Thirty-third Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1947

Second Federal Reserve District

FEDERAL RESERVE BANK OF NEW YORK

March 22, 1948

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

I am pleased to transmit herewith the thirty-third annual report of the Federal Reserve Bank of New York reviewing the year 1947.

ALLAN SPROUL,
President.

CONTENTS

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The outstanding economic feature of the year 1947, both at home and abroad, was the further progress of inflation. Since the war ended, the world has been faced with a condition of inflation as severe, and seemingly as intractable, as the deflationary conditions that characterized the thirties. It has taken different forms in different countries. The differences have arisen partly out of the differences in circumstances, economic and political, and partly out of the differences in the policies pursued.

The whole problem must be viewed against the background of the war. It is due basically to the destruction of resources in the war, and to the difficulties inherent in the conversion of resources from peacetime to wartime ends and back again. These immense changes have been carried out, in all countries, by a combination of specific measures designed to direct and ration production and consumption and to control wages and prices, and of the more general monetary and fiscal policies designed to control the money supply and the aggregate volume of spending. During the war, the pattern of policy pursued in the different countries was fairly uniform. Considering the magnitude of the war effort, it was in most countries surprisingly successful. But as we see clearly now, its main effect was to postpone rather than remove inflationary pressures. The uniform pattern of policy may be said to have ended almost with the war itself. In most of the European countries, the main emphasis continued to be placed on the direct controls, whereas here at home the reconversion process was accompanied by early removal, or breakdown, of direct wartime controls, and the main reliance was placed on freeing the economy to make its own adjustments.

That the policy of relaxing direct restraints was more feasible for us than for most other countries can hardly be doubted. Inflation always consists of some combination of deficiency of goods and superfluity of money. In both respects we entered the postwar period in relatively favorable conditions. We had given an astonishing demonstration of productive capacity and could look forward, once reconversion was completed, to a backlog of deferred demand, both domestic and foreign, which would keep our economy running, for some years at least, at full speed provided cumulative maladjustments did not interfere. On the money side, we came out of the war with a substantially higher ratio of money to national product than at the beginning, but with nothing comparable to the large money "overhang" that has plagued the European countries. Though most of the European countries — despite the wartime destruction of plant, the big hole still remaining in Germany, the disruptions in trade produced by the iron curtain, the loss of foreign assets, and the chaotic conditions in the Far East — have made more progress in production than is commonly recognized, and though some have resorted to unprecedented measures of monetary contraction, their problem, in general, is still one of acute deficiencies in output combined with a highly redundant money supply.

One result of these differences in circumstances and in policies has been the now familiar distinction between our "open" inflation and what in Europe is being called "disguised" or "suppressed" inflation. Since the abandonment or breakdown of OPA in the middle of 1946, inflation has expressed itself here in a rise of prices which, up to the break in the primary agricultural markets in January and February of 1948, had carried our price level approximately to the point from which the postwar deflation began in May 1920. But this rise in prices was accompanied by an expansion of physical output which, despite a period of hesitation and uncertainty last year, carried us by the end of the year to a record peacetime peak. In some of the European countries, on the other hand, the attempt to suppress the rise of prices by direct controls and subsidies has met with a rising volume of complaint that the process is only accentuating the scarcities, diverting labor and materials from more to less essential employments, and leading to disruption of trade and hoarding of goods. Moreover, there is increasing evidence that, in a number of countries at least, the controls are cracking and the suppressed inflation is coming out into the open in the form of price increases that go far beyond anything we have seen, or are likely to see. This rise of internal prices and the disturbed conditions of production and distribution have of course had the effect of greatly increasing their international deficits, which has resulted in increased inflationary pressure on our own economy.

It is against this sort of background that our own experiences in 1947 must be appraised. Throughout the year, the impact of world conditions on our economy, and the differences here and abroad that have been described, had a major effect upon the course of prices and production. During the first part of the year we had a surplus of exports never previously equaled in time of peace, and though later in the year this excess somewhat declined, the pressure of specific exports, notably grains under the Government's buying program for European aid, has been a major spearhead of our inflation.

