payments for securities purchased in the District, but included (especially in connection with the Third War Loan drive) large transfers to other parts of the country, presumably to pay for subscriptions placed in other localities.

A second continuing factor in the drain on the reserves of banks in this District, as well as in other districts, was the persistent demand for currency. The net withdrawal of currency from banks in this District during the year is estimated at approximately 1 billion dollars, or about one fifth of the total increase for the country as a whole. Data on the note circulation of Federal Reserve Banks indicate, however, that large as was the demand for currency in this area, the demand was relatively even greater in some other parts of the country, especially those in which there has been an unusually rapid growth of war industries and other activities related to the war program, such as military training centers.

As in 1942, a substantial part of the demand for currency was for bills of the smaller denominations, but there was a noticeable increase during the past year in the demand for $50 and $100 bills, and to some extent for even larger denominations. While precise information concerning the factors that have given rise to the persistent demand for currency is not available, a number of possible factors have been suggested. In the first place there was undoubtedly some increase in the amount of currency actually needed in connection with consumer expenditures, owing partly to a moderate rise in prices. "Black market" transactions, efforts to evade taxation by concealing income, and hoarding may also have been factors although hoarding in the sense of currency accumulations induced by specific or indefinite fears was probably of minor importance. It seems likely that a major factor was the accumulation of savings in the form of currency by individuals whose income has increased substantially during the war, but who do not have bank accounts. Whatever the causes, the continued increase in currency outstanding was the largest factor in the drain on bank reserves for the country as a whole, and was the second largest factor for banks in this District.

A third factor which had its immediate impact largely on the New York City banks, although its ultimate effects may have extended farther, was the accumulation of funds in the accounts of foreign central banks and governments in the Federal Reserve Bank of New York. Deposit balances of that character showed a net increase of approximately 700 million dollars during the year, despite the use of approximately the same amount by foreign owners of dollars for the purchase and earmarking of gold in our vaults. This accumulation of foreign official funds in Federal Reserve Banks involves the transfer of funds from commercial banks and thus results in a drain on their reserves. The reasons for this accumulation of funds by foreign central banks and governments are discussed in a subsequent section of this report.

Despite the large increase in bank credit, which reflected mainly bank participation directly or indirectly in the financing of the war, and the accompanying large increase in the total volume of bank deposits, the growth in member bank reserve requirements was a relatively minor factor in bank needs for additional reserve funds during 1943. For all member banks the increase in the amount of their required reserves was only about 500 million dollars, and for the principal New York City banks there was an actual net reduction during the year of nearly that amount. Increases in reserve requirements would have been a much more important factor affecting the reserve position of member banks had it not been for legislation enacted by Congress early in the year which exempted War Loan (Government) deposits in the banks from reserve requirements for the war period. As War Loan deposits in all member banks, at the end of 1943, were approximately 9 billion dollars, the required reserves of these banks were at least 1½ billion dollars less, at that time, than they would have been if continued maintenance of the same percentages of reserves against War Loan accounts as against other deposits had been required.

As a result of this legislation, a new pattern of fluctuation in member bank reserve requirements developed during the past year. Up to the end of 1942 each war financing operation, including the First War Loan, was accompanied by a substantial increase in the reserve requirements of the banks owing to the growth of War Loan deposits, and in the periods following such operations reserve requirements tended to level off. After the elimination of reserve requirements against War Loan accounts, however, the periodic financing drives had the effect of releasing substantial amounts of reserves, as deposits were shifted from private accounts, against which the banks were required to maintain reserves, to War Loan deposits. Thus, instead of creating pressure on the reserve positions of the banks, large war financing operations recently have had the effect of easing the reserve positions of the banks temporarily. Subsequently, as the Treasury has made periodic withdrawals of funds from War Loan accounts to meet Government expenditures, and as the disbursement of the funds increased private deposits, the reserve requirements of the banks have again increased.

Although the New York City banks had a net reduction in their required reserves during the past year, in contrast to the moderate increase for the country as a whole, the release of reserves through this decline in reserve requirements offset only to a small extent their net losses of reserves through other transactions, especially transfers of Government funds. A small part of their need for reserve funds to offset losses of reserves was met by using up the remainder of their excess reserves early in the year; at the end of 1942 the New York City banks had around 400 million dollars of excess reserves, most of which was used up by the middle of February. Subsequently, individual banks followed the policy of keeping fully invested and had to make almost constant adjustments to keep their reserves at the required levels.

These adjustments took the form largely of sales of Treasury bills to the Federal Reserve Bank, and the banks availed themselves of the option to repurchase the bills when, individually, they gained reserves through transfers from other localities, deposits of Government checks, or other transactions. For the year as a whole, however, their sales of bills to the Reserve Banks were greatly in excess of their repurchases, and the Treasury bill "option account" of the Federal Reserve Bank of New York at one time during the year rose as high as 3.3 billion dollars. In the latter part of the year, a number of banks exhausted their supply of Treasury bills (or reduced their holdings to levels which they wished to maintain), and thereafter adjusted their reserve position either through temporary borrowings from the Reserve Bank or through sales of Treasury certificates of indebtedness or other short term securities in the market.

Because of the persistent outflow of funds from New York to other parts of the country, a large part of the reserve funds provided by the security operations of the Federal Reserve System in New York (including purchases of Treasury bills as well as transactions in the open market), spread out over the country to sustain the reserve position of banks in other communities.

Despite their lack of excess reserves during most of the year, the New York City banks continued to take their share of new Treasury issues when the Treasury found it advisable to resort to direct offerings to the banks, and in addition bought substantial amounts of other securities in the market, selling Treasury bills and other short term securities when necessary to offset losses of funds. In general, they showed a tendency to increase their holdings of Treasury bonds. Nevertheless, they retained a larger portion of Treasury bills and certificates of indebtedness in their portfolios than is customary for most banks throughout the country.

Federal Reserve Policy

The problems of our war economy in the monetary and fiscal field were much the same in 1943 as in 1942. Consequently, the objectives of Federal Reserve policy remained the same and operations in execution of System policy differed only in detail. The amount of funds which the Treasury was called upon to raise to finance war operations was much greater than in the preceding year, and despite the large increase in tax revenues previously noted, the amount to be raised by borrowing was considerably greater. In view of the necessary limitations on supplies of consumers' goods and the continued increase in the aggregate amount of individual incomes, there was a continuing problem of promoting savings and debt retirement and the diversion of large amounts of current income to the financing of the war, not only as a means of raising the needed funds, but also as a means of reducing potential inflationary pressure.

As was pointed out in the annual report of this bank for 1942, Federal Reserve policy during the war period has had three principal objectives:

1. The maintenance of adequate reserves in member banks to assure the success of war financing;
2. Maintenance of stability in the Government security market; and
3. Promotion of efforts to counteract wartime inflationary tendencies.

Purchases of Government securities, either in the market, or (in the case of Treasury bills) directly from the banks, were relied upon to an even greater extent than in 1942 to achieve the first of these objectives, and, as in that year, accomplished at the same time the purpose of maintaining a reasonable degree of stability in the Government security market. On the whole, there was less need during 1943 for emphasis on market stabilization, but the need for active intervention to maintain an adequate supply of reserve funds was fully as great, owing to the continued heavy demand for currency and to other factors affecting the reserve position of the banks.

During the early part of the year, market stabilizing operations took the form, most frequently, of sales of securities that were in demand. A generally strong market developed after the First War Loan, and prices of Treasury bonds showed an even greater tendency to rise after the Second War Loan. Under these circumstances, substantial sales, of both taxable and partially tax-exempt Treasury bonds, were effected, in contrast to the situation in the autumn of 1942 when large purchases of bonds for the System account were required to maintain the stability of the market.

As the year advanced, however, it became apparent that, in general, nonbank investors would be able to fill their requirements, as fully as they desired, during the periodic War Loan drives. At the same time banks which had adopted the policy of maintaining a fully invested position soon used up their excess funds, and there was less inclination to pay substantial premiums for bonds between drives. This development was emphasized by market conditions following the Third War Loan. In that drive, a large volume of securities was subscribed for and financed by bank loans in the expectation of realizing substantial profits, such as were obtained after the Second War Loan. Such expectations were disappointed. It became apparent after the Third War Loan that relatively large amounts of securities were overhanging the market, while demands were less pressing than in the earlier months of the year. The market settled down to relative stability at quotations only slightly above par for the new issues, and no large operations by the Reserve System were required, either on the buying or the selling side of the market for most classes of Government securities.

The one exception was in the market for securities of short maturity, in which some excess of supply appeared from time to time—certificates of indebtedness and other securities having only a few months to run to maturity. A principal reason for the development of some unbalance between demand and supply in that section of the market, of course, related to the need of certain banks for additional reserves rather than to a market situation. Some of the buyers who formerly were most active in this section of the market, notably the New York and Chicago banks, became net sellers at times during the latter part of 1943, in order to maintain their reserves at the required levels. Among the strictly market factors then was noted a tendency on the part of some investors to sell their short maturities at small premiums, in order to obtain a slight profit, and to reinvest some of their funds in securities of longer maturity at higher yields. Similar in its general effect on the market, but differing as to purposes, was the selling of short term securities that had been acquired by investing institutions as temporary investments, pending more permanent investments in the longer term securities offered during War Loan drives. Such selling was concentrated in the periods just before War Loan drives and extending into the early days of the drives.

Market demand for short term securities tended to be insufficient to absorb the supply at times when there was concentrated selling for any one of the above reasons, and as a result purchases for the System Open Market Account were largely short term securities. There were, of course, substantial amounts of excess reserves available to the banking system at all times, and it might have been expected that some of these funds would seek investment in short term securities. The excess bank reserves were concentrated, however, in banks which were either not inclined to become fully invested, or which were apparently not interested in investing their funds at the rates obtainable on short term securities.

