Thirty-second Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1946

Second Federal Reserve District

FEDERAL RESERVE BANK OF NEW YORK

March 27, 1947.

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

I am pleased to transmit herewith the thirty-second annual report of the Federal Reserve Bank of New York reviewing the year 1946.

ALLAN SPROUL,
President.

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The year 1946 must be viewed in its setting, as part of a period of transition from war to peace. In our report last year we commented on the widespread debate as to whether the war would be followed by deflation or inflation and the very plausible arguments that had been marshaled on both sides. On the deflationary side were the reduction in military expenditures and the demobilization of the Armed Forces, and on the inflationary side, the deferred demands for civilian goods and the large wartime savings. Despite the wide difference of emphasis on these conflicting factors, there was considerable agreement on the general pattern of postwar experience to be expected: an immediate, though possibly short, downturn following the war, a recovery of output and employment as reconversion got into full swing, and a more problematical long-run prospect after business and consumer buying had caught up with deferred demands.

This was the pattern after the first World War, and it is the pattern we have been following after this war. In fact, so far as the phases of change and their duration are concerned, the parallel between the two experiences has thus far been striking. During 1946 economic analysis was increasingly concerned with a comparison of the two postwar periods, and became increasingly centered, particularly after the downturn in the stock market last summer, on the question whether the parallel would carry on into a depression corresponding to that of 1920-21.

In our report last year we commented on the surprising lightness of the initial impact of the sudden ending of the war. Though there had been official and private estimates that the national income would drop by 15 per cent or more in the first six months after the war and that the amount of unemployment to be expected by the spring of 1946 would be 5 to 10 million, actually, and notwithstanding the wave of strikes in major industries, unemployment at no time exceeded 3 million, and the drop in national income payments from the wartime peak to the first quarter of 1946 did not exceed 5 per cent. Yet in the same period the number of persons in the Armed Forces was brought down from 12 million to 5 million, and the Federal budget, from a deficit that in the first half of 1945 was running at an annual rate of 50 billion dollars, moved rapidly toward an even balance.

It was thus already clear by the early months of 1946 that there had been a general underestimation of the postwar expansionary forces. The very mild postwar decline ended in the first quarter of the year. Thereafter the expansionary forces increasingly assumed a dominating role, and national income and employment rose sharply in each succeeding quarter. The result was an annual aggregate of production which, while lower in physical terms than that of the war years, was about one-fifth above the real output of 1941, the last year before we entered the war; and in dollar figures, owing to the rise of prices, was within 3 per cent of the 1945 total and 61 per cent above that of 1941.

This expansion, which has carried over into 1947, has been due to the strength of consumer and business demand. The high level of expenditures for consumer nondurable goods has been the outstanding feature of the reconversion period and has carried the ratio of such expenditures to disposable income much above what it was before the war. It is in this type of expenditure that the inflationary pressures have been most apparent. Among the reasons have been the accumulation of deferred demands, the relaxation of saving after the war, the abandonment of rationing of most foods and other consumer goods, the re-equipping of 13 million service men returning to civilian life, and perhaps especially significant, the lack as yet of an adequate flow of durable goods. Though expenditures for consumer durable goods in 1946 expanded in value to about double their low wartime level, they were still substantially below their prewar relation to consumer income. Added to the expansion of consumer expenditures has been a large and rapidly growing investment in inventories and plant and equipment, residential construction, and foreign demand for American goods.

The year 1946 saw the virtual completion of the reconversion process—a process carried through more rapidly and smoothly than had been generally assumed—and along with it an abandonment of most wartime controls. The inflationary outburst after the first World War followed the familiar wage-price spiral, increases in each pushing the other higher. This time the relaxation of wage controls after V-J Day and the early sanction to wage increases which would not require price increases developed quickly into a general demand for higher wage rates to sustain the wartime level of take-home pay, and it soon became apparent that some offsetting price increases would be unavoidable. The modified wage-price policy announced by the President on February 14, 1946, in connection with the steel settlement, resulted in upward adjustments of wage rates throughout industry; but the wave of work stoppages did not decline substantially until after the shutdown of the soft coal mines in April, which was followed by the brief railroad strike. Another coal crisis was averted in December only by Government resort to the courts. The outcome of the postwar wage adjustments was that from the wartime peak reached in the first quarter of 1945 to the final quarter of 1946 average hourly earnings in nonagricultural employment were raised about 14 per cent and average weekly earnings, about 8½ per cent, despite the return to a normal work week and the elimination of overtime premium pay.*

Though the wage disputes, along with the increasing demand for goods and the removal of production controls, exerted strong upward pressure on the price structure, the actual rise in wholesale prices in the first six months of 1946 was only 5 per cent, and the real spurt did not occur until the breakdown and final abandonment of general price control in the second half of the year. Beginning with the temporary suspension of price control at the end of June, the uprush of wholesale prices in the second half of the year was faster than that which occurred in any six months' period after World War I.

For the year as a whole there was a rise in wholesale prices of 32 per cent and in the consumers' price index of 18 per cent, bringing the latter above the June 1920 peak. The rise in the cost of living was the largest for any recorded twelve months' period; as in the case of wholesale prices, most of the increase occurred in the last half of the year in response to successive decontrol measures. While the price rise was general, it was especially marked in food and farm prices, with very substantial increases also in textiles, hides and leather, building materials, and chemicals. Of the rise in the consumers' price index, food prices were responsible for almost four fifths of the total. Surveying the year as a whole, it seems clear that despite the increases in wage rates and other costs, the price advance in 1946 stemmed in major part from the high level of industrial and consumer demand rather than from the cost side. This is confirmed by the very sharp rise in farm income and by the markedly improved performance of profits, in the aggregate, of both corporate and unincorporated business.

*** These figures are derived from indexes of hourly and weekly earnings compiled and published by the Federal Reserve Bank of New York.**

In the closing months of 1946, there appeared to be signs that a gradual readjustment of prices was under way. By mid-October, prices of many farm products and foods had started to decline while other commodity prices continued to increase moderately. By the end of January 1947, wholesale prices of farm products had dropped 4 per cent below their 1946 peak and food prices were 12 per cent lower; but early in February a new upward movement of prices, including food and farm prices but embracing many others, got under way and by March had carried the over-all index to the highest point since 1920. It is thus too early to say, as this report goes to press, how far the upward movement of prices may extend, or what the further repercussions on wages, output, and employment may be. On several occasions in the course of the 1919-20 inflation, commodity prices gave even more definite indications of weakness or hesitancy than they did toward the end of 1946, only to resume the upward movement that finally came to an end in May 1920.

This brief survey of the general course of economic change in 1946 brings us back to the question of how far the parallel with the movements after the first World War will be carried and suggests a comparison between the leading features of the two periods. As was said earlier, the general pattern and even the duration of the changes thus far have been strikingly similar, and it is clear that many of the same features have been present in both. This is of course not at all surprising since the basic situation is that of transition from a world war to a peacetime economy. In both cases there was a short decline in production and employment followed by a recovery of boom proportions. In both cases wholesale prices showed a sharp upward trend, rising about 20 per cent in the first year and a half after World War I and about 30 per cent (though from a considerably lower level) after World War II. In both cases wage rates have risen substantially, though somewhat less this time than after World War I. In both cases industrial profits have been exceptionally high and agriculture has enjoyed an extraordinary prosperity, selling a record output at more than double prewar prices. In both cases there was a strong world demand for American exports and a very large favorable balance of trade. In both cases the volume of construction, as well as construction costs, rose sharply, while rents lagged far behind. In both cases prices of common stocks rose substantially but began a downward movement about one year after the end of the war. In both cases the climate of political opinion underwent a change toward less Government control and direction of economic affairs.

On the other hand, there have been a number of major differences between the two situations. The monetary stringency and the high interest rates that characterized the 1919-20 upswing have been absent, and both individuals and business have had much larger liquid funds relative to their volume of expenditure than after World War I or indeed at any previous time in our history. We commented last year on the continuing downward drift of interest rates. Though within the past year this movement has been checked, the country's monetary position remains highly liquid.

Another major difference which may be classed as monetary is the greatly increased size of our Federal budget and our Federal debt, and the consequently much increased role that fiscal changes can play in our economy. The difference which has perhaps been more emphasized than any other has been the huge backlog of deferred demands. This, together with the present redundancy of money and the large accumulation of savings, constitutes the main ground for the rather general expectation that even though a temporary corrective downturn may be necessary, it should be much milder than that of 1920-21 and should lead more promptly and surely than on the earlier occasion could be foreseen to a period of healthy activity at a high level of income and employment.

This difference perhaps should not be pushed too far. It is true that after the first war there was not the same visible backlog of unsatisfied demands as this time, but as the events of 1922-29 proved there was in fact a large potential backlog, and once the intervening depression was ended the country embarked upon a wave of expansion of both producer and consumer goods which has few parallels in our history. This fact did not, however, prevent a drop of 40 per cent in wholesale prices between May 1920 and July 1921 and unemployment of over 5 million. With the American economy so much larger today than in 1920 a swing of the same relative magnitude in employment would run to much larger figures, and against the background of the thirties, the acute public consciousness of the unemployment problem and the acceptance by legislation in this and many other countries of some measure of Governmental responsibility for employment, would cause a severe shock in this country and throughout the world. While the consciousness that unsatisfied demands are still large, particularly for the durable goods, both consumer and producer, probably does provide our best assurance against any recession's getting out of hand, it does seem equally true that the longer the price rise continues and the farther it goes, the greater will be the likelihood that a balanced structure of prices, wages, and profits cannot be obtained without a serious, even though temporary, downward adjustment. Much therefore depends upon the developments of the months immediately ahead.

There has been much analysis in recent months of the substantial rise of inventories in 1946, with the evidence seeming to indicate on the whole that the rise has not assumed dangerous proportions as measured by prewar relationships of inventories to sales, and has been due in considerable part to the imbalance between input and output which is in large measure unavoidable in such a large-scale transition from war to peacetime production, and also to the need of adjustment to the greatly enlarged magnitude of our national production as compared with any previous peacetime period. But this is one of the factors to be closely watched for possible speculative developments.

So far as production is concerned, our present problem is probably largely one of how to effect the smoothest possible transition from the unusually high level of consumer nondurable expenditures to the still rising volume of expenditures on consumer and producer durable goods. In this first phase of expansion, the filling of the pipe-lines has been increasing consumer money incomes relative to goods brought to market, and the question of how serious the transition may be will depend upon how quickly and smoothly the expansion of expenditures on durable goods, both producer and consumer, will take over the role of sustaining demand.

Besides the question of inventories and of the changing proportions of expenditures, a major question will be the further behavior of wage-price relationships. It was the vicious circle of wages and prices and the swollen inventories that accompanied the process that were primarily responsible for the slump and the collapse of prices in 1920-21. Since the middle of last year the record of work stoppages and the prospect of more orderly wage-price adjustments have seemed much improved. While individual upward adjustments may still be desirable, it seems imperative that we should not try to seek adjustment through bringing prices and costs up to the level of the highest, but should work in the direction of bringing down the many categories of prices and costs where the rise has been abnormal. In general, the aim should be to achieve through rising productivity and a better balanced flow of goods that combination of high incomes and falling prices which has always been the basis of progress in our kind of economic system.

One of the chief imponderables in our present situation lies in the field of our international economic and political relations. The collapse of our foreign trade in 1920 was one of the causes of the depression of 1920-21, though it played a much smaller role than the inventory boom and the wage-price vicious circle. This time, our export trade and our favorable balance of trade (and even more our balance of payments position on current account) are much larger than after the other war. But the prospect of a collapse of our foreign trade is also much less, partly because foreign countries' holdings of gold and dollar balances are so much larger than ever before and partly because we are now much more committed governmentally to sustain a flow of goods and services to the outside world. This is one important factor in our present price situation, and it seems likely to have an important bearing also upon our budget and fiscal policies. But the upward pressure on agricultural prices, where it has been greatest, seems likely to ease when the worst phases of distress abroad have passed. With other effects the world situation may have upon the American economy it is difficult now to foresee, and no analysis of the problem can be attempted within the limits of this brief survey. Much will depend upon the peace settlements reached, the progress made by England in correcting her most difficult situation, our relations with Russia, and our general trade and financial relations with the world.

Production and Employment

In the course of the year American industry largely completed the immediate job of reconversion — not only the physical conversion of plant and equipment to the manufacture of civilian goods, but also the changeover from controlled wartime production to a competitive peacetime economy. The job of adapting plants and equipment to civilian production was already well under way by the end of 1945; the reconversion low point in nonagricultural employment had been passed in October 1945. Yet it was a number of months before many types of civilian goods were reaching the market in large enough volume to make much impression on the huge backlog of consumer demand accumulated during the war. This was partly because a series of industry-wide labor disputes in the first half of 1946 crippled production in many of the nation's basic industries. Strikes in the coal, steel, and nonferrous metals industries intensified the shortages already caused by the high level of industrial demand. Production of finished goods was often held up by the shortage or uneven flow of important component parts, as, for instance, electric motors and storage batteries. Output of these components was in turn hampered in many cases by shortages of basic materials, strikes, and price ceilings.

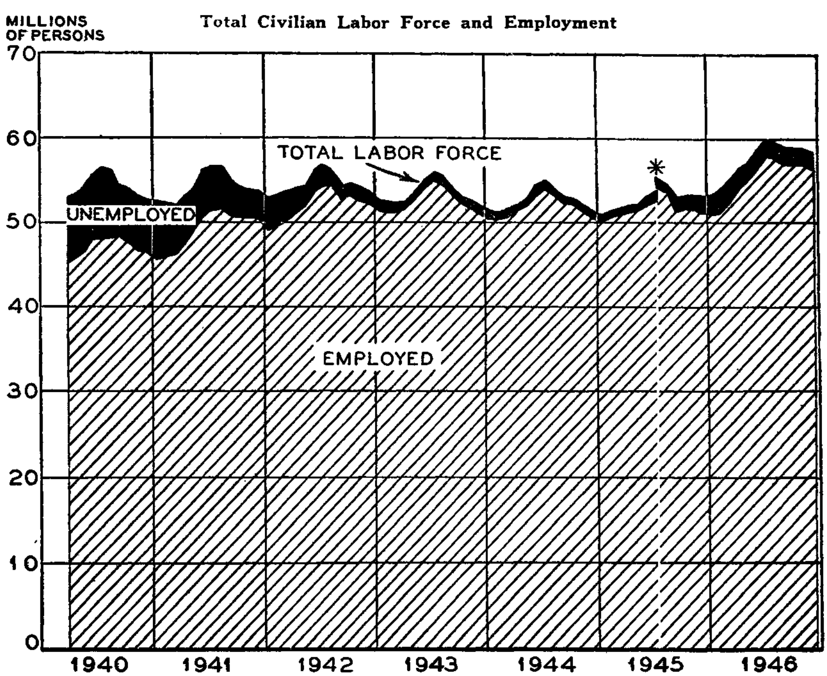
As the supply "pipe-lines" filled and as the time lost in work stoppages declined, industrial production rose to record-breaking peacetime levels. By November 1946, the Federal Reserve index of industrial production had reached a point 20 per cent above the reconversion low point (in February 1946, during the steel strike) and 83 per cent above the prewar (1935-39) average. Output dropped slightly in December, because of the effects of a new stoppage of bituminous coal mining, but in the early months of 1947 productive activity was at a higher level than at any time during 1946.