One effect of our relatively favorable conditions has been that our inflation has been of the chills-and-fever rather than the runaway type. At no time since the postwar expansion began in the first quarter of 1946 have we been entirely clear whether we should fear more the inflation that was visibly going on or the deflation that might at any time ensue if too vigorous corrective measures were adopted; and as prices and production rose to new heights, this fear of a downturn that might get out of hand grew correspondingly. The result was that the movements of prices and production both pursued an irregular course in 1947. The uprush of prices that began in the middle of 1946 appeared to have run its course by the end of the first quarter of 1947. This fact, coupled with the general feeling of uncertainty which had been generated by the stock market decline of the preceding summer, and perhaps particularly by our awareness that the level of production was already very high and that we had about reached the point in time at which depression had set in following the boom after World War I, resulted in some months of hesitation in which the upward pressure on prices seemed to have been removed and production underwent a moderate decline.

The resumption of inflationary pressure in the second half of the year can be traced fairly directly to the growing evidence of deterioration in the situation in Western Europe, as revealed particularly by Secretary Marshall's speech on June 5, and the growing recognition that the economic and political restoration of Western Europe would require not only a large-scale program of aid from us — the European Recovery Program which has now been approved — but also substantial interim aid before that program could be put into effect. During the summer — with the further adverse turn in Britain's balance of payments resulting in part from the winter fuel crisis, the rise in prices here, and the premature attempt to resume convertibility of sterling — the British loan ran out with astonishing rapidity. In May the French price level, already very high, broke out in a rise of runaway proportions. The Italian economy was in critical condition by early fall. The combination of bad harvests in Western Europe and our own short corn crop exerted acute pressure on grain prices here, and through them on meat, dairy products, and other prices. As the effects spread out, there occurred a broad rise of prices during the second half of the year, which brought us to about the level from which the downturn occurred in 1920. While the price rise has been marked in many categories, it seems clear that agricultural prices in particular have been the spearhead, rising to much beyond their 1920 peak, and giving an impetus to demands for increased wages which, in turn, resulted in higher prices of other products. No more striking evidence of the distortion of the price structure on the agricultural side could be given than the fact that, despite the pronounced drop of prices in the primary commodity markets in January and February of 1948, agricultural prices had not got down to the parity support points by the middle of February.

Until this drop in the commodity markets occurred, we had had about two full years during which the volume of effective demand exceeded our current capacity to supply it except at rising prices. There were, however, some significant differences as between 1947 and 1946. In the earlier year, industrial production increased substantially in each successive quarter, whereas in 1947 the level of industrial production reached in the first quarter was not again attained until the last quarter; but for the year as a whole it was 10 per cent above 1946, and in many important branches of industry operations were at a record peacetime volume, with capacity being utilized to the full. Steel production in the last quarter of 1947 was only 3 per cent under the wartime peak of the first quarter of 1944. Though steel and some other materials were still in tight supply, there was in general a better balanced flow of goods than in the preceding year, representing in part the further progress of reconversion and in part the very large volume of capital expenditures that has characterized the postwar period. One noteworthy difference between the two years was that in 1947 the main expansion was in the durable goods industries, both consumer and producer. It will be recalled that in the first phase of the expansion of civilian production after the war, the leading rôle had been played by consumer nondurable goods, a fact which, in view of the high level of consumption of such goods already attained during the war, took many Government and business analysts by surprise, and was largely responsible for the serious errors of forecasting which were made in 1945. The production of nondurable goods in 1947, though about 4 per cent greater in quantity than the year before, averaged about the same as in the last quarter of 1946. In dollar value, consumers' expenditures for nondurable goods increased 14 per cent over 1946, whereas expenditures for durable goods rose 33 per cent. The other noteworthy change was the substantial further increase in capital expenditures, for producers' equipment and new construction. After a period of hesitation in the spring of 1947, caused by high building costs and the uncertainty as to which way costs would turn, construction was resumed with a rush at rising prices, with the result that total private construction for the year exceeded that in 1946 by about 25 per cent in value but less than 5 per cent in volume.