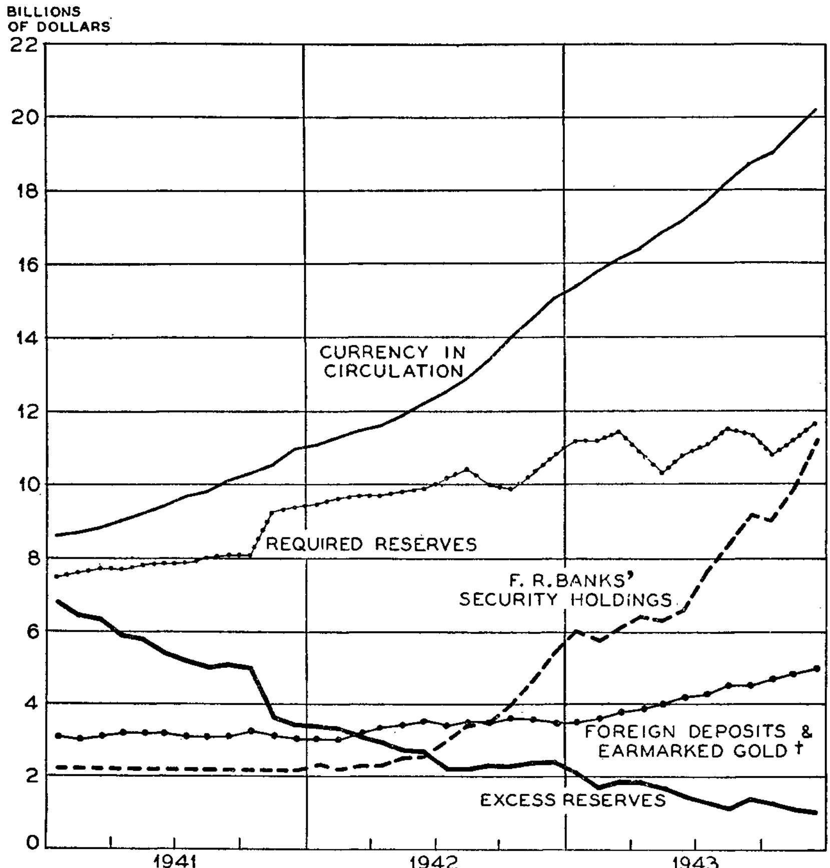
As a result of these developments in the market during the past year, the maturity distribution of securities in Reserve Bank portfolios underwent a substantial change. While the total volume of securities held by Reserve Banks showed an increase of more than 5 billion dollars during the year, holdings of Treasury notes and bonds were reduced and holdings of Treasury bills and, to a smaller extent, certificates of indebtedness showed large increases.

Holdings of Government Securities by All Federal Reserve Banks
(In millions of dollars)

	Dec. 31, 1942	Dec. 31, 1943	Change
Treasury bills	1,010	6,768	+ 5,758
Certificates of indebtedness	1,041	2,467	+ 1,426
Treasury notes	1,324	665	— 659
Treasury bonds	2,777	1,560	— 1,217
Government guaranteed issues	37	83	+ 46
Total	6,189	11,543	+ 5,354

In view of the general objective of promoting the financing of war expenditures as largely as possible outside the banks, System open market operations were limited to the amounts needed to offset, in part, drains on the reserves of member banks. Additions to member bank reserves, which might have tended to induce the banks to compete with other investors for securities offered by the Treasury, were carefully avoided. The actual total of member bank reserves showed a small net reduction for the year, and as there was a moderate increase in the required reserves of the banks, excess reserves were reduced from approximately 2 billion dollars at the end of 1942, to about 1 billion dollars at the end of 1943.

Major Factors Affecting the Reserve Position of Member Banks



† DEPOSITS AND EARMARKED GOLD HELD FOR FOREIGN GOVERNMENTS AND CENTRAL BANKS IN FEDERAL RESERVE BANKS.

Most of the reserve funds supplied to the banks through System security operations were absorbed by the increase of slightly over 5 billion dollars in the amount of currency outstanding. Another factor tending to draw down member bank reserves was the increase in foreign official deposits and earmarked gold in the Reserve Banks, which was mentioned previously in connection with the discussion of the New York City money market situation and is discussed at greater length later in this report.

The discount rates of this bank remained unchanged during the year. The buying rate for Treasury bills continued to be the most effective rate, however, as it afforded banks an opportunity to obtain needed reserves (by selling Treasury bills to the Reserve Banks with an option to repurchase the bills at the same rate—in effect, a borrowing operation) at the low rate of 3/8 per cent, without showing indebtedness on their statements.

Many banks still seemed reluctant to borrow outright from the Reserve Bank, a practice which was common prior to the huge accumulation of excess reserves during the 1930's. But the reluctance to borrow appeared to be gradually weakening as the year progressed. The general tendency was for banks sustaining persistent losses of funds to exhaust their holdings of Treasury bills (or at least to reduce them to some minimum amount which they wished to retain) before resorting either to sales of longer term securities in the market or to borrowing against such securities at the Reserve Banks. After reaching that point, however, the banks could borrow at the Reserve Banks against securities maturing in one year or less at 1/2 per cent and retain the balance of income on the securities, whereas if the securities were sold in the market they, of course, lost any further income from them. Consequently, member banks in increasing numbers, including several of the large New York City banks, after disposing of all or part of their securities yielding less than the 1/2 per cent discount rate, adopted the practice of borrowing at the Reserve Bank to offset temporary losses of funds. The aggregate amount of such borrowings at the Federal Reserve Bank of New York reached, in December, the highest levels in more than ten years, and the number of borrowing banks also was the largest in a number of years. The following table indicates the growth in borrowing by member banks during the year. The figures on aggregate borrowing

Month	Number of borrowing banks		Borrowings	
	Manhattan	Rest of District	Manhattan	Rest of District
January	1	23	$ 3,000,000	$13,520,000
February	2	31	5,500,000	11,355,000
March	3	17	9,500,000	2,525,000
April	4	24	8,100,000	12,866,000
May	3	28	13,750,000	18,703,000
June	4	21	34,950,000	4,838,000
July	4	25	40,200,000	5,745,000
August	7	53	148,000,000	13,411,000
September	8	52	233,600,000	14,570,000
October	4	39	7,800,000	9,575,000
November	7	55	57,100,000	20,700,000
December	10	74	826,400,000	26,040,000

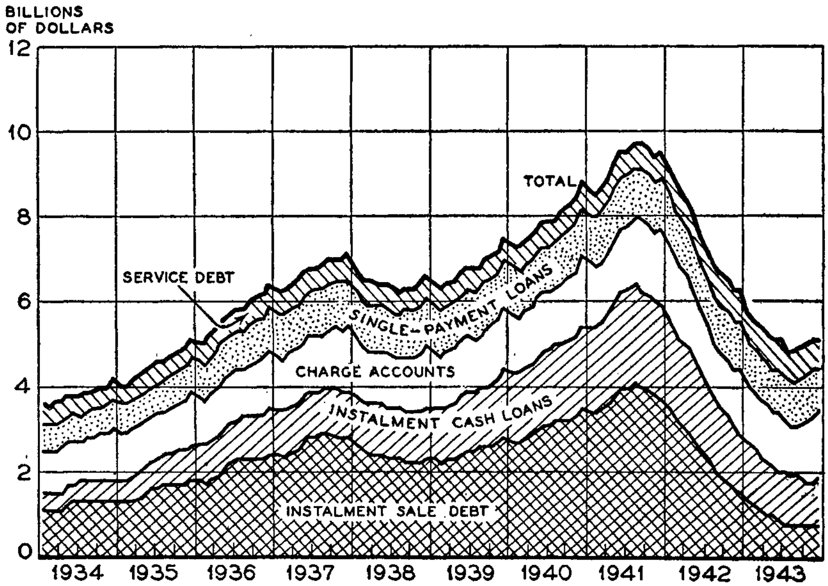
represent the total of all loans to member banks made during each month; the amount outstanding at any given time was, of course, much smaller.

By way of contributing to the attainment of the third objective of Federal Reserve policy—the promotion of efforts to counteract wartime inflationary tendencies—this bank continued its support of measures designed to reduce dependence on bank credit in financing the war and to encourage the diversion of substantial amounts of individual incomes into savings and debt reductions. Until the conclusion of the Second War Loan drive, the President of the Reserve Bank was Chairman of the War Finance Committee in the Second Federal Reserve District, and after the change from district to State organizations, the bank and its staff continued working closely with the State War Finance Committees. The Reserve System consistently opposed all proposals or tendencies which might involve unnecessarily large absorption of Government securities by commercial banks, or unnecessary extensions of bank credit in other forms. Extensions of Federal Reserve credit were limited to amounts actually needed by the banking system to offset losses, in part, of reserves through currency and other demands. Bank financing of speculative subscriptions to Government securities was opposed, and the President of this bank, on September 1, addressed a letter to all banks in the District urging them to adopt lending policies designed to discourage speculative subscriptions to War Loan securities.* The experiences of the Third War Loan drive indicated the need for vigorous action to restrain speculative subscriptions, financed by bank loans, and such action was taken prior to the Fourth War Loan drive in January-February 1944.

Regulation W, issued by the Board of Governors of the Federal Reserve System, to control the terms under which consumer instalment loans may be made by all types of lenders, continued effective, during the past year, in reducing the volume of consumer credit outstanding. In a small way this helped to draw off surplus purchasing power in the hands of consumers. As the diagram on page 30 indicates, in a little over two years the estimated total volume of consumer credit has been reduced from between 9½ and 10 billion dollars to a little more than 5 billion dollars. This reduction was due, in large part, to the suspension or restriction of production of goods the sale of which is commonly financed by instalment credit, but it was also due, in part, to the tightening of credit terms.