The biggest reconversion problems, of course, were those faced by many of the durable goods industries, and it was likewise these lines which were most seriously affected by the long series of shortages of materials and parts and by labor disputes. During the war, output of durable goods (for military use) had been expanded to unprecedented levels, but by February 1946, reconversion and work stoppages had reduced activity in these industries far below the wartime peak. By the end of 1946, however, durable goods production (for civilian use) had risen substantially, and output of many types of consumers' durable goods had reached or exceeded prewar levels. Radios, washing machines, vacuum cleaners, electric and gas ranges, electric irons, and passenger car tires all were coming out of the factories in far greater numbers than in 1940 or 1941, and production of civilian-type trucks set a new record in 1946. Passenger car output, which had been hampered by particularly difficult reconversion problems, lagged and in the fourth quarter of 1946 was still 14 per cent below the 1941 average.

Large quantities of goods were absorbed during 1946 in replenishing business inventories. By the end of the year, the value of manufacturers' inventories had reached the record level of 20.3 billion dollars, approximately one-fourth greater than at the end of 1945. When the replacement of inventories of war goods by stocks of materials and parts for civilian production and the increase in inventories of wholesalers and retailers are taken into account, the total amount of inventory accumulation from V-J Day to the end of 1946 amounted to approximately 13 billion dollars. However, much of the rise in the latter half of 1946 was attributable to increased prices rather than greater physical volume. On the whole, the amount of stocks held does not appear excessive when considered in relation to the present high level of shipments and sales, although unbalance is apparent in certain lines.

Activity in the construction industry, which had been at a low ebb during the later stages of the war, expanded sharply in 1946. In the face of a housing shortage of emergency proportions and the extremely low supplies of building materials and skilled building labor prevailing at the end of the war, the Federal Government set up a Veterans Emergency Housing Program in order to give veterans' housing a preferred place in the nation's reconversion program. About one million dwelling units, including about 370 thousand temporary and converted units, were started during 1946, of which approximately two thirds were completed — an impressive record, considering the difficulties involved. A substantial amount of nonresidential construction, started before building controls were reimposed in the spring of 1946, was also accom-

Total Civilian Labor Force and Employment



* Revised series.
Source: U. S. Department of Commerce.

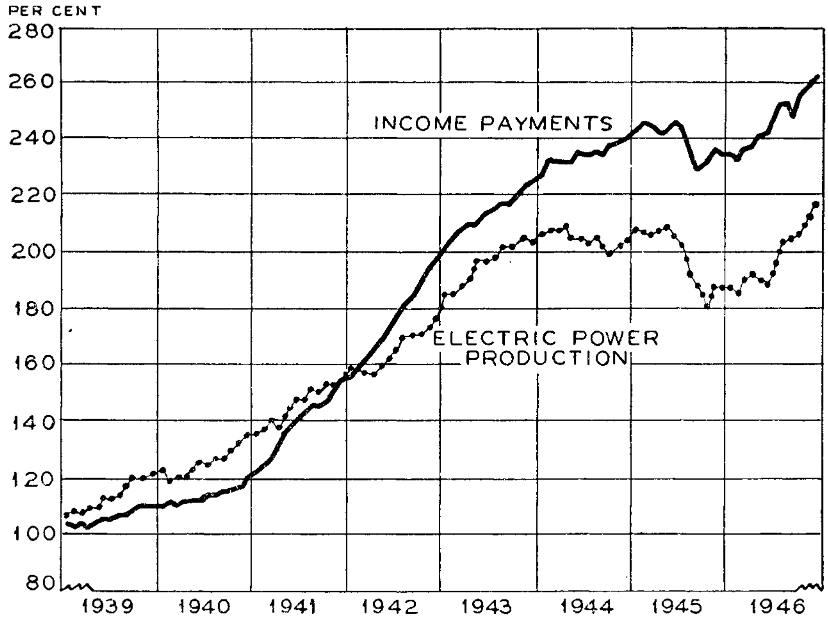
plished. With a large backlog of demand and a steadier flow of materials, another year of large-scale construction activity has been predicted for 1947, although there is some question as to how much of the potential demand will develop into actual demand while construction costs remain at their present high levels.

Total civilian employment in 1946 reached new high levels. In July the civilian labor force exceeded 60 million persons, an all-time record, and during the latter half of 1946 an average of over 8 million more people were employed than during the corresponding period of 1940. The number of those unemployed and seeking work never rose above 2.7 million during the reconversion period, indicating the ease with which discharged veterans and war workers were absorbed by the economy. In the year following V-J Day, approximately 5 million temporary workers left the labor force; these included not only housewives and older persons uninterested in peacetime jobs, but also youths returning to school.

Nonagricultural employment rose steadily during 1946 until in December it set a new peacetime record and equaled the peak months of the war effort. Factory employment and payrolls, however, did not fully recover their wartime levels. At the postwar low point, employment in manufacturing establishments was about one-third below the wartime peak, and by the end of the year approximately one half of this loss had been recovered. Construction employment in 1946 was more than double the 1945 level, and trade, finance, and services also increased their working forces. Federal, State, and local government employment by January 1947 had dropped 830 thousand below the V-E Day level.

Income payments to individuals in 1946 surpassed all previous levels. In December 1946 they were running at a seasonally adjusted annual rate of about 175 billion dollars, or approximately two and one-half times the 1939 level. The higher level of income payments in 1946, compared with 1945, was attributable to the large Government payments to veterans, the increased income of farmers and independent businessmen, and greater corporation dividend payments. Despite the high level of total employment, the shift of many individuals from military service to private employment, and widespread increases in wage rates, total salaries and wages were about 5 billion dollars less than in 1945. This reflects mainly the shorter work week prevailing after the end of the war, with consequent loss of premium overtime pay, and the shifting

Indexes of Income Payments and Electric Power Production*
(1935-39 average = 100 per cent)



* Adjusted for seasonal variation by the Department of Commerce and the Federal Reserve Bank of New York.

Source: U. S. Department of Commerce and Federal Power Commission.

of large numbers of workers from jobs at high wages in war plants to work at more moderate rates in other occupations. Wages of manufacturing production workers were most affected by these factors, particularly by the decline in hours worked. At the end of 1946 weekly earnings of factory workers were still somewhat below their wartime peak, although earnings of other major groups of nonagricultural workers, which had risen less rapidly during the war, reached new record levels. This bank's composite index of weekly earnings indicates that in December 1946 weekly earnings of all nonagricultural employees averaged 8½ per cent above the wartime peak, and nearly 75 per cent above the 1939 level. The trend of total income payments in 1946 and preceding years is illustrated in the accompanying chart, which also shows the trend of electric power production, one of the best general indicators of industrial activity.

The high level of peacetime activity attained in 1946 was accomplished with fewer reconversion delays and less unemployment than was generally anticipated. It now appears that only in agriculture is the major impact of reconversion still ahead, although this is not to say, by any means, that the economic consequences of the war have been obliterated. The total national output of goods and services last year was the highest it has ever been in peacetime, even after allowance for price changes. Under present conditions of nearly full employment of the country's labor supply, further increases in output must come mainly from increased productivity per worker. The vast investment of capital and the development of improved techniques during and since the war should soon make themselves felt, now that the initial difficulties of the reconversion period are past. The domestic outlook for 1947 will depend largely on whether more stable labor-management relations are achieved, consumer demand is maintained, prices that are substantially "out of line" are adjusted downward, and other prices are reduced as improvements in the demand-supply position and in productive efficiency occur.

Termination of Wartime Controls and Price Developments

The release of the nation's economy from practically all of the remaining wartime controls, and the accompanying rise in prices and wages, were two outstanding developments of the year. With the objective of achieving a "swift and orderly transition to a peacetime economy," controls in many fields had been terminated or liberalized shortly after the end of the war. All controls over manpower and construction and most rationing, wage, export, and direct production controls had been dropped before the end of 1945, although wage increases without approval of the Wage Stabilization Board were permitted only in cases where they could be granted without price increases. In a few instances, notably that of construction, the abrupt abandonment of controls proved premature, and later some regulations had to be reimposed. Late in 1945, the War Production Board's 650 regulations, plus the complex Controlled Materials Plan and priority system, had been trimmed to 52 orders and 3 main priority regulations, and the operation of these had been entrusted to a new agency, the Civilian Production Administration, which was charged with speeding reconversion and consumer goods production.

By the beginning of 1946, price and rent controls and sugar rationing were the only major wartime controls still remaining. Between V-J Day and June 1946, the Office of Price Administration removed price controls from a number of items for which balanced demand and supply were expected to keep prices at a reasonably stable level, as well as from numerous items whose prices did not enter significantly into business costs or the cost of living. Nonetheless, thousands of items remained under price ceilings, which became the object of widespread dispute. After the lifting of direct wartime production controls — allocations, priorities, limitation orders, etc. — prices had tended to resume their normal peacetime position as the major determinant of the distribution of resources among alternative lines of production. Wartime and postwar changes in wages and cost of materials, as well as other factors, had brought about distortions in the price structure.

Since the huge civilian demand minimized sales competition, manufacturers tended to concentrate as much production as possible in the lines which yielded the greatest profit under existing price ceilings (usually the higher-priced items) or to lower the quality of their products. In some instances goods were withheld from the market in the hope of higher prices or were sold in the black market above ceiling prices. Continuation of price controls in these circumstances was widely held to be responsible for many of the shortages which continued to prevail in the spring and early summer. In reply to the demand for complete elimination of price control, so that higher prices might expand production and bring about a better balanced flow of consumer goods, the OPA insisted that price controls must be retained until the inflationary danger resulting from the most urgent consumer demands and from short supplies of civilian goods had been removed. The postwar OPA policy of gradual decontrol and of making only such adjustments in price ceilings as it found necessary to remove inequities and correct maladjustments resulted, nevertheless, in a gradual upward movement of prices.

Following V-J Day, approval of wage increases which would necessitate price increases was in most cases refused, but in February 1946 wage-price policy was greatly liberalized. As a result the number of price increases allowed in the second quarter of 1946 greatly exceeded those in previous quarters. For the first half of the year as a whole, the rise in the wholesale price index amounted to 5.4 per cent and the rise in the consumer price index to 2.6 per cent.

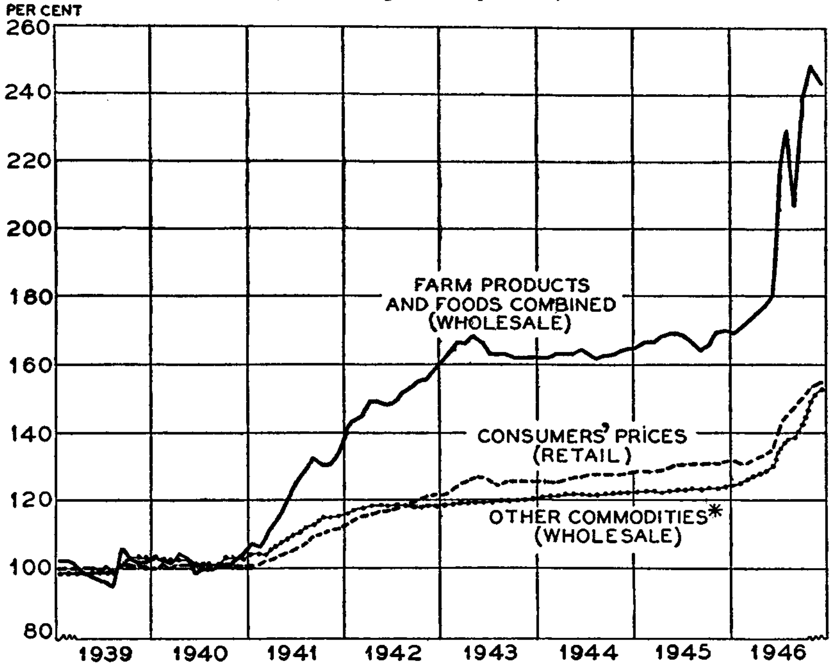
When the Emergency Price Control Act came up for renewal before its expiration date of June 30, 1946, Congress passed instead a last-minute bill calling for greatly modified, more flexible controls, which President Truman vetoed on the grounds that it "provided a sure formula for inflation." For twenty-five days, until a bill more satisfactory to the Administration could be passed, the country was without national controls on prices or rents for the first time in over four years. Wholesale food prices rose 24 per cent during July, and in the aggregate wholesale prices advanced 10 per cent while consumers' prices went 6 per cent higher. Under the new price control law the pace of decontrol was stepped up. Controls were not reimposed on grains and dairy products, and although prices of livestock and meats were put back under ceilings, less than seven weeks later it was found necessary to remove these controls again. In succeeding weeks controls were lifted from other important groups of commodities, and finally, on November 9, President Truman announced the removal of all remaining price controls except those on sugar, rice, and rents.

As a result of decontrol prices again rose sharply. Wholesale food prices rose in October to a peak 55 per cent above the level prevailing at the end of June but began to decline thereafter. Prices of farm products, which had increased during the war more than prices of any other commodity group, rose 23 per cent but leveled off at the end of the year. Prices of other commodities at the end of the year were 18 per cent above the June average and were still rising. Prices of several commodities doubled or tripled their former ceilings. In some instances particularly spectacular advances were followed by declines. At the beginning of 1947 it appeared that the general advance in the price level had been halted, if only temporarily, but a recent resumption of the price rise of some commodities has at least delayed a reversal of the price trend.

Because of the postwar housing emergency, the construction industry remained under Government controls longer than any other major section of the economy. The general decontrol of prices in November included building materials, and it became apparent that the control of prices on new construction which had been undertaken as part of the Veterans Emergency Housing Program would no longer be feasible. Early in December the President greatly liberalized the regulations governing housing construction and in effect turned the initiative in the housing program back to private industry.

Altogether, the official index of wholesale prices rose 32 per cent during 1946, and that of consumers' prices 18 per cent. (Some part of these advances undoubtedly reflects the absorption of previous black market premiums.) It seems generally agreed that some sort of price readjustment will be in order for this country during 1947.

Wholesale and Consumers' Prices
(1939 average = 100 per cent)



* All commodities other than farm products and foods.
Source: U. S. Bureau of Labor Statistics.