As indicated earlier, up to the break in the commodity markets early in 1948, ours has been an intermittent inflation. It has been characterized by a strong upward movement of both output and prices, but with the emphasis transferred increasingly to the latter. There have been throughout sufficiently marked periods of pause and uncertainty to raise recurrently the question whether the inflation had run its course and would presently give way to a deflation that might get out of hand. The drop in the stock market in 1946 raised such a question, and the year 1947 has been much referred to as the year in which the expected postwar depression, paralleling 1920, did not occur. Nevertheless, as has been said earlier, there was a period in the spring of last year in which the price rise appeared to have leveled off, and this was a period also of moderate recession in output. The drop in agricultural prices this year has again raised the question. Is this merely another interruption of the inflationary spiral; is it the first phase of the downturn twice previously anticipated; or is it a correction in one sector of the economy which had got seriously out of line, and having been brought back will now provide a basis for continued high output and employment with decreasing inflationary pressure?

These are the possible alternatives. The last would seem much the most desirable, and quite without any attempt at prediction, one may at least indicate some of the elements in our current situation which may point in that direction. That agricultural prices had got seriously out of line with other prices is apparent, as are also the reasons for this development. Since the first of this year the evidence has been accumulating that the world food situation and our own give some promise of improvement, at least as regards the grains, where the pressure has been most acute. A correction, however, of the dimensions we have had might well have collateral effects in other segments of the economy, some favorable and others less so. It might well take the edge off the wage-price spiral, which would surely be a major stabilizing factor. But it also might readily induce hesitation in trade and production which, if too pronounced or prolonged, might lead to a cumulative contraction of output and employment. But with the pressures of demand already threatening to strain the economy beyond capacity, as seemed to be the case in late 1947, some slowing up of capital expenditures would be desirable, while the release of consumer income by a drop in food prices could be an important factor in sustaining other kinds of consumer expenditure, provided consumers were not at the same time becoming worried about the outlook for employment.

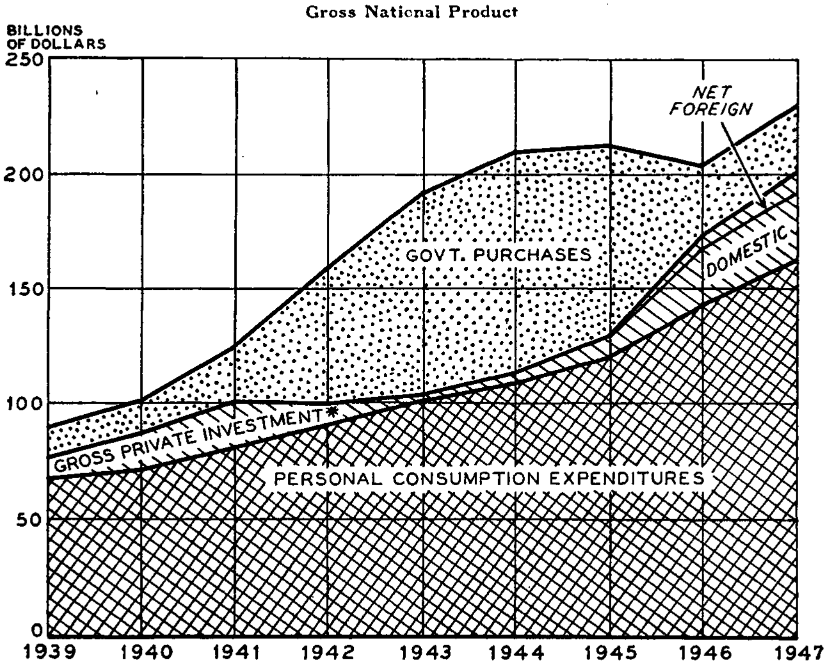
If these should prove to be the results of the decline in the commodity markets, the corrective adjustment that has taken place would be salutary indeed. In the background there is still undoubtedly a large backlog of unsatisfied demand, both domestic and foreign. In any case, with many of the maladjustments that characterized the boom after the first war much less serious this time, the evidence seems to warrant confidence that we do not face a downturn of such dimensions as occurred in 1920-21; and, on the other side, the improvement in the food situation, if it turns out to be substantial, might well mean that the worst phases of the inflationary spiral, so far as this country is concerned, have run their course. It is important to recognize that for the European countries also a decline of world agricultural prices would go far to lessen inflationary pressures and would be an important contributory factor to the success of the European Recovery Program. But this hopeful analysis of economic trends can be justified only on the dual assumption that the European countries will pursue a vigorous anti-inflationary policy and that American business, labor, and consumers, as well as domestic borrowers and lenders of credit, will pursue a policy of watchfulness and restraint.