* Circular No. 2680.

Estimated Short Term Consumer Debt Outstanding at End of Each Month, Classified by Principal Types of Debt



(Data for 1934-August 1942 are those of the Department of Commerce; for September 1942-December 1943, those of the Board of Governors of the Federal Reserve System.)

Consumer instalment credit extended by commercial banks was reduced at the end of 1943 to less than one-third the volume outstanding at the end of 1941. The greatest curtailment, as might be expected, was in bank holdings of retail automotive paper, but there was nearly as large a reduction in holdings of paper representing instalment financing of other retail transactions. Loans to finance the repair and modernization of homes also were substantially reduced (by nearly two thirds) during 1942 and 1943, reflecting the shortage of materials and labor available for such purposes, as well as the more limited credit terms. The smallest reduction was in personal instalment cash loans, but even in that case the volume of loans held by the banks at the end of 1943 was less than one half of the volume outstanding at the end of 1941. The shrinkage in consumer credit extended by banks in this District showed tendencies quite similar to those shown by data for the country as a whole, although the decline here was of somewhat greater proportions, especially in the case of automotive financing.

Business and Employment in the Second Federal Reserve District

The volume of employment, production, trade, and income of this District increased further during the past year. Although the increases again appear to have been somewhat less than in the country as a whole, they were substantial, and such unemployment as remained at the end of 1942 appears to have been largely eliminated. A preliminary estimate of the amount of income payments received by individuals in this District indicates an increase from approximately $19,700,000,000 in 1942 to about $23,400,000,000 in 1943. This increase of $3,700,000,000, or 19 per cent, is the largest increase of any recent year and compares with an increase of approximately $2,500,000,000, or about 15 per cent in 1942. From 1939 to 1943 the estimated increase in income payments received in this District was approximately $9,500,000,000, or 68 per cent. During the same period income payments for the country as a whole nearly doubled. Despite the substantial increase during the past year, this District's share in the national total appears to have declined slightly further, to less than 17 per cent compared with nearly 20 per cent in 1939.

Employment trends in the larger communities in the District were widely divergent during 1943. Some communities such as New York City, Rochester, the central Hudson River area, and the Binghamton area, where increases in factory employment during the earlier part of the war period had been relatively moderate, showed further increases during 1943. Other communities such as Bridgeport, Connecticut, the Albany-Schenectady-Troy area, and the Buffalo area, where the increases in previous years had been relatively large, showed slight declines, especially in the later months of the year. On the other hand, in the Paterson, New Jersey area, and Syracuse, further sizable increases in employment followed substantial gains in preceding years, while in Elizabeth, Jersey City, and Yonkers, net reductions in employment followed below-average increases previously.

In New York City, where a considerable amount of unemployment persisted well into 1942, a fairly tight labor situation developed by the middle of 1943. The change in the situation here may be attributable in part to inductions of men into the armed forces, in part to the efforts to place more war contracts in areas of labor surplus, and in part to the employment of considerable numbers of residents of New York City in the nearby war industries of Long Island, Northern New Jersey, and Western Connecticut.

Percentage Changes in Factory Employment

	Aug. 1939 to Dec. 1942	Dec. 1942 to Dec. 1943
Buffalo, N. Y.	135	− 1.4
Albany-Schenectady-Troy, N. Y.	132	− 3.1
Bridgeport, Conn.*	118	− 2.8
Paterson, N. J.*	94	+ 14.3
Syracuse, N. Y.	70	+ 22.0
Utica, N. Y.	60	− 7.6
Rochester, N. Y.	48	+ 2.7
Elizabeth, N. J.*	48	− 3.2
Newark, N. J.*	45	− 1.9
Kingston-Newburgh-Poughkeepsie, N. Y.	35	+ 5.2
Yonkers, N. Y.*	33	− 14.7
New York City	29	+ 3.9
Binghamton-Endicott-Johnson City, N. Y.	21	+ 4.9
Jersey City, N. J.*	16	− 3.3

* 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.

Estimates of the civilian population as of November 1, 1943 indicated a further shrinkage in this District of approximately 3.3 per cent compared with May 1, 1942, and about 6.1 per cent compared with April 1, 1940. The most recent decrease appears to have been only slightly greater than in the country as a whole, whereas in the preceding two years this District had shown a shrinkage in civilian population which was not paralleled in the rest of the country. Apparently there was some migration from this District to other areas between 1940 and 1942, which does not appear to have been repeated between 1942 and 1943. In fact, there were indications that the transient population of New York City increased considerably during the past year.

One development which no doubt tended to relieve the situation in a number of communities where labor shortages were developing a year ago was a substantial curtailment of construction work. Reports on construction contracts awarded during 1943 showed large shrinkages from 1942 in all of the principal areas of the District.

Agriculture in the Second Federal Reserve District participated in the further substantial increase in farm income which was reported for the country as a whole during 1943. Reports of the United States Bureau of Agricultural Economics indicate that the cash income from farm marketings in New York State, which during the earlier years of the war period had lagged considerably behind the increase for the

United States, showed an increase in 1943 proportionately as large as for the whole country. The estimate for 1943 was approximately double that for the year 1939. The increase in farm income during this period was considerably less than the increase in aggregate wage payments to factory workers (which reflect the combined effects of increased employment and longer working hours, as well as higher wage rates), but undoubtedly was considerably greater than the increases in the income of many other groups in the District.

Retail trade in this District continued to increase in most areas, the principal exceptions being Bridgeport, where large increases had been reported in the preceding three years, and Newark, where there had previously been no unusual expansion of trade. For the District as a whole, the rate of increase continued to fall considerably short of a number of other districts and again was less for the country as a whole.

The same factors that have tended to limit the growth of employment, incomes, and trade in this District relative to other areas of the country during the war years, should tend to make the problems incident to reconversion to peacetime activities somewhat less difficult than in those areas where more radical changes have occurred. Among these factors are the relative importance of consumers' goods industries, distributive trades, and other nonwar activities, and the relatively small in-migration of workers from other areas, with a few notable exceptions, such as the Buffalo and Bridgeport areas, and to a smaller extent Northern New Jersey. Presumably the most difficult problems of readjustment in the postwar period will be in the large aircraft and shipbuilding industries of the District. Aside from the problem of reconversion of war industries, however, the postwar situation in New York City, as the largest distributing center of the country (including foreign trade as well as domestic distribution), will depend heavily upon the degree of success in meeting postwar reconversion problems in other parts of the country and upon the extent of the recovery in foreign trade.

Postwar International Monetary Cooperation

The British and American Treasuries each made public on April 7, 1943, a draft project of international currency stabilization.* The plans contemplate concerted action by the United Nations in making available to one another their respective currencies for the purpose of meeting temporary deficits in the settlement of international transactions, and international consultation prior to changes in currency values when such changes appear to be unavoidable. The United States Treasury, in releasing the plan drafted by its technical experts, emphasized the urgency of arriving at an international agreement upon the terms of this or some similar plan before the end of the present conflict, and stated that "the provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views." The proposal was for the creation of an International Stabilization Fund of the United and Associated Nations.

Following exploratory discussions between its experts and those of the other United Nations, the United States Treasury released on August 20 a revised draft of the proposed plan for an international stabilization fund.† The new draft, it was pointed out, was still preliminary and did not necessarily reflect the official views of any of the United Nations. As contemplated in the revised draft, the resources of the Stabilization Fund would be 5 billion dollars or more, to be subscribed by the member countries under a system of quotas based on the size of their gold and exchange holdings, their national income, and the magnitude of fluctuations in their balance of payments. Of each quota 50 per cent (or less in the case of gold-poor countries) would be in gold, the rest in local currencies and securities. The Fund would be administered by a Board of Directors (consisting of a Director and an alternate from each member country), an Executive Committee, and a Managing Director. Voting power would be distributed roughly in proportion to the quotas.

The British proposal was in many ways similar to that of the American experts. It called for an International Clearing Union, based on an international accounting unit called the "bancor", which would be defined in terms of gold and treated as the equivalent of gold. The

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* The full text of both plans was published in the Federal Reserve Bulletin, June 1943, pp. 501-21.

† For the text of the revised Plan, see the Federal Reserve Bulletin, September 1943, pp. 827-40.

Union would begin its functions without capital or cash. Countries which had a favorable balance resulting from their exchange of goods and services with the rest of the world, would be credited with that balance at the Clearing Union, while those buying more of the world's goods and services than they sold would have a debit balance or overdraft in bancor at the Union. To each member state would be assigned a quota determining the extent of its participation in the credit facilities of the Union. The initial quotas would be fixed at 75 per cent of the sum of each country's exports and imports on the average of the years 1936-38. The Union would be administered by a Governing Board appointed by the member governments. Voting would, in general, be in proportion to quotas.

The proposals of the British and American Treasury experts have aroused widespread discussion among bankers and economists, here and abroad, but have awakened perhaps less interest on the part of the general public than the importance of the problem warrants. The general aims of the two international currency plans have met with wide acceptance in the limited circles in which they have been discussed. For the most part, there is agreement that it would be highly desirable to have international collaboration for the purpose of stabilizing the exchanges, and facilitating the restoration and growth of international trade, thus helping to raise the living standards of all peoples. At the same time, questions have been raised as to the content and timing of the specific proposals.

In America there has been criticism of the British proposal because of the potentially large commitments of the United States. British technical opinion, on the other hand, in the main considers that the generous scope of the British plan is one of its principal merits. It is suggested that the danger of a renewed period of contraction and depression such as the world experienced in the thirties can be successfully countered only by a bold expansionist scheme of this sort which will ensure the ability of all countries to fill their urgent postwar import requirements and will thus maintain an adequate level of world trade and employment.