Under the impact of war and reconversion, prices of certain commodities tended to get far ont of line with the general price level. Farm prices in October 1946 were more than two and one-half times their 1939 level, while prices of commodities other than farm products and foods showed an advance of only about 40 per cent in the same period. It is expected that farm prices will recede from their peak levels during 1947. The Department of Agriculture estimates that by the end of the year the average prices received by farmers may drop as much as 20 to 25 per cent below their peak. The markets were sustained in 1946 and the early part of 1947 by the exceptionally large domestic and foreign demand for American agricultural products. Demand is likely to decline from present levels (although renewed evidence of high foreign demand has recently strengthened some markets), but supplies, which are relatively inelastic, at least over the short term, will be large. The reduction in farm prices anticipated for the 1947 crop is already discounted in most futures prices, which are below spot market prices. Although Government support policies will prevent as steep a decline in farm prices as occurred in 1920, prices of some commodities must show a sizable drop from present levels before supports become effective.

Readjustments in the price structure can come about not only through declines in over-priced commodities, but also through increases in relatively under-priced items, so that the average level of prices may remain fairly stable. The advances in prices of metals and other industrial raw materials have not yet been fully reflected in prices of finished goods or in retail prices. Also, many important wage negotiations now in progress are likely to result in higher costs. The present high "break-even" points and the downward inelasticity of wage rates because of the increased strength of organized labor (a factor of much less importance in previous depressions) would seem to preclude a sharp general drop in prices, such as characterized the 1920 recession. Eventually, however, consumer resistance to high prices and increasing industrial productivity should bring about somewhat lower prices. In the meantime, some improvement may be noted in the quality and the selection of goods, particularly in the lower-priced lines.

Business Profits and Business Financing

Corporate profits were high in 1946 as a whole and showed progressive improvement from the first to the final quarter. Total profits for the year, before taxes, are estimated at approximately 20 billion dollars, or about 5 per cent below the 1945 figure. Profits after taxes, however, are expected to reach 12 billion dollars, the highest figure on record and a gain of about a third over the previous year's showing. The higher net after taxes reflects chiefly the elimination of the excess profits tax on 1946 incomes. The repeal of that tax, as well as substantial tax refunds and loss carrybacks, and the different methods used to account for extraordinary reconversion expenditures and expenses in connection with labor disputes, all make it difficult to estimate the actual profitability of business during the year.

It is clear, however, that 1946 profit trends reflected the progress of reconversion. Corporate income on a quarterly basis reached a low point for the postwar period in the first three months of 1946, which apparently represented the nadir of shipments of the durable goods manufacturing industries and perhaps also the peak of reconversion expenditures. Substantial improvement in net earnings appeared with the second quarter reports. In the remaining two quarterly periods, the further improvement in earnings was more moderate, but sizable enough to carry fourth quarter profits before taxes to a level approaching, if not exceeding (on an annual rate basis), the 1943 wartime peak, and to raise fourth quarter profits after taxes to the highest level on record.

The best earnings were made by companies not seriously affected by reconversion problems and strikes. By and large these companies were in wholesale and retail trade, in service industries, in industries manufacturing nondurable goods such as textiles, paper, rubber, food products, and drugs and chemicals, and in the printing and publishing and amusement industries. In many cases, the substantial increase in the profits of these industries was attributable to the release of demands which had been restrained during the war. In other instances, where companies had been producing for both the military and civilian markets, sales fell off in 1946, but income rose nevertheless because of the wider profit margins on peacetime business. In many cases, notably the textile and paper manufacturers, food processors, and trade concerns, inventory profits probably played an important part in the improved earnings experience. In all cases lower taxes contributed considerably to the more favorable net earnings record.

In contrast, profits of industries with acute reconversion problems, particularly the automobile and other transportation equipment manufacturers, the electrical and farm machinery industries, and other metalworking industries, fell behind the 1945 level or showed little gain. It was in these industries that some of the most prolonged wage disputes occurred, and that the attainment of a smooth flow of materials and of stabilized production at high levels was most hindered by material shortages and recurrent bottlenecks. The iron and steel industry achieved an early return to peacetime production and, after a slow start early in the year attributable to an industry-wide strike, was one of the few durable goods industries to show a substantial expansion in earnings during 1946. Construction contractors and building material manufacturers had substantial increases in volume and in profits. Earnings of the railroads, on the other hand, fell decidedly below those of 1945 as a result of higher wages and increased costs of materials and supplies, coupled with reduced demand for passenger transportation, less intensive use of freight cars due to the five day week in many plants, and inability to load freight cars as fully as during the war.

Business Financing

Financing needs of business for plant expansion and increased working capital were large during the year. While business financing through the banks and the capital markets was on the largest scale in a number of years (excluding refunding operations), it was not large in comparison with the capital expenditures of industry as a whole. Business enterprise in the aggregate apparently met a large part of its financial needs by drawing upon its large cash resources accumulated during the war and by using undistributed current earnings.

The increase in business borrowing from the banks during the year, amounting to at least 4 billion dollars, represented the continuation of a trend that started in the middle of 1945 and was probably greater than in any previous year. In contrast to the preceding year, when a sizable volume of term loans had been obtained from banks in order to refund outstanding securities, business demand for loans in 1946 resulted chiefly from the need to finance larger inventories and increased payrolls, a need that grew with rising commodity prices and wage rates. Business borrowing on a term basis to finance plant expansion, and short term borrowing for the same purpose pending the sale of new securities in the capital market, were also significant factors in the 1946 loan expansion. To some extent, the unsettlement in the securities markets in the latter part of the year may have resulted in bank borrowing by corporations which might otherwise have met their needs through investment banking channels.

The flotation of new money issues in the capital market amounted to 3½ billion dollars in 1946. This was almost three times the volume of 1945 and was the largest volume since 1930 according to tabulations of the *Commercial and Financial Chronicle.* Bond issues accounted for about 2 billion dollars of the total new money issues, compared with 600 million dollars in 1945. The most striking development with respect to security flotations during the year, however, was the marked expansion in public offerings of new stock issues, which had been in relatively light volume ever since 1930. Stock financing, divided evenly between common and preferred issues, came to 1½ billion dollars in 1946. The sale of new stocks was greatly stimulated by the rising trend of prices for outstanding issues, which reached its peak in May. New offerings, especially in the first part of the year, were so well received that shares sold quickly at substantial premiums above issue prices, so that profits in so-called "free rides" were large. This tended further to augment the demand for new stock issues, particularly for the more speculative securities in the low price range. The gradual recession in stock prices during the summer and the sharp declines of September and early October made this type of financing more difficult during the latter part of the year, however. There were severe breaks in prices of some of the issues floated earlier in the year, and the volume of new stock issues fell off sharply in September and October; it did not fully recover during the remainder of the year.

Although public utility corporations sold a substantially larger volume of new capital securities in 1946 than in any year since the early thirties, issues of manufacturing companies continued to dominate the "new money" section of the investment market. In this respect, the postwar capital market more closely resembled wartime than prewar conditions. Reflecting the uncertain status of the common carriers' earning power, flotations of railroad securities for capital expansion purposes remained at the low wartime levels.

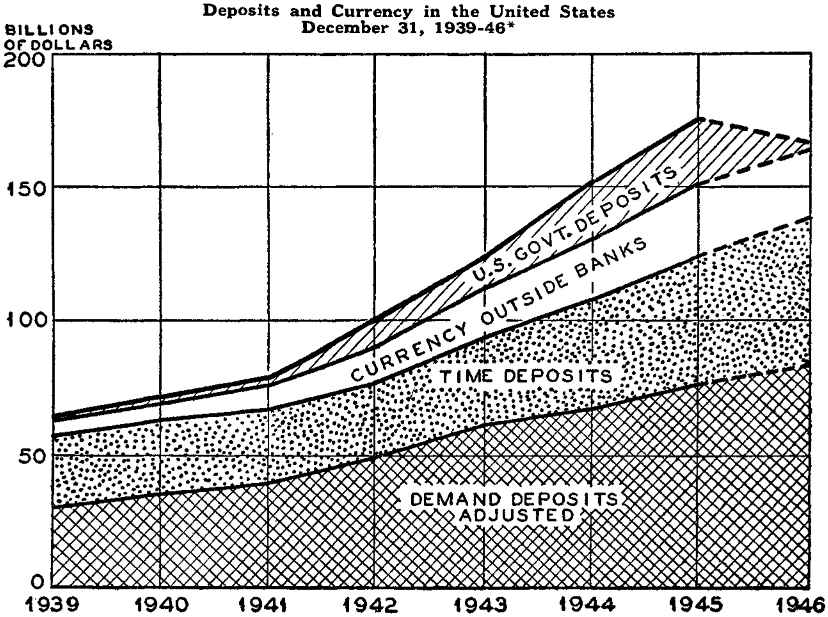
Refunding operations declined sharply in the latter part of 1946. The total volume of securities sold to refund outstanding issues amounted to less than 3 billion dollars, compared with nearly 5 billion in 1945. The opportunities for interest savings through refundings were noticeably reduced as interest rates tended to harden after April. Repeal of the excess profits tax removed a powerful incentive for refunding securities, since the proportion of the premiums required to retire old issues and other expenses of refinancing that could be offset by tax reductions was much smaller than during the war years. However, as a result of declining long term interest rates in the first quarter, and the continuing incentive of tax offsets for companies not operating on a calendar year accounting basis, the volume of refunding continued high during the first half of the year.

The price decline in the securities markets during the summer and early autumn did not prevent a continued high level in the over-all volume of security issues in the latter part of the year, but rather had the effects of changing the composition of new securities as to types and purposes, of requiring somewhat more liberal yields, and of altering the channels of distribution. The decline in stock prices made it increasingly difficult to sell equity issues for either new capital or refunding purposes; flotations of common and preferred stocks averaged about 115 million dollars a month in the last four months of the year, compared with a monthly average of 200 million in the preceding eight months. Bond offerings for refunding purposes also dropped considerably, but new bond issues sold for business expansion purposes rose sharply, reflecting in part the offering of a few very large issues. Because of the unsettled state of the market for outstanding securities, approximately one-half the new bonds floated in the last four months of the year were placed privately with insurance companies and other large institutional investors, in contrast to about one fourth sold in this way in the preceding months of the year.

Bank Credit and the Money Supply

The privately owned money supply in the United States increased, in 1946, at a rate which, while considerably below that of the war years, was still quite rapid. The total volume of demand deposits and currency, adjusted to exclude Government and interbank deposits, "float", and currency held by banks, increased by about 7.6 billion dollars in 1946, compared with increases of 11.9 billion in 1945, 10.8 billion in 1944, 16.8 billion in 1943, and 14.3 billion in 1942. Time deposits, including those in mutual savings banks and the Postal Savings system as well as in commercial banks, increased by about 5.3 billion in 1946, an increase

Deposits and Currency in the United States
December 31, 1939-46*



* December 31, 1946 preliminary.

about two-thirds as great as in the preceding two years. The increase in the amount of currency outstanding, however, was the smallest since 1938, and was only a small fraction of the annual increases during the war years. Government deposits, which were close to their peak by the end of December 1945, when the Victory Loan was completed, were reduced by 21.9 billion dollars during 1946.

The principal factor tending to result in continued growth in the money supply in the hands of the public during the early part of the year was further monetization of the public debt through bank purchases of "bank eligible" Government securities from nonbank investors. For the year as a whole, however, such operations had little net effect on the money supply, as bank purchases of Treasury bonds, directly or indirectly from nonbank investors, were largely offset by sales of short term securities to such investors, partly in replacement of securities redeemed by the Treasury. Furthermore, privately owned deposits were reduced substantially by the liquidation of bank loans which had been obtained to finance the holding of Government (and other) securities.

A more important factor during the last ten months of the year was the use by the Treasury of most of its large volume of deposits in War Loan accounts to redeem outstanding securities. A major part of the securities redeemed were from the investment portfolios of the banking system, but substantial amounts were from the holdings of nonbank investors, and their redemption added to the volume of bank deposits held by the general public. Nevertheless, the use of Government deposits for debt retirement resulted in far less expansion of private deposits than would have occurred if the funds had been used to finance other Government expenditures. And the debt retirement operations had the effect of exerting recurrent pressure on the reserve positions of the banks, and thus had a somewhat restrictive influence on their ability to extend credit. Furthermore, cash revenues of the Treasury exceeded cash disbursements by close to 1 billion dollars during 1946. On the whole, therefore, Government financial operations during the year may be characterized as mildly anti-inflationary in their effects.

The largest factor in the growth in the money supply was the rapid increase in bank loans, other than loans on securities. Business loans increased by an amount that was probably greater than in any preceding year, and there were substantial increases also in consumer loans and in loans on real estate. A considerable part of the increase in business loans undoubtedly was necessary to finance the expansion of peacetime production which was essential to bring the supply of, and demand for, goods into better balance. But some part of the increase in bank loans probably tended to accentuate inflationary pressures.

Causes of Changes in the Money Supply*

(In millions of dollars; (+) or (—) reflects effect on volume of deposits and currency)

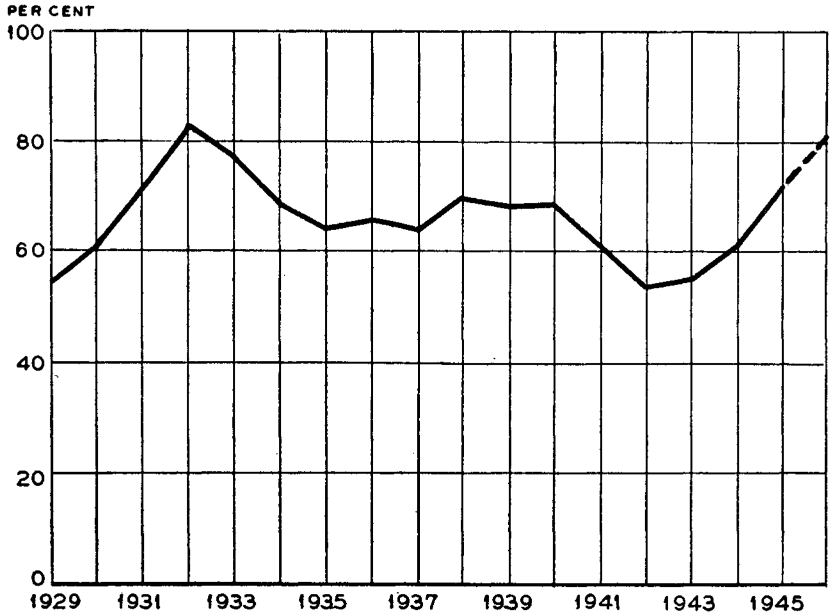
Date	Treasury net cash income or outgo	Changes in: Bank Loans: Loans on securities	Changes in: Bank Loans: Other	Changes in: Non-bank holdings of U. S. securities	Changes in: Bank holdings of other securities	Changes in: Gold and foreign accounts	Changes in: Total bank capital accounts	Other	Total
1939	+ 2,805	− 274	+ 1,182	− 600	− 316	+ 2,934	− 86	− 458	+ 5,187
1940	+ 2,708	− 223	+ 1,805	0	+ 152	+ 3,615	− 115	− 1,187	+ 6,755
1941	+ 9,994	− 114	+ 2,979	− 7,300	− 464	+ 1,101	− 85	+ 217	+ 6,328
1942	+39,248	+ 261	− 2,962	−20,600	− 724	− 30	− 110	− 120	+14,963
1943	+50,830	+ 798	− 1,112	−24,800	− 845	− 1,355	− 441	− 1,986	+21,089
1944	+46,095	+ 2,208	+ 206	−31,400	+ 129	− 1,163	− 647	+ 2,409	+17,837
1945	+35,763	+ 2,244	+ 2,096	−20,000	+ 1,016	− 212	− 919	+ 580	+20,568
1946	− 990	− 3,670e	+ 8,970e	+ 5,500p	+ 1,000e	+ 818	− 800e	+ 2,079e	+12,907p

* Exclusive of U. S. Government deposits and currency in banks.
e Estimated by Federal Reserve Bank of New York.
p Preliminary.
Source: Treasury cash income or outgo and nonbank Government security holdings — derived from *Treasury Bulletin*; all other data — Board of Governors.