We must bear in mind also that in a period of rapid change like the present, new developments require continuous re-appraisal of our economic outlook. As this report is written, the foreign aid program is being broadened to include further assistance to China, Greece, and Turkey, and major budgetary changes are in process. The enlargement of the foreign aid program indicates that we must think in broader terms than Western European recovery, strategic though that is, and must take account of our economic and political relations with the world as a whole. As to the budgetary changes, it seems premature to attempt to form a judgment about the effects of the combination of income tax reduction and increased expenditures for defense, but obviously these changes raise important questions for both monetary and general economic policy, and their effects must be closely watched.

Production, Prices, and Employment

During the second full year since the end of the war, the American economy achieved virtually full employment and capacity production. Despite a slight decline in over-all agricultural production, the aggregate physical output of mines, farms, factories, and other commodity-producing industries rose 7 per cent above 1946, while services declined owing to a drop in Government services. Since prices continued to advance, the increase in dollar value of gross national product (13 per cent) was considerably larger than the over-all gain in real output. Nevertheless, the 1947 gain in output represented a much better record than had been generally anticipated at the start of the year. The total value of goods and services produced in this country during 1947 was approximately 230 billion dollars, compared with 204 billion in 1946 and the peak wartime rate of 220 billion.

Gross National Product



*Gross private investment is the combined total of gross private domestic investment and net foreign investment. Net foreign investment was small up to 1941 and was negative in 1942-45.

Source: U. S. Department of Commerce.

At the start of 1947, the demand for both consumers' and producers' durable goods, backed by rising incomes, substantial liquid assets, and credit, continued on a high level. Business firms were still accumulating inventories, and the need for a large volume of residential and nonresidential construction persisted. Foreign demand for our exports remained pressing, and the level of Government expenditures, though down sharply from wartime, was still several times greater than under prewar budgets. During the first half of the year, moderate declines occurred in some of the major segments of the economy, mainly in nondurable goods production, accompanied by some tapering off of inventory accumulation and a lag in the volume of new construction. However, gains in other lines, chiefly in export trade and in business investment in plant and equipment, offset these tendencies and helped to push the gross national product to new record levels by the end of the year.

Production of nondurable goods was close to the all-time peak at the beginning of 1947, but by the end of the first quarter the situation had changed appreciably. The backlog of domestic demand for nondurable consumers' goods, such as restocking by distributors and veterans' civilian needs, had been greatly reduced by a year and a half of full-scale peacetime production. The increasing availability of durable goods and the rise in prices, particularly of food, cut into consumer budgets and limited purchases of many nondurable goods. As sales slackened and the promptness of deliveries from manufacturers to distributors increased, retailers endeavored to reduce their outstanding orders and inventories. Meanwhile there was considerable discussion of the possibility of a widespread downward readjustment of prices. As a result many distributors and some consumers deferred purchases in the hope of obtaining lower prices later. Under such conditions, some manufacturers curtailed operations rather than produce for inventory while high prices prevailed. The return of more competitive peacetime conditions made it less feasible for manufacturers to stabilize production by spreading deliveries and allocating quantities to their customers, as they had been able to do during the wartime excess of demand over supply.