As seen by British and perhaps other foreign observers, the problem of postwar international financial equilibrium is primarily one of inducing the United States to make more dollars available through the purchase of more foreign goods and services. It is widely felt abroad that the

United States, during the interwar period, insisted upon selling more goods and services to the rest of the world than it was willing to buy from the rest of the world. It is true that there was a sizable American merchandise export surplus during the interwar period. However, the figures of our balance of trade must be considered in connection with other items of our current balance of payments; an American export surplus does not necessarily mean a shortage of dollars for other countries, since the dollars which the rest of the world needs may be provided in a number of other ways—for example, through American expenditures abroad in the form of tourist travel, shipping costs, silver purchases, and emigrant and other remittances, all of which constitute direct or indirect purchases of foreign goods and services. Taking these additional items into account, analysis of a study issued during the latter part of the year by the United States Department of Commerce* shows that during the 16-year period 1922-37 (the other interwar years being omitted as abnormal), the United States' purchases of foreign goods and services *exceeded* its sales of goods and services abroad by about 2.5 billion dollars. The residue of truth in foreign beliefs about our international purchases and sales of goods and services is that our foreign purchases did not exceed our sales abroad by a sufficient margin to offset the outside world's need of dollars for interest and dividend payments and government debt transfers. During the twenties these latter items were offset mainly by an extensive movement of long term capital from this country to foreign countries. During the years 1930-37, inclusive, our foreign lending largely ceased, but our excess purchases of foreign goods and services, calculated in the manner stated above, amounted to nearly 80 per cent of the interest, dividend, and government transfer items payable to us. It was the heavy flow of foreign and American capital from foreign countries to the United States during this period, due in large part to political conditions abroad, which aggravated our balance of payments position and resulted in the great movement of gold to this country.

The belief has also been widely held abroad that the United States, during the interwar period, "hoarded" too much of the world's gold, in the sense that it did not permit gold that came here to have the expansionary effects on the American banking and economic system which it was claimed it should have had if the gold standard were to function

* "The United States in the World Economy", published by the Bureau of Foreign and Domestic Commerce, Washington, 1943.

successfully. With respect to this second point (which is the reverse side of the first), the facts also are at variance with the assumptions. Not only was there a great expansion of credit in this country during the twenties, but also the statistics of actual gold stocks and movements do not support the claim of excessive hoarding here. Thus, for example, in the ten-year period 1919-28, the average net annual gold inflow into this country was only 77 million dollars, while during the same decade the declared gold reserves of countries other than the United States rose from 4.2 to over 6 billion dollars. Even after the great inflow of gold since 1933, the published gold stocks of the world, excluding the United States, amount to nearly 11 billion dollars, and total stocks (disclosed and undisclosed) held outside the United States are estimated at not much less than 13 billion dollars, or (measured in dollars) almost twice the total gold reserves of the world (including the United States) at the end of 1918.

Any realistic financial and economic policy after the war must take these facts into account. It is true that an unusual demand for dollars during the period of transition from war to peace is not unlikely, but it should not be forgotten that many foreign countries still have, or have acquired during the war period, substantial holdings of dollars as well as gold with which to meet their needs. Unless a radically different situation prevails after the transition than before the war, it would appear unlikely that the demand for dollar credits through the proposed funds would, in the long run, reach such proportions as have been feared by some American critics of the British plan, or as are anticipated by some foreign critics of the American plan.

This approach to the problem has led to the suggestion that the proposed plans have not made a clear distinction between the requirements of the postwar transition period and the more permanent and normal requirements of the years which will follow. It has been argued that the needs of the two periods are different in both character and scope. During the transition period, the war-stricken areas will be impoverished, suffering from the disruption of their industrial and transportation systems, and unable to feed, clothe, and shelter their peoples adequately, much less export substantial quantities of goods. Such areas will have a large excess of imports over exports, and some countries will be unable to pay for everything they need. These extraordinary needs, it has been suggested, should be financed, not by a currency stabilization fund or union, but by special machinery such as lend-lease, relief and rehabilitation agencies, or, perhaps, by direct loans. Should the resources of the fund or union become frozen by financing such needs, during the transition period, it is feared the institution would be unable to serve its primary function in the years which follow, without an undesirable refinancing.

Objections to the early emphasis on a mechanism for achieving exchange stability have also been raised by those who believe that international monetary stability is dependent primarily upon maintenance of a state of economic health in the leading commercial and industrial nations; that if this could be done, there would be less difficulty in maintaining exchange stability and a reasonable state of economic well-being in the world. An international plan aiming at postwar external stability has been held to be premature so long as little is known about the prospect and plans for maintenance of postwar internal stability in the principal countries at a high level of production, income, and employment.

In similar vein, it has been suggested that any international financial mechanism of the kind proposed presupposes a specific political and economic environment. According to this viewpoint, the first step toward international monetary stability should be a decision on the pattern of political organization of the postwar world, following which international agreements on trade policies, commodity price stabilization, international investments, and the like might be reached, and finally a financial mechanism devised which would be suitably adapted to the economic policies already agreed upon.

On more technical grounds, some observers do not believe that it will be possible to fix suitable exchange rates simultaneously for a great number of countries at the end of the war. According to this thesis, it would be better to try to fix rates at the outset only for those few countries, the value of whose currencies, at the time, will be most important to international trade and finance, leaving the other nations to put their affairs in order and to ascertain the correct value of their currencies through a more liberal application of trial and error before they join in a plan of international currency stabilization and financial support.

These, and other suggestions and criticisms, have no doubt received the attention of the Treasury experts who are working on the proposed plans. The plans are still under discussion and it has been reported that further revisions are being made in the light of continued study.

Proposed Bank for Reconstruction and Development

On November 24 the United States Treasury released the text of a proposal for a Bank for Reconstruction and Development of the United and Associated Nations, which had been drafted by Treasury experts and transmitted to the Finance Ministers of the United Nations for their consideration.* In the opinion of the sponsors of the bank plan, the flow of private long term funds to capital-poor countries after the war is likely to be inadequate unless a bank of this nature is set up. The Bank would assist in reconstructing and developing member countries, raising their productivity, and promoting the growth of international trade. It would have an authorized capital of 10 billion dollars, subscribed by the governments which were members of the International Stabilization Fund, in accordance with a formula under which the United States would subscribe approximately one third of the total. The capital would be 20 per cent paid up at the start, partly in gold but mostly in local currencies.

The Bank's powers would include guaranteeing, participating in, and making loans to member governments and their agencies, and also, with the guarantee of member governments, to political subdivisions and private enterprises. Loans could be made, however, only when the funds were unobtainable from other sources upon reasonable terms. The Bank would also be empowered to encourage international investments in equity securities by arranging for government guarantees of the transfer of earnings from such investments, and by participating in such investments up to 10 per cent of its paid-up capital. The provisions of the plan as to management are similar to those of the proposed International Stabilization Fund.

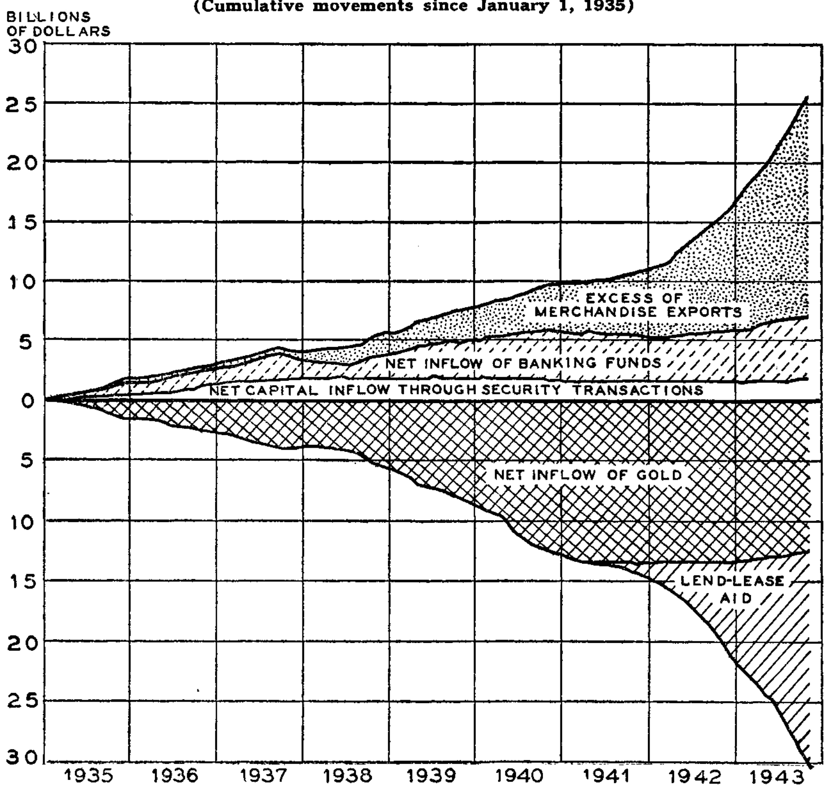
* The text is reproduced in the Federal Reserve Bulletin, January 1944, pp. 37-41.

Balance of Payments of the United States; Capital and Gold Movements

Balance of Payments

Fundamental shifts in the balance of payments between the United States and foreign countries, evident in the early years of the war, were virtually completed in 1943. In that year the various items making up the balance of payments began to conform to a well defined wartime pattern. Our commercial and financial transactions with foreign countries may be said to be in the second and perhaps final phase of their wartime developments. The shifts brought about by the war can be seen in the accompanying diagram, which shows the cumulative movement since 1935 in the principal factors providing dollars or their equivalent to foreigners, and the chief ways in which dollars or their equivalent were used by foreigners.

Principal Items in the United States Balance of Payments with Foreign Countries*
(Cumulative movements since January 1, 1935)



* Areas above the zero line represent three of the principal sources of demand for dollars by foreign countries; areas below the zero line represent the two principal methods by which dollars have been obtained.