Another factor in the increase in the money supply during the past year was the disbursement in this market by foreign central banks and governments of funds previously held in the form of deposits or ear-marked gold in the Reserve Banks. The amount (about 800 million dollars) was not very great, but since these disbursements made reserve funds available to the banking system, as well as increasing the volume of deposits, they provided the basis for a considerable expansion of bank credit. Their direct effect on deposits was counterbalanced by the opposite effect of an increase in the capital funds of the banks during the year.

As the following chart indicates, the ratio of the public's average holdings of money in the form of currency and deposits to the gross national product in 1946 was close to the highest on record. Between 1930 and 1942, except in the worst depression years, the money supply in the hands of the public ranged between 60 and 70 cents for each dollar of gross national product. In the first two years of this country's participation in the war, however, the rise in the gross national

Money Supply as Percentage of Gross National Product, 1929-46*



* Money supply includes currency outside banks, demand deposits adjusted for items in process of collection, and time deposits; it excludes interbank and U. S. Government deposits. Data for 1929-42 are averages of 3 call dates; for 1943-46, averages of monthly data. All 1946 data preliminary.

Source: Money supply, Board of Governors of the Federal Reserve System; gross national product, U. S. Department of Commerce.

product was so much more rapid than the expansion in the money supply, that the ratio dropped to approximately the 1929 level — about 55 cents of money to each dollar of gross national product. Since 1943, the ratio has climbed rapidly, despite the growth in gross national product which accompanied the expansion in the money supply, and by 1946 it was close to the ratio of 1932, when the "liquidity preference" of the public was exceptionally high — more than 80 cents of money supply to each dollar of gross national product.

Federal Reserve Credit and Credit Policy

The volume of Federal Reserve credit outstanding showed a small net reduction during 1946, despite an increase in the money supply (in the form of bank deposits and currency) and a consequent increase in the banks' need for reserves. Because of the growth in deposits, the required reserves of member banks rose by more than 1 billion dollars, and the amount of currency in circulation showed a further increase of somewhat more than 400 million dollars. The need for reserve funds thus created was partly met by the net disbursements of foreign central banks and governments, referred to above. Another factor tending to contribute to the banks' reserves was their net receipt of more than 800 million dollars from the Treasury, representing chiefly net disbursements from the Treasury's balances in the Reserve Banks and an increase in Treasury currency outstanding. But the largest factor contributing to the net reduction of approximately 1 billion dollars in Federal Reserve credit in use was a reduction of more than 900 million dollars in the excess reserves of member banks, which were temporarily at a rather high level at the end of 1945.

Factors Affecting the Reserve Position of Member Banks and the Need for Federal Reserve Credit
(In millions of dollars)

	1941	1942	1943	1944	1945	1946
Factors affecting member bank reserves:						
Increase in currency circulation	−2,428	−4,250	−5,039	−4,858	−3,208	− 436
Treasury operations, net	− 341	+1,211	− 164	+ 104	− 241	+ 822
Gold and foreign account operations, net	+1,101	− 30	−1,355	−1,163	− 212	+ 818
All other	+ 5	− 582	+ 767	− 102	− 143	+ 18
Total	−1,663	−3,651	−5,791	−6,019	−3,804	+1,222
Increase in required reserves	+1,954	+1,764	+ 521	+1,052	+1,742	+1,140
Net increase (+) or decrease (−) in need for reserves	+3,617	+5,415	+6,312	+7,071	+5,546	− 82
Change in excess reserves	−3,530	−1,097	− 752	+ 435	− 200	− 916
Federal Reserve credit in use	+ 87	+4,318	+5,560	+7,506	+5,346	− 998

The chief importance of this reduction in Federal Reserve credit outstanding lies not in its size, but in the fact that it marked the end of the period of rapid growth which was one feature of war financing. Unfortunately it did not indicate that material progress had been made by the Federal Reserve System in regaining control of the volume of Federal Reserve credit in use, although there were some developments during the year tending to make Federal Reserve credit a little less freely available, and otherwise to exert some restrictive pressure on the reserve positions of member banks.

During the early part of the year the matter of principal concern with respect to member bank credit and in the money market was the evidence of further monetization of the debt through bank purchases of Government securities from nonbank investors, and of a tendency toward further declines in interest rates. In these circumstances, it was concluded that the Reserve Banks' preferential discount rate of ½ per cent on advances to member banks secured by Government obligations maturing in one year or less no longer served a useful purpose. It had been adopted in 1942 as a means of enabling the banks, to the extent necessary, to use all their available funds for war financing, while retaining assurance of their ability to obtain needed reserves readily and at low cost. In the changed circumstances of 1946 the preferential discount rate performed a disservice and it was abolished by all Reserve Banks during April and May. This action was not in itself a restrictive measure of much importance, but it was interpreted as an indication that the Federal Reserve System did not favor a further decline in interest rates and did not wish to make member bank borrowing too easy.

In order to maintain orderly conditions in the market for Government securities and to avoid such changes in interest rates as might lead to an increase in the cost of servicing the public debt, however, the System continued to buy short term Government obligations when other market buyers were not available at somewhere near existing prices and yields. But it was evident that as long as the System continued to maintain short term rates on Government obligations at their existing levels, it could not exert an effective influence over the volume of Federal Reserve credit; it could not restrain sales of short term obligations by the banks directly or indirectly to the Federal Reserve System to obtain funds with which to purchase longer term Government securities from other investors or to make other extensions of bank credit.

As one approach to a solution of this problem, the Board of Governors in its Annual Report for 1945 (published in June 1946) presented for the consideration of Congress three suggestions as to additional powers which might be granted the System to enable it to restrain the banks from adding still further to the money supply. Each of these suggestions, and any combination of them, was intended to enable the System to reassert its control of the cost and availability of credit without causing a serious rise in yields and fall in prices of Government securities. The suggestions may be summarized as follows:

1. That a limitation be placed on the amount of long term securities (Government and non-Government) which commercial banks would be permitted to hold against demand deposits;

2. That commercial banks be required to maintain secondary reserves in the form of Treasury bills and certificates in addition to their primary reserves; and
3. That the Board of Governors of the Federal Reserve System be given increased authority to raise primary reserve requirements, within some specified limit, against demand deposits.

There was no opportunity for Congressional consideration of these proposals in 1946. The Reserve System remained dependent upon the use of its existing powers and instruments of policy for any restrictive action which might be desirable. Fortunately, there were several developments which, after the earliest months of the year, helped to halt the tendency toward lower long term interest rates and toward further expansion of the money supply through bank purchases of Government securities from nonbank investors. Among the more important of these developments were the Treasury's debt retirement program, which was started on March 1 and continued through the remainder of the year; the belief which arose during the spring that heavy liquidation of speculative holdings of long term Government securities would occur when the holders were called upon to repay the loans with which they were carrying these securities; substantial sales of marketable Government bonds by a Government trust account; and a growth in the demands for bank credit from business concerns and individuals, accompanied by some firming of interest rates on certain classes of bank loans and also on corporation securities.

The debt retirement program exerted recurrent pressure on the reserve positions of member banks during the last ten months of 1946, as it involved withdrawals of funds from the commercial banks to redeem securities held by the Federal Reserve Banks. Most of the funds used by the Treasury in the debt retirement program were withdrawn from War Loan deposit accounts in commercial banks. Substantial portions of the securities redeemed were in each case held by commercial banks and, to that extent, the funds withdrawn from War Loan deposits were returned to the banks (in the aggregate). When the redeemed securities were held by nonbank investors, payments for the securities were returned to the banks, in the form of deposits by their customers. In this case, however, there was a growth in bank deposits subject to reserve requirements and therefore in the aggregate amount of the banks' required reserves. Finally some part of each issue was held by Federal Reserve Banks, and here the funds withdrawn from War Loan deposits in commercial banks were used by the Treasury to pay the Reserve Banks for the redeemed securities and thus were not returned to the commercial banks. The latter, therefore, sustained net losses of reserve funds in connection with each debt retirement operation, and were forced to restore their reserves to the required levels — in many cases by selling securities in the market. A considerable part of these securities were purchased by the Reserve Banks, but this did not prevent a recurrent "squeeze" on the reserve positions of the commercial banks which tended to limit their ability to make further purchases of Government securities from nonbank investors or to extend credit in other ways.

Liquidation of speculative holdings of long term Government securities financed by bank loans did not develop in May and June on the scale that had been feared, but occurred gradually over a number of months and exerted a moderately restraining influence on the market for such securities. Beginning in the summer, marketable Government bonds totaling more than 500 million dollars were sold for Government trust accounts, and this also had a dampening influence on prices. Finally, in the latter part of the year, active demands for bank credit and new capital, from business organizations and others, contributed to a slight rise in interest rates on some types of bank loans and on corporate securities. This tended to raise questions as to the future course of interest rates, and hence was a deterrent to a resumption of active bidding for longer term Government bonds and a restraint on rising prices and declining yields. Consequently, there was little need for the Federal Reserve System to take further measures of credit restraint, after the spring of 1946, at least so far as further monetization of the public debt was concerned.

At the end of the year, however, the immediate debt retirement program, involving the use by the Treasury of its excess working balances, was virtually completed, a considerable part of the more speculative holdings of long term Government obligations had been liquidated, and sales of marketable Government securities by Government trust accounts were small and irregular. Consequently there was no assurance that there might not be a recurrence of the tendencies which caused concern in the early months of 1946.

Furthermore, concern over the inflationary tendencies of credit expansion had largely shifted to the rapid growth in business and other loans by banks, which, as was pointed out earlier in this report, was the largest factor in the further increase in the money supply in the hands of the public during 1946. While many of the new loans helped to facilitate increased production, it is quite likely that speculative activities were also financed, and that bank credit was used in other ways which tended to accentuate demands for basic commodities or finished goods which were in short supply, thus adding to inflationary pressures. Except in the cases of security loans and consumer loans, the Reserve System can exert a restraining influence upon the growth of bank credit only through its general instruments of policy — chiefly those which affect the availability of Federal Reserve credit, and hence of bank reserve funds.

In view of the large bank holdings of Government securities, and in view of the responsibilities of the Federal Reserve System toward the Government security market, growing out of the program of war finance, it is difficult for the System to exercise control over the volume of Reserve Bank credit and, therefore, of bank reserves. Particularly, the fixed buying rate for Treasury bills and the support given the market for other short term securities by the System make it easy for the commercial banks to obtain the reserve funds which will permit an expansion of loans or investments. In these circumstances, there was considerable discussion during the year of the possible advantages or disadvantages of further steps in the direction of eliminating wartime arrangements under which the Federal Reserve System was committed to the support of the market for short term Government obligations. The president of this bank has advocated "defrosting" short term interest rates, at an appropriate time, in order to restore to the System some measure of control over the volume of Federal Reserve credit supplied to the banks of the country, and in order to restrain a persistent tendency toward monetization of the public debt which is inherent in the maintenance of a fixed pattern of rates.*

Selective Credit Controls

In view of the inflationary pressures which prevailed during most of the year, further steps were taken in the direction of tightening the selective credit controls available to the System — the regulation of

* *Monetary Management and Credit Control,* Supplement, Monthly Review of Credit and Business Conditions, Federal Reserve Bank of New York, January 1947.

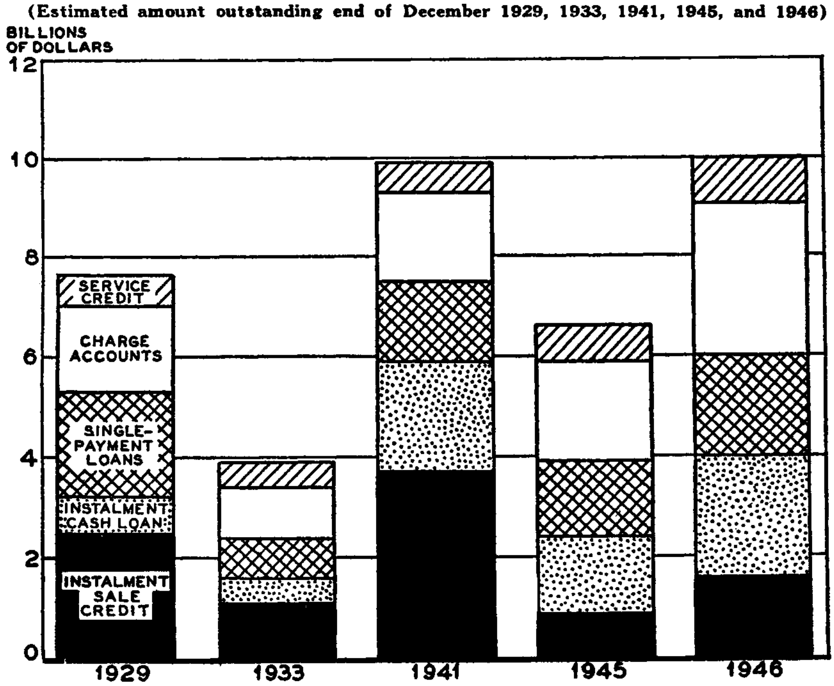
security margins and the regulation of consumer credit. Effective January 21, 1946, the Board of Governors of the Federal Reserve System, by amendments to Regulations T and U, raised margin requirements for trading in securities listed on national securities exchanges from 75 per cent to 100 per cent. This change had the effect of prohibiting new loans on listed securities (for the purpose of trading in such securities) by either security brokers or banks, except in certain specified circumstances. In order to assist stockholders who receive rights to subscribe to securities, the Board amended Regulations T and U, effective December 1, 1946, by permitting loans to be made to finance the purchase of securities by stockholders exercising subscription rights. For this purpose registered securities were given a loan value of 50 per cent. Subsequently, following the dampening of speculative activity in the security markets in the latter part of 1946 and the consequently reduced threat of substantial credit expansion to finance such speculation, the Board announced a restoration of the general margin requirement to 75 per cent, effective February 1, 1947. It should be remembered that these restraints apply only to the use of stock exchange collateral for loans to finance security trading, and not to the use of such collateral for business borrowing. In the existing circumstances, it is questionable whether more liberal use of credit to finance security trading would be beneficial to the economy unless there is evidence that it is needed to facilitate the flotation of securities to provide funds required for productive purposes.

Despite the rising volume of industrial production during the year, demands for many classes of consumers' goods continued to exceed supply, with consequent upward pressure on prices through most of the year. In these circumstances, the Board of Governors of the Federal Reserve System continued Regulation W (Consumer Credit Regulation) in effect, with few changes, until December. In fact, it tightened the Regulation somewhat, in September, by raising from 1,500 dollars to 2,000 dollars, the maximum size of credits to which the Regulation was applicable, and by reducing from 18 months to 15 months the maximum permissible maturity for instalment loans not connected with the purchase of consumers' durable or semidurable goods. (Instalment credits for the purchase of such goods remained subject to a maximum maturity of 12 months except in the case of instalment credits for the purchase of automobiles, the maximum maturity of which was 15 months.)

Important and sweeping revisions in the Regulation were made, however, effective December 1. All types of consumer credit were freed from controls, with the exception of instalment credits (or cash loans) to finance the purchase of major durable goods. Many items were dropped from the list of goods subject to instalment sale restrictions. Required down payments for the remaining 12 items or classes of goods were continued at the same level (20 per cent on furniture and 33⅓ per cent on the other items) with one exception, and a uniform maximum maturity of 15 months was set. These revisions made the Regulation much simpler and easier to administer, but control was retained over those types of consumer credit which are subject to wide fluctuations and which, consequently, are most likely to accentuate economic instability.

Despite continued restrictions on consumer credit, and the fact that major consumers' durable goods (sales of which ordinarily are financed largely by consumer credit) were in many cases available to consumers only in limited quantities, the total volume of consumer credit rose very sharply during 1946. At the end of the year it was

Consumer Credit by Major Types
(Estimated amount outstanding end of December 1929, 1933, 1941, 1945, and 1946)



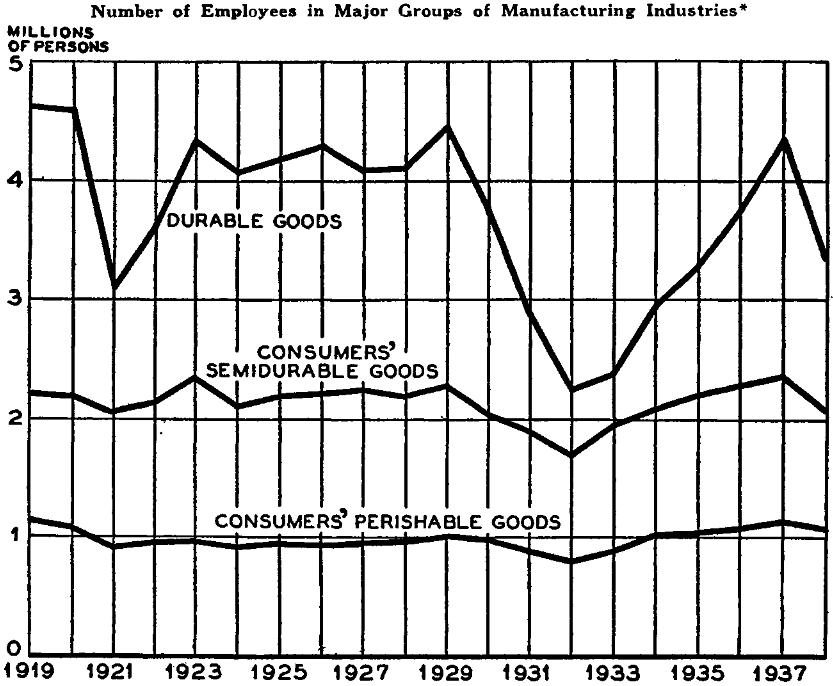
estimated at nearly 10 billion dollars, or about the same amount as the previous peak reached in the fall of 1941. Within this aggregate, charge accounts, single-payment loans, and "service" credit were well above their 1941 peaks. Instalment credit, on the other hand, was still far below its level at the end of 1941, but it had expanded nearly 70 per cent during the year, and is expected to grow even more rapidly in 1947 as automobiles and other major consumers' durable goods become more freely available.

Relaxation of credit terms for the financing of such goods would tend to accentuate the demands for them and, as long as demands continue in excess of the available supply, this would accentuate inflationary pressure on prices. Even though manufacturers resisted the temptation to raise prices, there would be danger of stimulating unauthorized practices by the less scrupulous dealers, which, in effect, tend to allocate available supplies to the highest bidders. And even when substantially greater supplies of goods are available, easy credit terms might tend to concentrate within a few years demands which, from the viewpoint of stability of business and employment, it would be better to spread over a longer period.

The reason for concentrating the application of consumer credit control in the area of instalment credit for the purchase of the principal consumers' durable goods is illustrated by the following diagram. As the diagram indicates, the major fluctuations in industrial employment over a number of years before the war were in the production of durable goods, rather than in the production of nondurable goods, even though consumer expenditures for nondurable goods usually are much greater than expenditures for durable goods. Accentuation of demands for consumers' durable goods, by liberal extensions of consumer credit during periods of rising business activity and employment, tends to be followed by a drain on current consumer incomes (through the repayment of indebtedness previously contracted) and sharp curtailment of demands for such goods, in periods of declining business activity and employment. Thus, while instalment credit unquestionably serves a useful purpose in broadening the market for goods which many consumers would be unable to pay for in cash, unrestrained use of such credit in periods of high activity and general optimism is likely to prove harmful, both to business and to consumers.

If consumer credit regulation is to serve a useful purpose, it must be flexibly administered. To be effective in contributing to efforts to combat instability of business and employment, it must be applied restrictively in periods when demands tend to outrun supply; and must be relaxed in periods when more freely available credit can contribute usefully to the maintenance of demand and thus to the maintenance of production and employment. To expect consumer credit control, however wisely administered, to iron out the fluctuations in the consumers' durable goods industries would be to expect far too much. It is not too much to expect that it can help to moderate such fluctuations.

Number of Employees in Major Groups of Manufacturing Industries*



* Number of employees reduced to equivalent number of full-time workers. Durable goods industries include construction material, furniture, and metals; consumers' semidurable goods, textile and leather; consumers' perishable goods, food and tobacco.

Source: Simon Kuznets, *National Income and Its Composition, 1919-1938,* Vol. I, pp. 334-5; number of employees computed from percentage distribution by Federal Reserve Bank of New York.

Foreign Economic and Financial Reconstruction

During the past year, gradual progress was made in the field of international economic and financial reconstruction, although many and serious difficulties remain to be overcome.

The International Monetary Fund in December accepted existing exchange rates as the initial par values for 32 member countries, in anticipation of the commencement of active Fund operations on March 1, 1947. The International Bank for Reconstruction and Development called up 15 per cent of its capital subscription, and received loan applications from eight member countries. The United States Government, pending full assumption by the International Bank of its responsibility for reconstruction and development loans, further developed its own interim lending program by increasing its postwar loan authorizations to 8.5 billion dollars, of which 3.5 billion had been utilized up to the end of 1946. Additional assistance to war-devastated countries abroad was provided by over 1 billion dollars in relief shipments through UNRRA, and by 1.5 billion of "straight" lend-lease transactions and United States Army relief operations.

Owing largely to this American aid, most of the Western European countries greatly expanded their imports; their exports also rose sharply, although less spectacularly. The physical volume of British exports was slightly less in 1946 than in 1938, and was still far short of the postwar target level (75 per cent above the 1938 volume); however, the value was greater than in 1938, and the volume increased as the year progressed. A considerable network of bilateral trade arrangements was negotiated among European and Latin American countries during the year.

Complementing American financial efforts to restore international trade on a multilateral and nondiscriminatory basis, the State Department issued its *Suggested Draft Charter* for an International Trade Organization, containing detailed rules of trade policy based on its *Proposals* of December 1945. A Preparatory Committee appointed by the United Nations to draft such a charter recommended acceptance of most of the basic policy directives proposed by the State Department.

Progress of World Bank and Fund

The operations of the International Bank for Reconstruction and Development during the year were confined to the gradual building up of an operational staff, the calling up of a percentage of members' capital subscriptions, and study of the loan applications received.

After the adherence of Colombia, Venezuela, Turkey, and Italy, which raised the Bank's membership to 42, total capital subscriptions amounted to 8,013.5 million dollars on March 27, 1947.* In the course of the year the Bank called up the 2 per cent of its subscribed capital that was payable in gold or U. S. dollars and another 13 per cent payable in local currencies. On March 25, 1947, it called up another 5 per cent payable on or before May 26, thereby completing the calling up of the anticipated 20 per cent of the subscribed capital. Of the cash received, approximately 150 million dollars was invested in United States certificates of indebtedness.

Loan applications or "letters of intent" have been received from eight countries, involving some 2.3 billion dollars of proposed loans. The applications of France and Denmark for 500 and 50 million dollars, respectively, were reported to be under active consideration. In response to a request from the United States representative, the executive directors ruled that the Bank has authority to make or guarantee monetary-reconstruction loans, including loans for long term stabilization.

The International Monetary Fund, on March 27, 1947, also had a membership of 42 countries (after Venezuela signed the Articles of Agreement on December 30, 1946, Turkey on March 11, 1947, and Italy on March 27, 1947), with quotas aggregating 7,710.5 million dollars.** As part of its preparations for beginning exchange transactions on March 1, 1947, the Fund, on December 18, accepted as initial par values the existing rates of exchange for 32 member countries. The par rates for Brazil, China, the Dominican Republic, Greece, Poland, Uruguay, and Yugoslavia, for France in respect to French Indo-China, and for the Netherlands in respect to the Netherlands East Indies, have not yet been set, owing in most cases to unsettled economic or political conditions in those countries.

At the first annual meeting of the Board of Governors, held in Washington in September 1946, the executive directors, in response to a

* This total will be raised to 8,024.5 million when Syria and Lebanon, which were admitted in September 1946, sign the Articles of Agreement. At the end of 1946, the following five countries that attended the Bretton Woods Conference had failed to join the Bank: Australia, New Zealand, Haiti, Liberia, and the Soviet Union.

** Total quotas will reach 7,721.5 million when Syria and Lebanon, which were admitted in September 1946, sign the Articles of Agreement. Bretton Woods signatories which had not joined the Fund as of the end of 1946 were the same as in the case of the Bank.

request by the British director, interpreted the definition of "fundamental disequilibrium," under which exchange-rate alterations could be permitted, to include unemployment of a chronic or persistent character arising from pressure on the balance of payments. (For any proposed alteration exceeding 10 per cent of the initial par value of a currency, the Fund must be satisfied that the change is necessary to correct the fundamental disequilibrium.) A further interpretation by the directors, at the request of the American director, limited the use of the Fund's resources exclusively to temporary assistance in the financing of balance of payments deficits on current account for monetary stabilization purposes.

U. S. Government Lending and Financial Aid

The Act of Congress of July 1945 authorizing American participation in the International Monetary Fund and the International Bank included provision for establishment of a National Advisory Council on International Monetary and Financial Problems, to consist of the Secretaries of the Treasury, State, and Commerce; the Chairman of the Board of Governors of the Federal Reserve System; and the Chairman of the Board of Directors of the Export-Import Bank. The Council was directed to coordinate the policies and operations of the United States representatives on the Fund and the Bank, and of all agencies of the United States Government that make, or participate in making, foreign loans or that engage in foreign financial, exchange, or monetary transactions. The United States thus, for the first time, acquired an instrumentality for a consistent and well directed foreign loan policy.

A statement of the foreign loan policy of the NAC, issued in March 1946, recognized the crucial importance to American stability of economic reconstruction and development abroad and the necessity of supplementing, by an extensive lending program, the foreign resources, UNRRA assistance, and surplus property arrangements that are available for such reconstruction. Pending the extension by the International Bank of developmental and reconstruction loans, the NAC recommended approval by Congress of the 3,750 million dollar credit to Great Britain, as well as a considerable increase in the Export-Import Bank's lending power; the latter recommendation was not implemented by appropriate legislation, however. The NAC considered that a large part of such foreign loans would be spent on capital goods and materials in surplus supply, while export controls would prevent undue drains on this country's supply of less plentiful commodities. Recognizing that eventual loan repayments would depend fundamentally upon the adequacy of dollar exchange provided by American imports of goods and services, the NAC expressed the belief that population growth, rising living standards, and the depletion of natural resources in the United States would facilitate the solution of the transfer problem.

Reports made by the NAC on the period from August 1945 to October 1946 record intensive activity in negotiating the financial agreement and the war settlement with the United Kingdom, in assisting the establishment of the Fund and Bank, and in advising upon a broad range of foreign financial problems. The United States is recorded as favoring early admission of all peace-loving nations to both the Fund and the Bank. With respect to use of the Bank's resources, the NAC agreed that United States approval was not required under the Articles of Agreement of the Bank for lending or investing dollars derived from the 2 per cent payable in gold or dollars by all members on their capital subscriptions, and raised no objection to investment of such funds in short term obligations of the United States.

The broad postwar program of United States Government foreign lending and financial assistance, the early phases of which were discussed in the previous Annual Report of this bank, was further developed and expanded during 1946. Designed principally to assist war-devastated foreign countries to acquire from the United States supplies and services urgently needed for purposes of relief, rehabilitation, and reconstruction, this program has consisted of both outright relief and long term dollar loans and credits.

Gratuitous relief has been extended primarily through this country's participation in UNRRA, for which the United States Congress has appropriated a total of 2.7 billion dollars. During 1946, UNRRA shipments from the United States aggregated slightly over 1 billion dollars, and, in addition, several hundred million dollars of aid was extended by this country through UNRRA in the form of freight services and cash payments. Direct relief assistance has also been granted through the United States Army, which distributed supplies in areas occupied by our Armed Forces to the extent of about 750 million dollars between V-E Day and the end of 1946. In addition, about 600 million dollars of supplies and services have been provided in the form of so-called "straight" lend-lease (for which no material compensation has as yet been arranged), consisting primarily of shipments to China. Relief has also been extended to Italy (135 million dollars) out of lend-lease funds.