Reviewing our immediate prewar experience, the diagram shows that, except for a period between October 1937 and July 1938, the dominant factor in the balance of payments was a persistent inflow of capital from foreign countries. This was in large part the result, first, of monetary uncertainties abroad and, later, of the series of political crises which culminated in the outbreak of hostilities. From the end of 1934 through August 1939, this inward transfer of capital, according to reported data, amounted to somewhat over $4,900,000,000, and, when unrecorded items are considered, the total movement was considerably larger. During the same period our merchandise exports exceeded imports by over $2,000,000,000, only about one half of which was offset by net payments to foreigners for services and other "current account" items, not shown in the diagram. The capital inflow and the "current account" items (including trade) were offset in the balance of payments by a net gain of gold from abroad, amounting to about $7,500,000,000 between the end of 1934 and the start of the war in Europe.

The first phase of the war transition began with the prompt application in 1939 of foreign exchange regulations in most parts of the world where such controls had not previously been adopted. This resulted in the elimination of virtually all private international transfers of capital and gold not essential to the war effort, and the concentration of foreign exchange and gold holdings in the hands of various monetary authorities. The effect of the war on our foreign trade, in this period, was a further expansion in the already large export surplus, as the trade balance of belligerents became an expression of war needs rather than of economic exchanges of goods.

Even after the beginning of the war in 1939, however, it is significant to note that gold movements continued to perform many of their traditional functions. Since the British Empire and France undertook to finance their overseas purchases of war supplies through the sale to the United States Treasury of their gold stocks, there was for a time a continuation, at an accelerated rate, of the inflow of gold from abroad which had been in evidence in the prewar years. Gold, therefore, as in peacetime, was acting as a "balancing" item in the balance of payments. The liquidation of prewar foreign gold reserves continued through the early part of 1941 and between the end of August 1939 and the end of April 1941 we experienced a further net "gain" of gold from abroad aggregating $5,600,000,000, or at a monthly average rate of $280,000,000.

Because of these heavy gold sales, which at times were in excess of foreign dollar requirements, foreigners did not, on balance, draw down their dollar assets until early 1941; foreign funds in this country, in fact, showed a rather sizable increase during 1940. With the tapering off of gold sales, however, foreign-owned dollar assets were heavily drawn upon and in the thirteen months ended February 1942, there was a recorded net reduction in foreign funds in this country amounting to $625,500,000. The greater part of this "outflow" of foreign funds represented the liquidation of short term dollar assets and American securities requisitioned from private holders by the British Government. Counterbalancing these gold and capital movements, there was a correspondingly heavy, "favorable" balance in our trade with foreign countries; from the outbreak of war to the end of 1941 merchandise exports (excluding lend-lease) exceeded imports by $2,859,000,000.

Effect of Lend-Lease

Although there is no precise division between the two phases in our wartime balance of payments experience, the second or current phase can be considered to have begun with the passage of the Lend-Lease Act in March 1941. The actual shipment of goods under the lead-lease program did not, in fact, reach sizable proportions until several months later, but the enactment of this legislation provided the means whereby nations whose defense was common to ours could receive war supplies without the need of further liquidation of their depleted gold and dollar resources. It therefore became possible for the "favorable" trade balance to continue and even increase, without a corresponding movement of gold, capital, or both. Exports considered vital to the war effort were limited only by the practical restrictions of production and shipping.

The profound effect of the lend-lease program on our balance of payments can be seen from the chart on page 40. In the early part of 1942, our net exports began to move rapidly upward and the movement continued at an accelerated pace through 1943. During 1942 and 1943 United States exports reached the unprecedented amount of $20,752,000,000 and exceeded imports by $14,645,000,000. The bulk ($14,837,000,000) of the total exports for the period, however, represented lend-lease goods and therefore required no immediate settlement in balance of payment terms. As a result, the inflow of gold from abroad, which previously had been the principal factor supplying the dollars needed to pay for foreign purchases of our goods, ceased.

From the beginning of the lend-lease program through December 1943 we extended aid totaling $19,986,100,000, including services rendered as well as goods transferred. Of this amount, more than half, or $11,733,000,000, was furnished during 1943. At the same time we have been receiving considerable amounts of ''reverse lend-lease'' from those countries to which we have been supplying goods and services. Although no comprehensive figures have been published, it has been reported that the British Commonwealth of Nations alone had made expenditures of about $2,094,900,000 for ''reverse lend-lease'' aid up to December 31, 1943. About $1,526,200,000 of this total was expended by the United Kingdom and $568,700,000 by Australia, New Zealand, and India. By the beginning of the year 1944, outlays by the British Commonwealth for ''reverse lend-lease'' to the United States were at an annual rate approaching $2,000,000,000.

The lend-lease program has not been the only factor bringing to a halt the drain on foreign holdings of dollar exchange and gold. The Government's buying program of vital raw materials in Latin American and neutral European countries, either for shipment to the United States or for storage abroad, has placed relatively large amounts of dollar funds in the hands of foreigners. Not only has there been a substantial increase in our imports, but, as a result of the restrictions on the production of civilian goods here and limited shipping capacity for such goods, there has also been an enforced reduction in our exports to those countries now benefiting from our buying abroad. The movement of American troops to foreign countries and the outlays of these forces for goods and services not received under ''reverse lend-lease'' also have been an important source of dollar exchange to the monetary authorities of the United and Associated Nations.

Recent Capital Movements

The combined effect of all these factors, making up the second stage of transition from peace to war, was, first, a curtailment in the depletion of foreign-owned gold and dollars as the lend-lease program got under way and, then, a gradual building up of foreign funds as our foreign spending began to reach sizable proportions. The net acquisition of dollar exchange by foreigners began in February 1942 and has since continued at an increasing rate. According to recorded data, the net amount of foreign funds held in this country rose by $2,037,900,000 between the middle of February 1942 and the end of November 1943, the last date for which figures are published. Of this "inflow," $1,238,600,000 occurred during the first eleven months of 1943.

Most of the "inflow" during 1943, and in fact since February 1942, has represented a building up of short term dollar assets by foreign central banks and governments. Since February 1942 foreign official dollar assets in this country, despite large purchases of gold here, have increased $1,583,900,000; of this increase $1,038,000,000 took place during 1943. As a result, official holdings of short term dollar funds as of November 1943 amounted to $3,087,600,000 — a level greatly exceeding that which prevailed at the outbreak of the war.

Under existing conditions and regulations, international transfers of short term capital for private foreign account have, in general, been negligible in recent years. In the first eleven months of 1943, the net amount of banking funds held in this country for such account rose by $71,200,000. The small amount of these transactions, of course, has little or no long-run significance, inasmuch as, under the systems of exchange control in force throughout most of the world, dollar exchange held for private account is kept at the minimum considered necessary for the normal conduct of business, and new acquisitions of dollars are usually turned over to the control authorities of the countries concerned.

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

		In banking funds			Through security transactions			
	Total	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	+ 604	+ 561	+ 358	+ 203	+ 43	+ 47	— 7	+ 3
1943 through Nov.	+1,239	+1,109	+ 1,038	+ 71	+ 130	+ 37	+ 82	+ 11
1935—Nov. 1943, inclusive	+7,074	+5,318	+ 2,450	+2,868	+1,756	+ 712	+ 930	+ 114

(a) Since July 1942, includes funds held for account of foreign central banks, 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.

Foreign transactions in long term securities likewise were on a small scale during 1943. In the elapsed portion of the year, through November, a net amount of $36,800,000 of domestic securities was purchased for foreign account. This represented largely purchases of long term United States Treasury securities for official foreign account. As has been the case in most previous years, foreigners continued to retire, either through redemption or repurchase prior to redemption, their securities outstanding in this market. From the end of 1942 through the end of November 1943, recorded net purchases of foreign securities by foreigners amounted to $81,600,000, most of which appeared to have reflected the repatriation of the dollar bonds of the Western Hemisphere countries. These net purchases extended to $929,800,000 the repatriation of foreign securities since the beginning of 1935, when the present reporting system began.

Gold Movements

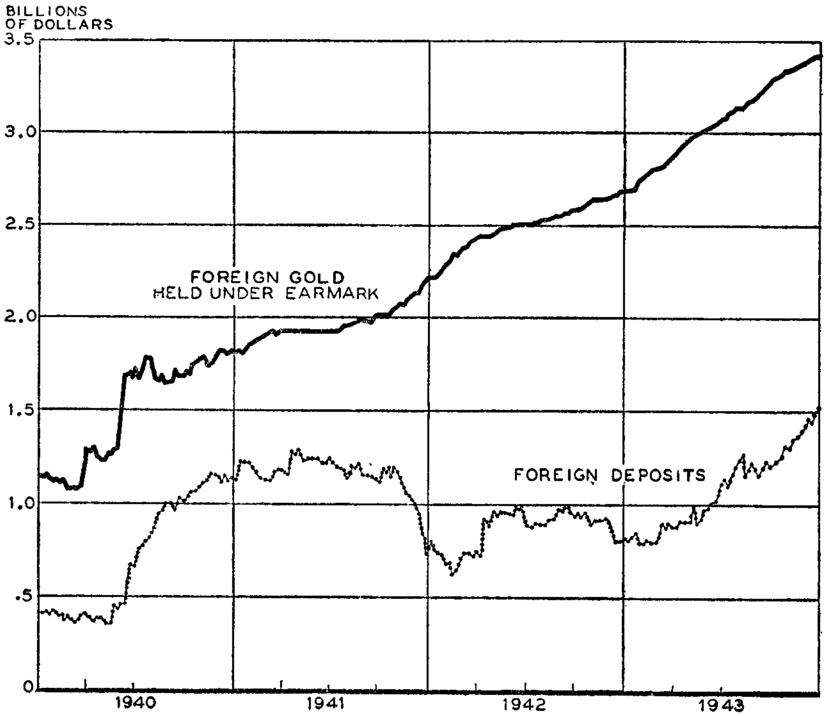
The magnitude of recent accumulations of dollar exchange by foreign monetary authorities cannot be fully appreciated without taking into account recent gold movements. During the period from February 1942 to November 1943, when banking assets held in this country for foreign official account rose by $1,583,900,000, foreign central banks and governments also increased the total amount of gold earmarked for their account at this bank by $1,027,264,000. There has been a further increase in gold earmarkings since the end of last November and the amount held at the end of 1943 — $3,477,400,000 — was the largest on record and about $1,560,600,000 above the level of June 1941, when the current program of gold earmarking began. As the gold earmarkings, together with relatively small exports of gold, were only partly offset by domestic production and imports, the United States monetary gold stock, which reached a peak of $22,800,000,000 in November 1941, had been reduced to $21,900,000,000 by the end of 1943. At that level, however, it was still more than $5,000,000,000 greater than at the beginning of the war in Europe.