In addition to its relief program, the United States Government authorized a total of over 8.5 billion dollars of foreign loans and credits between July 1, 1945 and December 31, 1946. Many of these loans and credits are available over a number of years, and of the total authorized, only about 3.5 billion dollars has so far been utilized, mainly during 1946.

During the eighteen months ended December 31, 1946, the total of Export-Import Bank loan authorizations amounted to about 2.2 billion dollars, of which 1.1 billion was actually disbursed, primarily in 1946. Of these disbursements 655 million dollars represented utilization of three credits, authorized in the latter part of 1945, to finance the purchase by France, Belgium, and the Netherlands of lend-lease goods that had been requisitioned but not contracted for by V-J Day. Of the remainder of the disbursements, 255 million was drawn upon under the terms of reconstruction credits, of which a total of 1.4 billion dollars had been authorized by the end of 1946, to war-devastated countries in Europe and the Far East.

As indicated in last year's report, a sizable amount of dollar credits has also been extended to foreign countries to finance the purchase of lend-lease "pipe-line" supplies, that is, goods which had been contracted for but not delivered by V-J Day. Long term credits of this character had been utilized by September 30, 1946 to the extent of about 1.1 billion dollars. Some of these credits, such as those to Russia and China, are to be repaid over a period of 30 years and carry an interest rate of 2⅜ per cent, whereas those to Britain and France are to be repaid as part of the general war settlements with those countries.

The most important single foreign loan authorized by the United States Government since V-J Day is the 3,750 million dollar line of credit to the United Kingdom, under legislation approved by President Truman on July 15, 1946, for the purpose of helping that country finance its over-all dollar requirements during the transition period. This loan, unlike most of the other post-V-J Day loans of the United States Government, is not tied to the financing of prescribed transactions, and is available until December 31, 1951, with repayment of principal and payment of interest at 2 per cent to begin on that date and to extend over a period of 50 years. Payment of interest may be waived under certain specified conditions. By the end of 1946, total disbursements under this credit had amounted to 600 million dollars, and it is believed that such disbursements may be at a more rapid rate in the future.* The loan agreement obligated the United Kingdom to remove exchange controls over current transactions according to a given time schedule, to arrange settlements on blocked sterling balances held by foreign countries, and to assume other commitments designed to facilitate multilateral world trade. Concurrently with the negotiations leading to the

* By April 1, an additional 700 million dollars of this credit had been placed at the disposal of the British.

United States Government Foreign Lending and Financial Assistance July 1, 1945 to December 31, 1946

(In millions of dollars)

Foreign loans and credits *a*

	Amount authorized	Amount utilized
1. Export-Import Bank loans	2,251	1,115 *b*
2. Loan to Britain	3,750	600
3. Lend-lease pipe-line credits	1,500 *c*	1,150 *d*
4. Surplus property disposal credits	964 *e*	769 *e*
5. Other foreign loans	95	20
Total	8,560	3,654

International financial assistance

	Amount authorized	Amount utilized *f*
1. United States participation in UNRRA	2,700 *g*	2,000
2. Other relief	*h*	850
3. Post-V-J Day nonreimbursable lend-lease	*h*	600
Total	—	3,450

a Not including short term advances to foreigners in connection with purchase of raw materials, nor credit arrangements where repayment will be made fully in foreign currencies, services, or real and other property.

b Includes disbursements of 27 million dollars made by commercial banks under Export-Import Bank loans, without the latter's guarantee.

c Estimated total, including some arrangements for settlement of war accounts.

d As of September 30, 1946.

e As of November 30, 1946; excluding foreign credits under consideration by the United States Maritime Commission for sale of United States merchant vessels.

f Estimated utilization from beginning of individual programs through latest dates for which data are available.

g Total authorized United States contribution.

h Part of general authorizations.

authorization of the British loan, a settlement was reached between the two governments in December 1945 covering mutual war accounts, lend-lease "pipe-line" goods, and the disposal of United States surplus materials located in the United Kingdom. This settlement provided for payments by the United Kingdom of 650 million dollars, to be made on the same terms as the repayment of the 3,750 million credit.

Similar in purpose to the Anglo-American financial agreement was the broad program of United States Government financial assistance to France concluded last May. This program consisted of a 650 million dollar Export-Import Bank loan (in addition to a similar loan of 550 million dollars granted in the fall of 1945)* and long term credit arrangements totaling 720 million dollars for surplus property disposal, lend-lease "pipe-line" shipments, and the settlement of war accounts.

A large number of long term credit arrangements have also been authorized by the Foreign Liquidation Commissioner of the State Department to finance the sale to foreign countries of United States surplus property located abroad. A total of 1 billion dollars of surplus disposal credits, including those to the United Kingdom and France noted earlier, had been authorized up to November 30, 1946. Of this total about 800 million dollars had been actually utilized through the transfer of goods. Principal recipients of surplus property disposal credits were France (300 million dollars), Italy (160 million), the Netherlands Indies (100 million), United Kingdom (60 million), Poland (50 million), and Greece (45 million). Most of these credits carry interest at 2⅜ per cent and are payable over periods of up to 30 years.

Restoration of International Trade

While considerable progress was made in 1946 in the restoration of international trade, the growth of some countries' trade was handicapped by production difficulties or exchange shortages. In Continental Europe, where reconstruction problems were most acute, exports of most of the ex-belligerents rose sharply during the year, but only in some of those countries did exports reattain the prewar volume. (Data are not available for Russia and most of Eastern Europe.) In most cases imports, as was to be expected, showed a greater increase in value over the prewar level than did exports, although much if not all of their

* Both amounts included in the 2.2 billion dollars of Export-Import Bank authorizations mentioned earlier.

increase reflected higher prices. A large part of these imports represented UNRRA and other relief shipments not requiring payment, or was financed by United States loans or by drawing on gold and dollar reserves.

Great Britain continued efforts to solve her difficult balance of payments problem. Although the value of British exports in 1946 was almost double that of 1938, the increase was entirely due to higher prices. Export volume rose steadily during the year, and the volume index for the final quarter was 11 per cent above 1938, but for the year as a whole, the volume of exports was slightly below the 1938 level, whereas the attainment of a postwar volume 75 per cent above that level is considered essential; the British goal for the end of 1947 is a volume of exports 40 per cent above the 1938 level. Furthermore, the value increase in 1946 was chiefly in trade with sterling and blocked-currency countries, whereas the British foreign exchange problem primarily concerns trade with the hard-currency areas (especially the United States and Canada). Although British imports were held to a lower level than can probably be sustained without harm to exports, a large unfavorable trade balance remained and had to be met in part by drawing on the American and Canadian credits. These obviously can provide only temporary help, and the solution of the British trade-deficit difficulties continues to be one of the most critical economic problems today.

Trade of the European neutrals, for the most part, rose high above prewar levels in value during 1946, although part of the increase reflected higher prices. Canadian trade also was far above prewar levels, in volume as well as in value, although of course remaining below the wartime peaks; in these respects it paralleled the United States performance. The Canadian trade increase with the United States and other non-Empire countries was particularly pronounced.

Latin American trade values, which continued far above prewar levels, were also above 1945 in most cases, although volume declined in some countries; resumption of trade with Europe was very slow, except with Switzerland and Sweden. In India, although trade values were above prewar figures, the physical volume was smaller. In China, imports increased strikingly relative to exports, thus contributing to a critical deterioration in the country's foreign exchange position. Japanese trade was at a sharply lower level than before the war.

In December 1945 the State Department issued its *Proposals for Expansion of World Trade and Employment,* recommending the establishment of an International Trade Organization, and suggesting for incorporation in its charter detailed rules of trade policy based on the reduction of tariffs, quotas, and other trade obstacles, and on nondiscriminatory treatment among members. Acting upon this recommendation, the Economic and Social Council of the United Nations appointed shortly thereafter a Preparatory Committee of experts, comprising representatives of the United States, United Kingdom, U. S. S. R., and fifteen other countries, to draft such a charter for presentation to a prospective International Conference on Trade and Employment. This Preparatory Committee, from which Russian representation had meanwhile been withdrawn, convened in London on October 15, 1946, accepting as a basis for its discussions a second State Department document, *A Suggested Charter for an International Trade Organization.*

Wide agreement was reached upon all of the major policy issues involved in the proposed charter, with the exception of those arising out of State trading monopolies and relations with nonmembers of the ITO. Full agreement upon a complete charter text, as well as concerted negotiation of tariff reductions by all the governments represented on the Preparatory Committee, will be sought at the second meeting of the Preparatory Committee in Geneva in April 1947. If such tariff negotiations are successful, it is hoped to establish a General Trade and Tariff Agreement, which would set forth the new tariff schedules. In this Agreement would be incorporated the bulk of the commercial-policy recommendations of the London meeting for the reduction of preferences, quantitative restrictions, etc., as well as provision for an Interim Tariff Committee to administer the Agreement until the ITO becomes effective.

The United States Balance of International Payments

During 1946 the United States balance of international payments shifted further from the well-defined pattern which it had followed after 1941 and until the end of war in 1945. Lend-lease transfers of goods and services to foreign countries, which had dominated our wartime balance of payments, continued to drop at a rapid rate, and by the end of the year had virtually ceased. On the other hand, United States Government foreign lending and other financial assistance rose to a high level. Furthermore, this country's wartime cash deficit on trade and service account (arising from the fact that our exports were chiefly on a lend-lease basis while our imports and other overseas expenditures were largely paid for in cash) was replaced by a cash surplus. Consequently, during 1946, foreign countries in the aggregate were net losers of gold and dollar assets to the United States, instead of net gainers as they had been during the war.

According to estimates of the Department of Commerce, the United States provided about 15.3 billion dollars of goods and services to foreign countries during 1946, compared with 16.0 billion dollars in 1945. On the other hand, our receipts of goods and services from abroad amounted to only about 7.1 billion dollars in 1946, compared with about 8.8 billion in the preceding year. As a result, our net transfers of goods and services to foreign countries rose from 7.2 billion dollars in 1945 to 8.2 billion in 1946. Furthermore, whereas the net foreign deficit on current account *vis-a-vis* the United States in 1945 was almost completely covered, until the latter part of the year, by net lend-lease aid calling for little or no cash repayment, the greater part of the deficit in 1946 had to be paid for in cash, on either an immediate or a deferred basis.

Of the 8.2 billion dollar net foreign deficit on current account in 1946, about 3.1 billion was met by gratuitous aid from this country in the form of relief through UNRRA, United States Army distribution of civilian supplies in areas occupied by our Armed Forces, "straight" lend-lease (nonreimbursable in character), and private relief shipments and support remittances. The remainder of the deficit (the "cash" deficit proper) was financed to the extent of about 3.0 billion dollars by long term foreign borrowing from the United States Government and its agencies, and to a lesser degree by net foreign utilization of gold and dollar assets.

Total transfers of goods alone amounted to about 12.1 billion dollars in 1946. Of this amount, about 10.3 billion involved exports from this country, and the balance transfers from supplies and property located abroad. Fundamental changes occurred during the year in the pattern of our recorded exports. Lend-lease exports declined from almost 5.6 billion dollars in 1945 to less than 0.7 billion in 1946, and of the latter the bulk called for cash payment. Relief shipments, on the other hand, rose from slightly under 500 million in 1945 to somewhat over 1 billion in 1946. All other exports rose from 3.8 billion to almost 8 billion dollars.

Recorded merchandise imports rose only moderately, from 4.1 billion dollars in 1945 to 4.9 billion in 1946. The rise would undoubtedly have been much sharper, given the continuing high levels of income in this country, were it not for the relatively slow recovery of production in the war-devastated countries of Europe and Asia. Our net exports of services in 1946 yielded a surplus of about 1.2 billion dollars, compared with 0.4 billion in the preceding year. This increase reflected in large part a rather sharp decline in United States Government military expenditures for services obtained from foreign countries.

In addition to the huge export of capital from this country associated with United States Government foreign lending and financial assistance, there was a smaller net "outflow" of capital through international banking and security transactions, which reflected in part the expenditure in this country of dollar balances previously acquired by foreign countries. The wartime "inflow" of capital was reversed in November 1945, and from October 31, 1945 to October 31, 1946 (the latest date for which published data are available), the recorded net "outflow" of capital amounted to about 685 million dollars. Of this total, almost 310 million dollars was for Canadian account alone, and about 200 million, 170 million, and 80 million were for British, Dutch, and French accounts, respectively. On the other hand, substantial net "inflows" of capital were reported for some areas, notably for certain of the Latin American countries, reflecting chiefly continuing favorable balances of trade with the United States.

Included in the "outflow" of capital in this period was a net reduction of about 289 million dollars in the total amount of foreign funds held in banks in this country. This reduction reflected primarily the drawing down of foreign-owned dollar balances to help finance purchases in this country. Official foreign accounts alone were drawn upon to the extent of about 552 million dollars (net), but this decline was offset in part by a net increase of 263 million in private foreign banking funds. An additional net "outflow" of capital took place during the same period in the form of an increase of about 342 million dollars in this country's banking claims on foreigners. The latter primarily reflected sizable loans, secured by gold, to foreign central banks by the Federal Reserve Banks, as well as increased loans to foreigners by commercial banks under Export-Import Bank guarantee.

International transactions in long term securities had a comparatively slight effect upon the aggregate recorded flow of capital between the United States and foreign countries during the period under review. In the 12 months ended October 31, 1946 net sales or maturities of foreign-owned American securities, chiefly long term United States Government obligations, amounted to 323 million dollars. On the other hand, this net "outflow" of capital was in large part offset by net repurchases or redemptions by foreigners of 250 million of their own securities held in this country; these included the redemption of a large volume of Argentine Government dollar bonds and of some Canadian securities held in the United States. Some redemptions, however, notably in the cases of Canada and Australia, were effected by flotations of new issues in this country.

Commencing in December 1945, there was a renewed net gain of gold by the United States (following net losses since November 1941). From the beginning of December 1945 to the end of 1946 the net gain of gold from foreign countries amounted to around 790 million dollars, reflecting the release and sale of substantial amounts of gold previously earmarked for foreign accounts, as well as the sale of a considerable part of the net gold imports aggregating 331 million dollars. Net imports from Canada alone amounted to about 380 million, and there were also substantial imports from the Union of South Africa. There were, however, sizable net exports of gold to certain Latin American countries, representing chiefly the release and shipment of gold earmarked here for those countries. During the 13-month period, foreign earmarked gold in this country declined by 460 million dollars to 3,828 million on December 31, 1946.

Despite their net losses of gold to the United States since December 1945, foreign countries as a whole (including Russia) are estimated to have held an aggregate of about 16 billion dollars of gold at the end of 1946. These reserves, combined with total foreign official holdings of dollar balances amounting to about 3.8 billion dollars on October 31, 1946 (and drawing rights in the International Monetary Fund), will in a number of cases help foreign countries to finance any net deficits on current account with this country which they may have in coming years. These assets, however, are very unevenly distributed; in many cases the countries most likely to have sizable deficiencies in their current international accounts during the transition period are those lacking substantial amounts of gold reserves or dollar assets. Consequently, the larger part of the deficiencies of dollars are likely to be handled, at least for another year or two, by continued drawings upon the credits extended to foreign countries by the United States Government and its agencies. It is expected, however, that financial assistance will become increasingly available through the facilities of the newly organized International Bank for Reconstruction and Development, and eventually, it is hoped, through a renewed flow of private investments.

Developments in the Foreign Exchange Market

Further relaxation of the Treasury Department's foreign funds control regulations, as well as some liberalization of exchange controls abroad, led to a modest revival of the New York foreign exchange market during 1946. The range and volume of trading continued to be relatively restricted until the middle of the year; in the latter half of the year, however, some rather wide fluctuations occurred in a more active market. In the case of several currencies, there were abrupt changes in the quotations ruling in this market, reflecting important revaluations in official rates which occurred abroad.

The process of removing our wartime foreign funds controls has involved two major steps, the freeing of current transactions and the provision of machinery for the release of existing blocked foreign assets. Current transactions have now been freed with all areas except Portugal, Spain, and Tangier. The machinery for releasing blocked assets is in operation with all except these three areas and Germany and Japan. According to the procedure established, assets are released when a designated foreign governmental agency has certified in writing that it is satisfied that no other blocked country or national thereof, at any time since the date of original blocking, has had any interest in the property involved.*

On July 5 the Canadian dollar was appreciated by 10 per cent to its prewar parity with the United States dollar. Prior to July 8 the rate for the Canadian dollar in unofficial dealings here fluctuated within relatively narrow limits. On that date, the New York rate opened at $0.99375, or 8-9/16 cents above the previous close. Subsequently, however, the rate moved between $0.973125 and $0.9500, and at the end of the year it was quoted at about the lower level.

* In the case, however, of a few countries, notably China, there was a general unblocking of previously frozen assets without the use of the certification procedure.

The Swedish krona was revalued upward on July 13 by approximately 16½ per cent to a level of about 27¾ cents. Both the Canadian and Swedish appreciations were undertaken primarily in an attempt to protect domestic price levels against the price increases in the United States which followed the initial expiration of OPA controls on June 30.

On the other hand, the Turkish pound and the Chinese yuan were devalued during 1946. The Hungarian Government in August 1946 replaced the pengoe (rendered worthless by hyper-inflation) with a new currency, the forint, equivalent to $0.085184. In Brazil the abolition of dual rates in July was followed by several changes in the Bank of Brazil's buying rate for dollars, resulting in a minor appreciation of the cruzeiro. After holding steady at about $0.2350 (slightly above the official rate) until mid-1946, the "free" rate for the Swiss franc rose abruptly late in June and again in the latter part of November. On November 30 the United States Treasury announced the unfreezing of Swiss assets in this country. At the end of 1946 the "free" rate for the Swiss franc was quoted at $0.2825.

Except for a temporary decline to $4.03⅛ in the middle of May, the spot quotation for sterling held steady during the first seven months of the year at about $4.03½, which was the Bank of England's official buying rate for dollars. After the beginning of August, however, the rate receded somewhat, reaching a low point for the year of $4.02⅞ late in November. By the end of December the rate was up again to $4.03-3/16.

In the closing months of the year, the British Government announced a series of preliminary steps designed to make foreign receipts of sterling on current account freely convertible into United States dollars or any other currency by July 15, 1947, in accord with a provision of the Anglo-American Financial Agreement of December 1945. On October 2 it announced that British banks had been authorized to approve transfers of sterling from the Argentine Special Accounts to so-called American Sterling Accounts. Discussions between the British and Canadian authorities resulted in an arrangement, effective January 1, 1947, whereby a broader use of sterling by Canadian importers and exporters was permitted. A somewhat similar arrangement had been worked out early in 1946 between the British and Brazilian authorities.

Foreign Relations of the Federal Reserve System

As in the recent past, the foreign relations of the Federal Reserve System have centered around the operation of the accounts of foreign central banks and governments held at the Federal Reserve Bank of New York, acting either on behalf of all Federal Reserve Banks or as fiscal agent of the United States. These accounts include gold earmark and security custody accounts as well as deposit accounts. This bank makes payments and accepts deposits for foreign central banks and governments maintaining accounts with it and acts for them in the collection of checks, notes, bills, and other items payable in this country, and in the purchase and sale of foreign exchange. Among other facilities provided in the operation of the accounts is the purchase or sale, upon instructions, of United States Government and other securities. This bank also endeavors to carry out instructions to purchase for foreign account prime endorsed bankers acceptances with guarantee of payment at maturity of the acceptances purchased.

In addition to operations incident to the earmarking and holding of gold for foreign account and to the release and sale or export of such gold, facilities also exist for the granting of certain loans secured by gold held under earmark at this bank. Unlike the type of loan that has been made by the Export-Import Bank of Washington and the type of loan that is likely to be extended by the new International Bank for Reconstruction and Development, gold-secured loans recently granted by the Federal Reserve Banks have been short term loans intended to cover temporary dollar deficiencies in connection with foreign countries' balances of international payments. Interest on the amount outstanding has ordinarily been at the regular discount rate of this bank (now 1 per cent per annum).

Further progress was made during 1946 in the return of the Federal Reserve System's foreign operations to a peacetime pattern. This was reflected in the reactivation of a number of foreign central bank accounts which had been closed or become dormant during the war, and conversely the closing of most of the foreign government accounts which had been set up during the war. New accounts for five central banks were opened during the year.

In keeping with the over-all reduction in foreign holdings of gold and dollar exchange since V-J Day, the total amount of assets held by the Federal Reserve Banks for account of foreign central banks and governments continued during 1946 the decline which began in the last quarter of 1945. By the end of the year the total had receded to 5,330 million dollars, or 1,501 million below the level of a year earlier and 1,641 million below the September 1945 peak. This decline was evident in practically all types of assets held by the Reserve Banks. Foreign holdings of United States Government securities were reduced by 685 million dollars during the year and dollar balances by 353 million. Gold held under earmark for foreign account receded by a net amount of 368 million to 3,823 million dollars. The decline in the latter item reflected not only the excess of releases of gold for sale to the United States Treasury over new purchases, but also releases of 273 million dollars of gold for export. This amount, which exceeded the total shipped in 1945, brought to about 1.5 billion dollars the total of all gold exported since the movement began in 1943.

The only assets showing a noteworthy increase during the year were prime endorsed bankers acceptances, which this bank purchased for a number of foreign central banks with guarantee of payment at maturity. At the end of the year a total of 6.5 million dollars of such bankers acceptances was held for foreign account. While the amount was not large in relation to the sizable amount held in 1930 (when the total amount of outstanding acceptances was much larger than the 1946 volume), these were the first acceptances purchased and held for foreign account since the latter part of 1939.

Although the volume of foreign operations undertaken on behalf of United States Government departments and agencies was further reduced during 1946, there was, nevertheless, a rather sizable increase in the total volume of foreign transactions handled by this bank. There was a substantial increase during the year in both the number and size of gold-secured loans, as described above, granted to foreign central banks by the Federal Reserve Banks. A series of such loans which were made under an arrangement with a European central bank were the largest transactions of this type during the year. At the end of 1946 more than 100 million dollars was outstanding under this loan arrangement. The gold loan facility was also used to a lesser extent by another European central bank and by three Latin American central banks. A total of about 150 million dollars of loans on gold was outstanding at the end of the year.

In addition to its relations with foreign central banks and governments, the Federal Reserve Bank of New York was appointed, pursuant to the Bretton Woods Agreements Act, as depository of the International Monetary Fund and of the International Bank for Reconstruction and Development. In June 1946 this bank was authorized by the Treasury Department to act as fiscal agent for the Export-Import Bank of Washington with respect to a 200 million dollar loan which that bank had previously granted to the Netherlands Government and in which about 40 commercial banks subsequently participated to the extent of approximately one half of the total. Acting in this capacity, this bank, directly and through the other Reserve Banks, set up the necessary arrangements for the participation by the commercial banks. Lastly, as fiscal agent of the United States, this bank continued to operate the Exchange Stabilization Fund under authorizations and instructions from the Treasury.

Volume and Trend of the Bank's Operations

The year 1946 was the first full calendar year of peacetime operation since 1938. It showed a sizable contraction of the bank's fiscal agency work, which had grown greatly during the war, although the volume of this work continued at a far higher level than before the war. At the same time there was further expansion of the more usual types of peacetime operation. On the whole, the volume of operations remained relatively high.

The conversion from war to peace was accompanied by a large decrease in both the number and dollar amount of checks handled for the United States Government, but by an even greater expansion in the number of checks cleared and collected for individuals and businesses. Total checks handled during the year represented an all-time peak. Public demand for currency and coin continued to increase (though more slowly than during the war years) and in consequence, new highs in the total volume of currency and coin received and counted at this bank were recorded. The number and dollar amount of collection items handled for the United States Government rose somewhat further, but the number and dollar amount of collection items handled for others declined moderately. The aggregate dollar amount of discounts and ad-

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

	1946	1945
Number of pieces handled*		
Discounts and advances	2,300	3,000
Currency received and counted	917,697,000	799,990,000
Coin received and counted	2,046,492,000	1,563,245,000
Checks handled:		
United States Government checks	61,730,000	103,989,000
All other	290,828,000	237,303,000
Collection items handled:		
United States Government coupons paid**	7,325,000	6,529,000
All other	1,030,000	1,052,000
Disbursements as fiscal agent for Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	110,000	136,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Government direct obligations	35,046,000	55,575,000
All other	182,000	244,000
Safekeeping of securities:		
Pieces received and delivered	27,676,000	67,030,000
Coupons detached	1,328,000	1,207,000
Transfers of funds†	197,000	174,000
Incoming and outgoing mail:		
Registered	578,000	766,000
Ordinary	10,040,000	12,255,000
Amounts handled		
Discounts and advances	$ 8,496,610,000	$20,669,069,000
Currency received and counted	5,470,460,000	5,012,660,000
Coin received and counted	170,361,000	154,801,000
Checks handled:		
United States Government checks	19,763,836,000	34,105,029,000
All other	172,736,289,000	153,587,138,000
Collection items handled:		
United States Government coupons paid**	1,771,752,000	1,503,073,000
All other	2,547,381,000	2,854,038,000
Disbursements as fiscal agent for Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	1,139,277,000	1,482,210,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Government direct obligations	182,907,272,000	180,576,687,000
All other	1,708,798,000	2,101,136,000
Safekeeping of securities:		
Pieces received and delivered (par value)	614,362,919,000	582,264,216,000
Transfers of funds†	77,880,003,000	63,858,021,000

* 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.

† Includes wire and mail transfers; excludes gold transfers.

vances receded nearly 60 per cent as member banks reduced their borrowing from the Reserve Bank.

Some further reduction occurred in the volume of fiscal agency disbursements for the Reconstruction Finance Corporation, its subsidiaries, and the Commodity Credit Corporation. In addition, the absence of War Loan drives during the year was reflected in a lower level of public participation in sales of Government securities, thereby sharply reducing the number of Government securities issued, redeemed, and exchanged at this bank. This was also true of the number of securities handled by the Safekeeping Department. However, the dollar volume of such issues, redemptions, and exchanges of Government securities, and of the securities transactions of the Safekeeping Department, was higher than in 1945 since the Treasury debt retirement program, together with exchanges, involved large amounts of securities held by member banks.

Despite the considerable progress made by the United States Treasury in its program for "defrosting" blocked foreign accounts, the work of this bank's Foreign Funds Control Department did not decline materially during the year. This was largely because of the transfer to the New York Bank of the Foreign Funds Control functions of the other eleven Federal Reserve Banks.

Financial Statements

Statement of Condition

This bank's total assets showed only a slight increase during 1946, in contrast to the large year-to-year increases during the three preceding war years. In those years, the increases had arisen chiefly from continued purchases of Government securities, made to provide member banks with needed reserve funds. In 1946, changes in the various asset items were small in most cases; the most noteworthy changes were a considerable reduction in discounts and advances, and a small decline in holdings of Government securities.

Year-end data on discounts and advances frequently are not of much significance, because of the tendency of member banks to reduce their indebtedness to a minimum at such times, but the reduction of 155 million dollars between the end of 1945 and 1946 is indicative of a generally reduced volume of member bank borrowing since the elimination in April of the preferential discount rate of ½ per cent on advances secured by Government securities maturing or callable in one year or less. The net change during 1946, however, overstates the degree to which member bank borrowing was reduced; on the basis of annual averages of the weekly figures, member bank borrowing receded 40 per cent from 1945 levels, or from 202 million dollars to 117 million dollars. Holdings of United States Government securities declined 120 million dollars during the year as decreases of 442 million dollars in Treasury notes, 208 million in certificates of indebtedness, and 48 million dollars in Treasury bonds, more than offset a rise of 578 million in Treasury bills. The decline in security holdings other than Treasury bills was occasioned by redemptions which were only partly offset by purchases in the market, while the increase in Treasury bills reflected the acquisition of such bills from member banks which were forced to sell securities to maintain their reserves at the required levels.

(In thousands of dollars)

Assets	Dec. 31, 1946	Dec. 31, 1945
Gold certificates	$ 5,061,375	$ 4,908,821
Redemption fund for Federal Reserve notes	124,008	124,283
Total gold certificate reserves	$ 5,185,383	$ 5,033,104
Other cash	$ 44,537	$ 36,867
Discounts and advances	$ 58,935	$ 214,344
U. S. Government securities:		
Bills	$ 3,630,224	$ 3,052,191
Certificates	1,890,027	2,098,442
Notes	89,585	531,769
Bonds	189,958	237,552
Total U. S. Government securities	$ 5,799,794	$ 5,919,954
Total loans and securities	$ 5.858,729	$ 6,134,298
Due from foreign banks	$ 34*	$ 40*
Federal Reserve notes of other banks	19,882	17,675
Uncollected items	576,280	420,234
Bank premises	8,459	8,674
Other assets	11,182	15,382
Total assets	$11,704,486	$11,666,274
*After deducting participation of other Federal Reserve Banks amounting to	$ 68	$ 70

Following five consecutive years of decline, gold certificate reserves rose 152 million dollars during 1946, owing to deposits of gold certificates by the Treasury against gold purchased from foreign countries, and to a small favorable balance for the Second District in clearings through the interdistrict settlement fund.

Among the liabilities, Federal Reserve notes of this bank in circulation increased 306 million dollars further in 1946. (The increase in outstanding notes of this bank was greater, proportionately, than for all Reserve Banks combined.) This compares with increases of 557 million in 1945 and well over one billion dollars in 1944 and reflects the continued tapering off of the wartime increase in the outstanding currency circulation, of which the largest component is Federal Reserve notes.