Without identifying the principal buyers of gold, the general statement may be made that they had one characteristic in common: namely, they have acquired substantial amounts of dollar exchange in recent years following a period of severe strain on their gold and dollar reserves in the years leading up to, or immediately after, the start of the war.

As related to our international balance of payments, this foreign accumulation of gold is significant in two respects. In the first place, the gold purchases indicate a recouping of foreign gold reserves which had been depleted in the prewar years. The redistribution of the world's gold supply now under way — although still on a relatively small scale — should aid in establishing and maintaining postwar exchange stability. Secondly, the foreign acquisitions of gold demonstrate that, despite the many changes the war has made in this country's financial and commercial relations with other nations, gold continues to play a role as a means of settling international balances. Whereas, before the inauguration of the lend-lease program gold flowed to this country, we are now losing gold as a result, in part, of the excess of our imports over cash exports.

The esteem in which gold is still held in many countries has been evidenced not only by the monetary demand for gold in recent years, but also by a public demand in those countries where a more or less unrestricted bullion market still exists. This has been particularly true in

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



India and in the Middle Eastern countries, where large allied expenditures and a limited supply of commodities have made possible a considerable hoarding demand for gold. Indicative of this demand, the price of gold in the Bombay bullion market, which rose steadily during 1942, turned sharply upward in April 1943 and by the early part of May had reached a record high, equivalent to about $78 per ounce. A similar movement has occurred in Egypt and prices in the Alexandria market have been roughly comparable with those quoted in Bombay. At these high levels, gold was selling at well over twice the $35 an ounce price quoted by the United States Treasury. Such wide discrepancies in price between markets can, of course, exist only because of the present restrictions throughout the world on dealings in, and the international movement of, gold.

The introduction by the Indian Government of anti-inflationary measures, including restrictions on forward dealings in gold and a prohibition against loans on gold, has been instrumental in depressing the Bombay gold price. But by the end of last November, gold bullion was still being traded in the Bombay market at the equivalent of about $62.50 per ounce. As a further means of combating inflation, official sales of gold reportedly have been made on a large scale in the Indian market and in markets of the Middle East. These sales undoubtedly have also tended to reduce the price of gold in Bombay.

Foreign Exchanges

The foreign exchange markets continued inactive during 1943 and any resumption of dealings on a more or less unrestricted basis must await at least the partial removal of the wartime controls on international finance and commerce. These restrictions at present include not only the direct foreign exchange controls in effect here and abroad, but also the various other governmental regulations covering trade and finance, which have indirectly restricted exchange transactions for private account. Governmental controls over trade and shipping, together with the curtailment of the production of civilian goods, have been instrumental in placing a large share of foreign trade on a government-to-government basis.

With but few exceptions, foreign exchange rates remained stable during 1943, although under the present conditions this stability may reflect simply the efficiency of the controls. Few changes were made in the official rates quoted by the various monetary authorities. The official sterling rates continued at $4.03½ for the purchase of dollars and $4.02½ for the sale of dollars. As a means of simplifying the management of sterling accounts held by residents of the United States, on February 2, 1943, all such sterling area and "free" (old) accounts were converted into United States registered accounts, first established in July 1940. This amalgamation had the effect of extending to the sterling area and "free" accounts the guarantee of convertibility into dollars at the official rate. Official dollar rates for other sterling area currencies also remained at previously prevailing levels. No large changes were made in the official dollar rates of the Latin American exchanges.

In the New York market, quotations for those currencies still traded reflected closely the various official rates. In the "unofficial" market for the Canadian dollar, the rates moved within a fairly narrow range around the official level. Among the Latin American exchanges, the free rate for the Argentine peso which had held somewhat below $0.2400 since the early part of 1941 presumably through official intervention in the Buenos Aires free market, was allowed by the Argentine authorities to appreciate at the beginning of 1943 and by mid-April had risen to slightly above $0.2500, the highest level since before the start of the war in 1939. On April 19 the rate at which the Argentine central bank buys dollar exchange derived from "nonregular" Argentine exports to the United States was changed to 397.02 pesos per $100, equivalent to about $0.2519 per peso (compared with about $0.2370 previously).

The widest fluctuations in New York foreign exchange rates during 1943 occurred in the so-called "free" rate for Swiss francs. This rate is to be distinguished from the so-called official rate of $0.2331, at which Swiss banks supply Swiss francs against dollars for certain specified purposes. In view of the extremely limited supply of Swiss francs available for other purposes, the "free" rate is unduly sensitive to relatively small changes in demand and supply, and the resultant, erratic movements in the rate have little or no economic significance. During 1943 the "free" rate fluctuated between $0.2450 on February 1 and a high of $0.4435 in mid-December. This appreciation in the rate in the latter part of the year appears to have been due largely to a tightening of the Swiss National Bank's policy with respect to the absorption of the dollar proceeds of the exports of Swiss watches.

Foreign Relations

Deposits held by the Federal Reserve Banks for foreign central banks and governments rose to successive, high levels during most of 1943, and as of the end of the year totaled $1,360,000,000, an increase of $568,000,000 over the level of a year earlier. This increase occurred despite the continuation of the sizable conversion of dollar balances into earmarked gold which has been under way for several years. The total amount of gold held under earmark for foreign account rose $803,000,000 during the year to a new high of $3,477,000,000. Furthermore, foreign monetary authorities continued to show considerable interest in investing some of their holdings of dollars in United States Government securities, as evidenced by an increase of $352,000,000 in such holdings at this bank, which at the end of the year amounted to $833,000,000. All funds, including gold, held by the Reserve Banks for foreign account at the close of 1943 aggregated $5,693,000,000, compared with $3,969,000,000 at the end of 1942 and $1,515,000,000 immediately prior to the outbreak of the war.

Six new foreign accounts were opened on the books of the Federal Reserve Bank of New York during the year. Two of these accounts were opened in this bank's capacity as fiscal agent of the United States, while the other four were opened by this bank on its own behalf and that of the other Reserve Banks. This bank also established three new foreign currency accounts with central banks abroad — two in its capacity as fiscal agent of the United States and the other for its own account and that of other Reserve Banks. As a result of United States Government operations abroad in connection with the war, there was a considerable increase in the volume of foreign transactions effected by this bank, acting on behalf of the Treasury Department and several Government agencies.

Two short term loans, aggregating $2,500,000 and secured by gold earmarked at this bank, were made to a Latin American central bank in January 1943 and were repaid the following April. Two similar loans made to the same central bank in the latter part of 1942 were also repaid during the year under review, so that no loans to foreign central banks were outstanding as of the end of 1943.

Developments in Operations of the Bank

There was a further substantial increase in the volume of operations of the bank during 1943, especially in its work related to war expenditures and the financing of such expenditures. In order to handle this greatly increased volume of work, it has been necessary to increase the size of the bank's staff to nearly double that of three years ago. At the end of 1943, the total number of employees, including the Buffalo Branch, was 4,632, compared with 2,482 at the end of 1940. Between 40 and 45 per cent of all employees of the bank are now engaged directly in operations which are carried on as fiscal agent of the Federal Government and its agencies.

The Government Bond Department and its affiliated Savings Bond Redemption Department continued to be among those showing the greatest expansion. At the end of 1943, these departments had more than 1,000 regular employees and, in addition, were forced to borrow considerable numbers of employees from other departments from time to time to handle the load at peak periods. The large increase in the work of these departments is reflected in the table at the end of this section, in which it is shown that the total number of Government securities issued, redeemed, and exchanged during the past year was in excess of 42,000,000, compared with slightly less than 20,000,000 in 1942. The dollar amount represented by these securities totaled more than $112,000,000,000 in 1943, compared with approximately $47,000,000,000 in 1942. The greater part of the increase in the number of securities handled was in Savings bonds; the number of Savings bonds issued by this bank and supplied to other issuing agents in the District increased from about 17,000,000 in 1942 to 32,000,000 in 1943, and there was also a substantial increase in the number of redemptions of Savings bonds accompanying the rapid increase in the number outstanding. On the other hand, most of the increase in dollar volume was in other types of securities, including Treasury bills, certificates of indebtedness, notes and bonds, and Savings notes.

In the handling of Government checks, there was a growth of such proportions that it became advisable to set up, in June 1943, a separate department for the payment, recording, and forwarding of such checks. As the table indicates, the number of Government checks handled rose from somewhat more than 22,000,000 in 1942 to about 61,500,000 in 1943. A large part of the increase was due to the fact that, beginning in May, army dependency benefit allowance checks* for the whole country were made payable at this bank. The number of such checks handled by the end of 1943 was close to 30,000,000. Army allotment checks** also were

* These checks represent payments by the Government to dependents of men in the Army, to supplement allotments made by the men themselves.

** Allotments of part of their pay, made by men in the Army to their dependents.

made payable at this bank from May to September, after which they were made payable at the Federal Reserve Bank of Philadelphia. In addition the Government Check Department handles checks issued by the Brooklyn Navy Yard and by regional disbursing officers of the Government, and clears Government checks presented in this District for payment at other Federal Reserve Banks.

Another new operation, during 1943, was the clearing of "ration checks" drawn on "ration bank accounts" at commercial banks. Commencing in January, retailers and wholesalers began depositing ration coupons in special bank accounts against which "ration checks" could be drawn to "pay" for rationed commodities, and these checks, like ordinary dollar checks, were cleared through the Federal Reserve Banks. During 1943 nearly 5,000,000 checks drawn on such accounts were cleared through this bank.

Still another new operation was the qualification of banks in this District as Depositaries for Withheld Taxes. Under the Current Tax Payment Act of 1943 employers withholding more than $100 a month for the income taxes of their employees are required to deposit the amounts withheld in a depositary bank once each month, or more frequently if they wish. The depositary bank credits the amount so deposited to an account in the name of the Federal Reserve Bank as fiscal agent of the United States and issues a depositary receipt to the employer. When the balance in the account reaches $5,000, the balance in the account must be remitted to the Federal Reserve Bank for the account of the Treasurer of the United States. Remittances must be made in any case on the last business day of each month. By the end of the year, 925 banks had been qualified as such depositaries in this Federal Reserve District.

The varied operations conducted for the Reconstruction Finance Corporation and its subsidiaries continued to increase in volume in 1943. During the year the R.F.C. Custody Department, which handles these transactions, made more than 450,000 disbursements for the Corporation and its subsidiaries. Included in this total were numerous payments for transactions conducted by the Commodity Credit Corporation, the Defense Supplies Corporation, and the Metals Reserve Company, as well as for the Reconstruction Finance Corporation itself and other of its subsidiaries. The Department also undertook the preparation and maintenance of complete inventory records of the machinery and equipment owned by the Defense Plant Corporation and used by the lessees of Government owned war plants in this District. The number of employees of this Department increased to 330 at the end of 1943, compared with less than 100 at the end of 1941.

The work of the Foreign Funds Control Department continued in large volume during the past year, but did not involve as many new and difficult problems as in the preceding two years. Consequently, it was found possible to reduce the number of employees of the Department materially. Nearly 100,000 applications for licenses to conduct trans-

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

	1943	1942
Number of Pieces Handled*		
Bills discounted:		
Applications	940	585
Notes discounted	940	585
Industrial advances:		
Notes discounted	3	1
Commitments to make industrial advances	0	2
Currency received and counted	759,332,000	735,507,000
Coin received and counted	1,441,589,000	1,325,127,000
Checks handled:		
United States Government checks	61,568,000	22,292,000
All other	224,249,000	214,308,000
Collection items handled:		
United States Government coupons paid**	5,466,000	4,799,000
All other	1,310,000	1,730,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Government direct obligations	42,090,000	19,776,000
All other	182,000	242,000
Wire transfers of funds	158,000	165,000
Amounts Handled		
Bills discounted	$642,816,000	$106,361,000
Industrial advances:		
Notes discounted	101,000	10,000
Commitments to make industrial advances	0	145,000
Currency received and counted	4,439,525,000	3,804,765,000
Coin received and counted	138,784,000	129,409,000
Checks handled:		
United States Government checks	32,483,158,000	19,193,691,000
All other	139,355,654,000	105,717,029,000
Collection items handled:		
United States Government coupons paid**	932,461,000	703,483,000
All other	2,407,785,000	1,711,466,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Government direct obligations	112,431,087,000	46,726,911,000
All other	1,753,839,000	2,567,823,000
Wire transfers of funds	62,527,138,000	42,120.814,000

* 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.

actions against blocked accounts were received during the year, and in addition, nearly 200,000 reports of transactions under license were received and checked. Probably the most important new development in the work of this Department during the year was the issuance on June 1 by the Treasury Department of Special Regulation No. 1 requiring that reports be filed showing all property in foreign countries (including foreign dollar securities) in which any person subject to the jurisdiction of the United States had an interest on May 31, 1943. During the year more than 76,000 of these reports were received by the Federal Reserve Bank of New York for transmittal to the Treasury Department.

In addition to work performed as fiscal agent of the United States, there were moderate increases in the volume of other operations conducted by the bank. Currency payments to meet public demands continued in unusually large volume, and the volume of currency sorted and counted, and prepared either for reissue or retirement, following its return from member and nonmember banks, was somewhat greater than in 1942. The check clearing operations of the bank (other than the handling of Government checks) increased moderately in number of items handled and substantially in dollar amount.

The Credit Department was steadily occupied during the year with the handling of applications of war contractors, through commercial banks, for loans to finance their operations, such loans to be partially guaranteed by the Army, Navy, or Maritime Commission. In addition, there was a moderate increase in member bank borrowing, previously discussed, and the Department continued its activities in the enforcement of Regulation "W" (consumer credit regulation).

Membership Changes in 1943

During the past year there has been a noticeable revival of interest in membership in the Federal Reserve System. As the following table shows, 17 State banks and trust companies in this District were admitted to membership during the year, and several more applications for membership had been received by the end of the year. At the end of the year, 60 per cent of the State banks and trust companies in the District were members, whereas four years earlier, at the end of 1939, only about 41 per cent were members. Including national banks, over 83 per cent of commercial banks in the District were member banks at the end of 1943. Measured by total assets, State member banks now represent nearly 91 per cent of all State banks and trust companies in the District, and all member banks represent approximately 95 per cent of all commercial banks.

The substantial increase in membership in the Federal Reserve System of banks in this District during the past few years may be attributed to several influences. One of the obstacles to membership in earlier years — the payment of interest on balances maintained with city correspondents — was eliminated by the prohibition of interest payments on demand deposits contained in the Banking Act of 1933. Wartime developments have brought nonmember banks into closer contact with this bank, and have created a desire, on the part of many banks, to take all measures which will enable them to play their full part in the financing of the war, and which will strengthen their position as they approach the uncertainties of the postwar period. In addition, some banks which, a few years ago, might have had difficulty in meeting the requirements for membership, have improved their position in the intervening period so that this bar to membership was removed.

Number of Member and Nonmember Banks in Second Federal Reserve District at End of Year*
(Exclusive of Mutual Savings banks and Industrial banks)

Type of bank	December 31, 1943			December 31, 1942		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	565	0	100	574	0	100
State banks and trust companies	241	161	60	225	179	56
Total	806	161	83	799	179	82

Changes in Federal Reserve Membership in Second District During 1943

Total membership beginning of year	799
Increases:†	
State banks and trust companies admitted	17
Decreases:	
Member banks combined with other members	9
Voluntary liquidation	1
Total decreases	10
Net increase	7
Total membership end of year	806

* This represents only banks in actual operation.
† In addition to figures shown in this table, two nonmembers were absorbed by members during the year.

Financial Statements

Statement of Condition

The continued net outflow of funds from this District to other parts of the country, during 1943, was reflected in a further reduction of more than 900 million dollars in the reserves of the Federal Reserve Bank of New York, which brought the total reduction, since the end of 1941, to more than $2,000,000,000, or over 25 per cent. At the end of 1943 total reserves of the bank were $6,001,376,000 and its total assets were $9,537,938,000.

Government security holdings of the bank increased from less than $1,700,000,000 at the end of 1942 to $3,000,000,000 at the end of

(In thousands of dollars)

Assets	Dec. 31, 1943	Dec. 31, 1942
Gold certificates on hand and due from U. S. Treasury	$ 5,904,288	$ 6,855,451
Redemption Fund—Federal Reserve notes	22,844	1,364
Other cash	74,244	73,223
Total reserves	$ 6,001,376	$ 6,930,038
Bills discounted:		
Secured by U. S. Government obligations, direct and guaranteed	$ 2,185	$ 235
Other bills discounted		1,062
Total bills discounted	$ 2,185	$ 1,297
Industrial advances	$ 126	$ 611
U. S. Government securities, direct and guaranteed:		
Bonds	$ 179,243	$ 713,273
Notes	74,569	343,553
Certificates	271,407	265,889
Bills	2,474,891	372,606
Total U. S. Government securities, direct and guaranteed	$ 3,000,110	$ 1,695,321
Total bills and securities	$ 3,002,421	$ 1,697,229
Due from foreign banks	$ 56*	$ 18*
Federal Reserve notes of other banks	12,394	7,019
Uncollected items	502,634	382,789
Bank premises	9,121	9,823
Other assets	9,936	21,947
Total assets	$ 9,537,938	$ 9,048,863
* After deducting participation of other Federal Reserve Banks	80	29

1943. Holdings of Treasury bills increased by more than $2,000,000,000, reflecting heavy sales by member banks in this District (with repurchase options) to adjust their reserve positions. As a result of the very large increase in this bank's holdings of Treasury bills in "option" accounts, its participation in the System Open Market Account was greatly reduced. Consequently, there were substantial reductions in the bank's holdings of Treasury bonds and notes. Holdings of certificates of indebtedness showed little change, most of the increase in the System's holdings being allocated to other Reserve Banks.

While the year-end figure representing member bank borrowings—"total bills discounted"—shows a slight increase compared with the end of 1942, the increase falls far short of reflecting the actual development of member bank borrowing in the course of the year. None of the large banks of the District was borrowing on December 31, but on December 29 total discounts for member banks amounted to $60,000,000, and on December 8 the total was nearly $85,000,000.