(In thousands of dollars)

Liabilities	Dec. 31, 1946	Dec. 31, 1945
Federal Reserve notes	$ 5,714,364	$ 5,407,924
Deposits:		
Member bank—reserve account	$ 4,903,039	$ 4,855,437
U. S. Treasurer—general account	94,716	293,764
Foreign	189,873*	337,584*
Other	224,947	343,765
Total deposits	$ 5,412,575	$ 5,830,550
Deferred availability items	$ 362,569	$ 236,189
Other liabilities	2,811	1,413
Total liabilities	$11,492,319	$11,476,076
Capital accounts:		
Capital paid in	$ 65,801	$ 63,630
Surplus (Section 7)	136,549	116,860
Surplus (Section 13b)	7,253	7,205
Other capital accounts	2,564	2,503
Total capital accounts	$ 212,167	$ 190,198
Total liabilities and capital accounts	$11,704,486	$11,666,274
Contingent liability on bills purchased for foreign correspondents	$ 2,181†	—
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	46.6%	44.8%
* After deducting participation of other Federal Reserve Banks amounting to	$ 317,868	$ 523,414
† After deducting participation of other Federal Reserve Banks amounting to	4,366	

Total deposits at the Federal Reserve Bank receded 418 million dollars during the year, as a result of substantial declines in all major deposit categories except member bank reserve accounts; the latter increased 48 million dollars owing to a growth in the volume of member bank deposits requiring reserves. Deposit balances of foreign central banks and governments with this bank were drawn down 148 million dollars (part of a larger reduction at all Reserve Banks), reflecting the termination of United States lend-lease aid in August 1945 and the subsequent necessity for foreign countries to pay cash for an increased portion of the goods and services supplied to them by American sellers.

Reflecting the combined effect of higher gold certificate reserves and a decreased total amount of Federal Reserve note and deposit liabilities, the reserve ratio of this bank increased slightly from 44.8 per cent at the close of 1945 to 46.6 per cent at the close of 1946.

Earnings and Expenses

Gross earnings of the bank rose 1.4 million dollars further to 37.4 million dollars in 1946, owing primarily to greater average holdings of Treasury bills. Earnings on loans were reduced slightly as member bank borrowing declined, but holdings of bankers acceptances for this bank's own account contributed a small amount of earnings for the first time since 1937.

Net expenses increased by more than 2.1 million dollars to 13.7 million, causing a reduction in current net earnings by 700 thousand to 23.7 million dollars. The rise in net expenses reflected increases in aggregate compensation of employees and an accompanying increase in the bank's contribution to the retirement fund. Additions to current net earnings, mostly in the form of profits on sales of Government securities, were about 400 thousand dollars less than a year ago, while total deductions were 600 thousand higher, mainly because of special payments to the retirement fund, including adjustments to equalize benefits of employees returning from military service. As a result of all factors, net earnings after all charges were reduced 1.7 million dollars to 23.7 million. The usual 6 per cent dividend, amounting to some 3.9 million dollars, was paid to the member banks and practically all of the remainder of net earnings was transferred to surplus.

Profit and Loss Account
For the Calendar Years 1946 and 1945
(In thousands of dollars)

	1946	1945
Earnings	$ 37,443	$ 36,026
Net expenses	13,740	11,623
Current net earnings	$ 23,703	$ 24,403
Additions to current net earnings:		
Profits on sales of U. S. Government securities	$ 433	$ 802
All other	132	135
Total additions	$ 565	$ 937
Deductions from current net earnings:		
Retirement system salary computation adjustment	$ 531	$ —
All other	72	3
Total deductions	$ 603	$ 3
Net earnings	$ 23,665	$ 25,337
Paid United States Treasury (Section 13b)	$ 63	$ 66
Dividends paid	3,865	3,627
Transferred to surplus (Section 13b)	48	63
Transferred to surplus (Section 7)	19,689	21,581
Surplus (Section 7) beginning of year	$ 116,860	$ 84,903
Addition as above	19,689	21,581
Transferred from contingent reserves:		
Previously charged to current net earnings	—	5,706
Previously charged to surplus	—	4,670
Surplus (Section 7) end of year	$ 136,549	$ 116,860

Changes in Membership

During 1946 five State banks and trust companies in the Second Federal Reserve District were admitted to membership in the Federal Reserve System. The total number of member banks in the District, however, decreased from 814 on December 31, 1945 to 801 at the end of 1946, owing to the absorption of 17 member banks by 12 other member banks and the absorption of one member bank by a nonmember bank. Also during the year, three nonmember banks were merged into State member banks. Member banks at the end of 1946 constituted about 87 per cent in number and held about 95 per cent of the total assets of all national banks, State banks, and trust companies in the District.

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

(Exclusive of savings banks, private bankers, and industrial banks)

Type of bank	December 31, 1946			December 31, 1945		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	542	0	100	551	0	100
State banks and trust companies	259	124	68	263	132	67
Total	801	124	87	814	132	86

Changes in Federal Reserve Membership in Second District During 1946

Total membership beginning of year	814
Increases:*	
State banks and trust companies admitted	5
Decreases:	
Member banks combined with other members	17
Member bank combined with nonmember	1
Total membership end of year	801

* In addition to figures shown in this table, three nonmembers were merged into member banks during the year.

State Banks and Trust Companies in the Second Federal Reserve District Admitted to Membership in 1946

		Effective Date
The Trust Company of New Jersey	Jersey City, N. J.	February 27
South Shore Trust Company	Rockville Centre, N. Y.	July 17
Bank of Delevan	Delevan, N. Y.	August 15
Bank of Syosset, New York	Syosset, N. Y.	October 2
Bank of Clarence	Clarence, N. Y.	December 26

Changes in Directors and Officers

At a regular election in the autumn of 1946, Winthrop W. Aldrich, Chairman of the Board, The Chase National Bank of the City of New York, was elected by member banks in Group 1 as a Class A director for a term of three years, beginning January 1, 1947, to succeed S. Sloan Colt, President, Bankers Trust Company, New York, whose term expired December 31, 1946. At the same time, Lewis H. Brown, Chairman of the Board, Johns-Manville Corporation, was elected by member banks in Group 1 as a Class B director for a term of three years, beginning January 1, 1947, to succeed Donaldson Brown, until recently Vice Chairman of the Board, General Motors Corporation, whose term expired December 31, 1946.

Effective December 31, 1946, Beardsley Ruml, Chairman, R. H. Macy & Co., Inc., resigned as a Class C director of this bank. Mr. Ruml had served as a Class C director since January 1937, as Deputy Chairman of the Board from January 1938 to January 1941, and thereafter as Chairman and Federal Reserve Agent.

The Board of Governors of the Federal Reserve System appointed Robert D. Calkins, Associate Director, General Education Board, New York, as a Class C director for a further term of three years, beginning January 1, 1947. The Board of Governors also reappointed William I. Myers, Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y., as Deputy Chairman of this bank for the year 1947.

In December 1946, the Board of Governors of the Federal Reserve System appointed Thomas Robins, Jr., President, Hewitt-Robins, Incorporated, Buffalo, N. Y., as a director of the Buffalo Branch for a further term of three years, beginning January 1, 1947.

The directors of this bank appointed Raymond F. Leinen, Executive Vice President, Lincoln Rochester Trust Company, Rochester, N. Y., a director of the Buffalo Branch for a term of three years, beginning January 1, 1947, to succeed Elmer B. Milliman, President, Central Trust Company Rochester, N. Y., Rochester, N. Y., whose term expired December 31, 1946. The directors of this bank also appointed C. George Niebank, President, Bank of Jamestown, Jamestown, N. Y., a director of the Buffalo Branch for a term of three years, beginning January 1, 1947. Mr. Niebank will fill a vacancy resulting from an amendment to the by-laws of the branch, adopted in accordance with a general program throughout the Federal Reserve System, under which the chief executive officers of the branches will no longer serve on the branch boards of directors.

Insley B. Smith was reappointed as chief executive officer of the Buffalo Branch for the year 1947, with the title of General Manager instead of Managing Director as heretofore.

The directors of this bank designated Marion B. Folsom as Chairman of the Board of Directors of the Buffalo Branch for the year 1947, to succeed Thomas Robins, Jr.

Changes in Officers

Peter P. Lang, formerly Special Assistant in the Foreign Department, was appointed Acting Manager, effective February 26, 1946, and was appointed Manager, effective August 8, 1946, in each case being assigned to the Foreign Department.

Norris O. Johnson, formerly Manager of the Research Department, resigned, effective March 19, 1946, to become an Assistant Vice President of The National City Bank of New York.

Robert H. Brome, formerly Assistant Counsel and Assistant Secretary, resigned effective April 30, 1946, to enter the private practice of the law in Basin, Wyoming. John J. Clarke, formerly a Special Attorney in the Legal Department, was appointed Assistant Counsel and Assistant Secretary, effective April 1, 1946.

Andrew N. Overby, who left the bank in September 1942 to enter military service, was, upon his release from the service, appointed an Assistant Vice President, effective May 1, 1946. In August 1946, Mr. Overby was granted a leave of absence to serve as Special Assistant to the Secretary of the Treasury in the field of international monetary and financial affairs.

Daniel J. Liddy, Manager of the Foreign Department, who had been a member of the staff for twenty-eight years, died on June 24, 1946.

Effective August 8, 1946, Walter H. Rozell, Jr., formerly Special Assistant in the Foreign Department, was appointed Acting Manager, and, effective January 2, 1947, he was appointed Manager, in each case being assigned to the Foreign Department.

O. Ernest Moore, formerly Chief of the Foreign Research Division, Research Department, was appointed a Manager, effective October 1, 1946, and assigned to the Research Department.

John H. Williams, formerly Vice President, was appointed Economic Adviser, effective January 2, 1947. He will continue to serve as adviser to the directors and the President of the bank.

Member of Federal Advisory Council

At its first meeting in January 1947, the Board of Directors of this bank selected W. Randolph Burgess, Vice Chairman of The National City Bank of New York, to serve during the year 1947 as the member of the Federal Advisory Council from the Second Federal Reserve District.

Directors and Officers

Class	Group	DIRECTORS	Term Expires Dec. 31
A	1	WINTHROP W. ALDRICH Chairman of the Board, The Chase National Bank of the City of New York, New York, N. Y.	1949
A	2	HARRY H. POND Chairman of the Board, The Plainfield Trust Company, Plainfield, N. J.	1947
A	3	HOWARD A. WILSON President, Citizens National Bank and Trust Company of Fulton, Fulton, N. Y.	1948
B	1	LEWIS H. BROWN Chairman of the Board, Johns-Manville Corporation, New York, N. Y.	1949
B	2	CHARLES E. ADAMS Chairman, Air Reduction Company, Inc., New York, N. Y.	1947
B	3	CARLE C. CONWAY Chairman of the Board, Continental Can Company, Inc., New York, N. Y.	1948
C		Vacancy — *Chairman*	1947
C		WILLIAM I. MYERS, *Deputy Chairman* Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1948
C		ROBERT D. CALKINS Associate Director, General Education Board, New York, N. Y.	1949

DIRECTORS—BUFFALO BRANCH	Term Expires Dec. 31
MARION B. FOLSOM, *Chairman* Treasurer, Eastman Kodak Company, Rochester, N. Y.	1947
CARL G. WOOSTER Farmer, Union Hill, N. Y.	1948
THOMAS ROBINS, JR. President, Hewitt-Robins, Incorporated, Buffalo, N. Y.	1949
CHARLES H. NORTON President, Erie County Trust Company, East Aurora, N. Y.	1947
CHARLES H. DIEFENDORF President, The Marine Trust Company of Buffalo, Buffalo, N. Y.	1948
RAYMOND F. LEINEN Executive Vice President, Lincoln Rochester Trust Company, Rochester, N. Y.	1949
C. GEORGE NIEBANK President, Bank of Jamestown, Jamestown, N. Y.	1949

MEMBER OF FEDERAL ADVISORY COUNCIL

W. RANDOLPH BURGESS,
Vice Chairman, The National City Bank of New York,
New York, N. Y.

OFFICERS

Allan Sproul, *President*
Leslie R. Rounds, *First Vice President*

John H. Williams, *Economic Adviser*

Edward O. Douglas, *Vice President*
J. Wilson Jones, *Vice President*
Herbert H. Kimball, *Vice President*
L. Werner Knoke, *Vice President*
Walter S. Logan, *Vice President, and General Counsel*

Arthur Phelan, *Vice President*
Harold V. Roelse, *Vice President*
Robert G. Rouse, *Vice President*
Valentine Willis, *Vice President*
Reginald B. Wiltse, *Vice President*

Todd G. Tiebout, *Assistant General Counsel*

Rufus J. Trimble, *Assistant General Counsel*

Loren B. Allen, *Assistant Vice President*
Harold A. Bilby, *Assistant Vice President*
Felix T. Davis, *Assistant Vice President*
Norman P. Davis, *Assistant Vice President*
Silas A. Miller, *Assistant Vice President*

Horace L. Sanford, *Assistant Vice President*
William F. Sheehan, *Chief Examiner*
Otto W. Ten Eyck, *Assistant Vice President*
William F. Treiber, *Assistant Vice President, and Secretary*
John H. Wurts, *Assistant Vice President*

William F. Abrahams, *Manager, Security Custody Department*
Dudley H. Barrows, *Manager*
Curtis R. Bowman, *Manager, Credit Department, and Manager, Discount Department*
Harry M. Boyd, *Manager, Safekeeping Department*
Wesley W. Burt, *Manager, Savings Bond Redemption Department*
James J. Carroll, *Manager, Planning Department*
John J. Clarke, *Assistant Counsel, and Assistant Secretary*
Paul R. Fitchen, *Manager, Cash Custody Department*
Marcus A. Harris, *Manager, Government Bond Department*

William A. Heinl, *Manager, Personnel Department*
Peter P. Lang, *Manager, Foreign Department*
Spencer S. Marsh, Jr., *Manager, Accounting Department*
Michael J. McLaughlin, *Manager, Collection Department*
O. Ernest Moore, *Manager, Research Department*
Franklin E. Peterson, *Manager, Bank Relations Department*
Walter H. Rozell, Jr., *Manager, Foreign Department*
Ralph W. Scheffer, *Manager, Check Department*
Charles N. Van Houten, *Manager, R.F.C. Custody Department*
Roy E. Wendell, *Manager, Cash Department, and Manager, Government Check Department*
Harold M. Wessel, *Manager, Planning Department*

William H. Dillistin, *General Auditor*
Donald J. Cameron, *Assistant General Auditor*

OFFICERS—BUFFALO BRANCH

Insley B. Smith, *General Manager*

Halsey W. Snow, *Cashier*

George J. Doll, *Assistant Cashier*
M. Monroe Myers, *Assistant Cashier*