(In thousands of dollars)

LIABILITIES	Dec. 31, 1943	Dec. 31, 1942
Federal Reserve notes in actual circulation ...	$ 3,766,861	$ 2,799,735
Deposits:		
Member bank—reserve account	$ 4,263,922	$ 5,029,391
U. S. Treasurer—General Account	210,279	144,933
Foreign	600,236*	367,578*
Other deposits	246,308	303,762
Total deposits	$ 5,320,745	$ 5,845,664
Deferred availability items	$ 301,754	$ 271,518
Other liabilities	1,154	342
Total liabilities	$ 9,390,514	$ 8,917,259
Capital accounts:		
Capital paid in	$ 57,440	$ 53,653
Surplus (Section 7)	70,012	58,001
Surplus (Section 13b)	7,092	7,070
Other capital accounts	12,880	12,880
Total capital accounts	$ 147,424	$ 131,604
Total liabilities and capital accounts..	$ 9,537,938	$ 9,048,863
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	66.0%	80.2%
Commitments to make industrial advances ...	$ 9	$ 261
*After deducting participation of other Federal Reserve Banks	759,843	424,034

Member bank reserve accounts were reduced further by more than $750,000,000 during the year, following a reduction of more than $600,000,000 during 1942. In this case also, the actual losses of reserves through Government financing operations and through currency demands were much greater than these figures, but in the case of member banks the losses of reserve funds were to a considerable extent offset by security purchases by the Federal Reserve Banks in the New York market.

The note circulation of the Federal Reserve Bank of New York increased by nearly $1,000,000,000 during the past year, a figure which apparently reflects fairly closely the increase in currency outstanding in the District. The percentage increase in the note circulation of the bank, however, greatly exceeds the percentage increase in total currency circulation in the District, as the currency previously outstanding included considerable amounts of silver certificates and other "Treasury currency" which did not increase during the year.

Deposits of foreign central banks and governments increased considerably further during 1943, reflecting the accumulation of foreign balances in this country which was reviewed in a preceding section of this report. Only a part of the increase is reflected in foreign deposits in this bank, the remainder appearing in the participation of other Federal Reserve Banks, which is indicated in a footnote.

Income and Disbursements

Gross earnings of this bank, as well as other Federal Reserve Banks, increased substantially in 1943 as a result of the large increase in holdings of Government securities. The increase in earnings, however, was considerably less proportionately than the increase in security holdings, owing to a substantial reduction in the average maturity of the security portfolio and the consequent reduction in the average rate of return. Gross earnings of the bank increased by about $3,900,000 over 1942, and expenses increased by about $1,150,000, leaving an increase in current net earnings of somewhat more than $2,750,000.

The sale of a considerable volume of longer term bonds by the System Open Market Account during the early months of the year, in response to market demands, was chiefly responsible for this bank's profits on sales of Government securities which amounted to more than $10,000,000, in 1943, compared with less than $1,000,000 in 1942. Adding these profits to current net earnings (and making certain deductions, chiefly for the

Profit and Loss Account

For the Calendar Years 1943 and 1942

(In thousands of dollars)

	1943	1942
Earnings	$ 17,998	$ 14,078
Net expenses	10,034	8,880
Current net earnings	$ 7,964	$ 5,198
Additions to current net earnings:		
Profits on sales of U.S. Government securities	$ 10,217	$ 967
All other	28	7
Total additions	$ 10,245	$ 974
Deductions from current net earnings:		
Retirement system	$ 2,389	$ 1,122
Special reserve on bank premises	482	482
All other	7	
Total deductions	$ 2,878	$ 1,604
Net earnings	$ 15,331	$ 4,568
Paid United States Treasury (Section 13b)	$ 18	$ 34
Dividends paid	3,280	3,184
Transferred to surplus (Section 13b)	22	
Transferred to surplus (Section 7)	12,011	1,350
Surplus (Section 7) beginning of year	$ 58,001	$ 56,651
Addition as above	12,011	1,350
Surplus (Section 7) end of year	$ 70,012	$ 58,001

Retirement System and a special reserve on bank premises) produced net earnings of more than $15,000,000. Net earnings in 1942 were slightly over $4,500,000.

Dividends to stockholders, limited by law to 6 per cent per annum, took less than one quarter of the net earnings for the year, and most of the balance, amounting to over $12,000,000, was added to the bank's surplus.

Changes in Directors and Officers

In September 1943, the Board of Governors of the Federal Reserve System appointed Robert D. Calkins, Dean of the School of Business, Columbia University, New York, N. Y., as a Class C director of this bank for the unexpired portion of the term ending December 31, 1943, left vacant by the resignation of Randolph E. Paul in August 1942. At the same time, William I. Myers, Dean of the New York State College of Agriculture, Cornell University, Ithaca, N. Y., and a Class C director, was designated Deputy Chairman of this bank for the remainder of the year.

At a regular election in the autumn of 1943, S. Sloan Colt, President, Bankers Trust Company, New York, N. Y., was elected by member banks in Group I, as a Class A director for a term of three years beginning January 1, 1944, to succeed Leon Fraser, President, The First National Bank of the City of New York, New York, N. Y., whose term expired December 31, 1943. At the same time, Donaldson Brown, Vice Chairman of the Board, General Motors Corporation, New York, N. Y., was reelected by member banks in Group I as a Class B director for a term of three years beginning January 1, 1944.

In December 1943, the Board of Governors of the Federal Reserve System redesignated Beardsley Ruml, Treasurer of R. H. Macy & Co., Inc., New York, N. Y., as Chairman and Federal Reserve Agent of this bank for the year 1944; redesignated Mr. Myers as Deputy Chairman of this bank for the year 1944; and reappointed Mr. Calkins a Class C director of this bank for a term of three years beginning January 1, 1944.

In December 1943, the directors of this bank appointed Elmer B. Milliman, President, Central Trust Company Rochester, N. Y., Rochester, N. Y., as a director of the Buffalo Branch for a term of three years beginning January 1, 1944, to succeed Raymond N. Ball whose term expired December 31, 1943. The Board of Governors of the Federal Reserve System appointed Thomas Robins, Jr., President, Hewitt Rubber Corporation, Buffalo, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1944, to succeed Howard Kellogg, whose term expired December 31, 1943. The directors of this bank also appointed Marion B. Folsom as chairman of the board of directors of the Buffalo Branch for the year 1944, to succeed Mr. Kellogg.

The directors of this bank reappointed Reginald B. Wiltse as Managing Director of the Buffalo Branch for the year 1944.

Changes in Officers

On July 16, 1943 the appointment of Michael J. McLaughlin formerly Chief, Disbursing Division of the Accounting Department as Manager of the Accounting Department, effective immediately, was announced by the Board of Directors of this bank.

Myles C. McCahill, Manager of the Service Department resigned as an officer of this bank, effective September 30, 1943, to return to the United States Treasury Department.

Effective January 7, 1944, J. Wilson Jones, Arthur Phelan, and Valentine Willis, formerly Assistant Vice Presidents, were appointed Vice Presidents, and Franklin E. Peterson, formerly a member of the Bank Relations Department, was appointed Manager, Bank Relations Department. I. B. Smith, formerly Manager of the Bank Relations Department and of the Government Check Department continued as Manager of the Government Check Department.

Robert F. McMurray, Manager of the Safekeeping Department and a member of the staff since January 1917, died on January 15, 1944. Charles N. Van Houten, formerly a Manager in the Foreign Funds Control Department, succeeded Mr. McMurray as Manager of the Safekeeping Department.

Member of Federal Advisory Council

In January 1944, the Board of Directors of this bank appointed John C. Traphagen, President of the Bank of New York, New York, N. Y., to serve during 1944 as the member of the Federal Advisory Council for the Second Federal Reserve District.

Directors and Officers

DIRECTORS

Class	Group		Term Expires Dec. 31
A	1	S. SLOAN COLT President, Bankers Trust Company, New York, N. Y.	1946
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.	1946
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, *Deputy Chairman* Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1945
C		ROBERT D. CALKINS Dean, School of Business, Columbia University, New York, N. Y.	1946

DIRECTORS—BUFFALO BRANCH

	Term Expires Dec. 31
MARION B. FOLSOM, *Chairman* Treasurer, Eastman Kodak Company, Rochester, N. Y.	1944
GILBERT A. PROLE Genesee Farm Supply Company, Batavia, N. Y.	1945
THOMAS ROBINS, JR. President, Hewitt Rubber Corporation, Buffalo, N. Y.	1946
ROBERT R. DEW President, Dunkirk Trust Company, Dunkirk, N. Y.	1944
LEWIS G. HARRIMAN President, Manufacturers and Traders Trust Company, Buffalo, N. Y.	1945
ELMER B. MILLIMAN President, Central Trust Company Rochester, N. Y., Rochester, N. Y.	1946
REGINALD B. WILTSE, *Managing Director*	1944

MEMBER OF FEDERAL ADVISORY COUNCIL

JOHN C. TRAPHAGEN,
President, Bank of New York,
New York, N. Y.

OFFICERS

ALLAN SPROUL, *President*

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

EDWARD O. DOUGLAS, *Assistant Vice President*
GEORGE W. FERGUSON, *Assistant Vice President*
HERBERT H. KIMBALL, *Assistant Vice President*
SILAS A. MILLER, *Assistant Vice President*
HAROLD V. ROELSE, *Assistant Vice President*
HORACE L. SANFORD, *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*
MICHAEL J. MCLAUGHLIN, *Manager, Accounting Department*
FRANKLIN E. PETERSON, *Manager, Bank Relations Department*
WILLIAM F. SHEEHAN, *Manager, Bank Examinations Department, and Chief Examiner*
INSLEY B. SMITH, *Manager, Government Check Department*
FREDERICK STOCKER, *Manager, Cash Custody Department*
WILLIAM F. TREIBER, *Assistant Counsel, and Secretary*
CHARLES N. VAN HOUTEN, *Manager, Safekeeping 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*