The rapid increase in the value of business inventories which had taken place during the latter half of 1946 continued into the first quarter of 1947, although at a somewhat slower rate. This increase represented both the accumulation of goods to build up stocks to normal levels relative to the current volume of business and the rise in prices of the goods held. By the second quarter, however, distributors' "pipelines" seemed to be largely filled. In fact, there was a net liquidation of nearly one billion dollars of nondurable goods inventories by wholesalers and retailers between the end of March and the end of July, while at the same time the rate of accumulation of stocks by manufacturers declined sharply.

The construction industry, which had been expected to be one of the chief sustaining factors in the domestic economy during 1947, got off to a slow start in the first half of the year. While work continued on the large number of projects which had been started but not completed in 1946, there was a lag in the number of new projects initiated despite the continued pressing need for housing and the extensive plans of business for expansion. To some extent, the widespread expectation of a reduction in building costs caused prospective builders to defer their plans. Before midyear, the most optimistic estimates of 1947 construction activity had undergone a substantial downward revision.

Despite the large volume of demand for both consumers' and producers' durable equipment, the durable goods industries were unable to take up fully the slack caused by the decline in nondurable goods production and construction. This was mainly because of shortages of fuel and of raw and semimanufactured materials, principally steel; from time to time, the output of various types of finished goods was curtailed for lack of materials or parts. On the whole, however, the flow of raw materials and component parts to manufacturers was much smoother than in 1946, both because of adjustments in production and because the flow was less frequently interrupted by work stoppages. Certain durable goods lines experienced declines in production and employment in the first half of 1947 because of reduced demand. Employment at plants producing radios and some types of nonferrous metal products declined during the spring, and output of building materials slackened.

A major offsetting factor to any weakness in the general economic situation that might have been developing in this period was the unexpectedly sharp rise in exports. Between the last quarter of 1946 and the second quarter of 1947, exports rose by more than half, while the surplus of exports over imports more than doubled. Most of this increase represented expenditures made for foreign relief and reconstruction, largely out of funds supplied by the United States Government and, to a lesser extent, through depletion of war-torn foreign countries' gold and dollar reserves. In such cases, the demand was largely for goods (e.g., grain and steel), which were already in relatively short supply in this country. There was also extensive spending in the United States by countries which had accumulated unusually large gold or dollar holdings during the war. While this latter group of countries bought a certain amount of goods that were still relatively scarce here, their purchases also included large quantities of consumers' goods which were not in short supply.

By late spring, it was a common expectation that the latter half of the year would witness a downward trend in business activity and prices. There was, in fact, a decline in manufacturing employment of 320,000 production workers between March and July, more than half of which was in the textile and apparel industries. The Federal Reserve index of industrial production fell for four consecutive months, from 190 in March to 176 in July. Scattered price declines occurred, following the development of cautious buying by distributors, resistance to higher prices by consumers, and pleas by Government officials for business to "hold the line" against inflation. As a result, the general level of wholesale prices in June was below that of March, and consumers' prices in general leveled off during this period. Even export trade, which had had a sustaining influence, began to decline from the peak reached in May, owing in large part to depletion of some foreign countries' dollar balances or to newly imposed exchange restrictions abroad.

The immediate outlook underwent a radical change about midyear as it became clear that the domestic corn crop would amount to not more than three-quarters the size of the 1946 harvest, and that the European crops would be the worst in many years. The short American corn crop and the necessity of further large shipments of grain to Europe sent grain prices to the highest levels in thirty years, and prices of livestock, dairy, and poultry products were consequently pushed up by increased feed prices. Thus, the stage was set for a renewed rise in prices.

Meanwhile, an unexpectedly generous wage settlement in the bituminous coal industry in the early part of July touched off price rises for coal and steel and, somewhat later, also provided some of the basis for a rise in railroad freight rates. In turn, there was an advance in prices for many industrial products for which coal, steel, and freight costs are basic.

The simultaneous advance in both agricultural and industrial prices during the summer convinced businessmen and consumers alike that no early downward readjustment of prices was in sight. This view was strengthened by the prospect of a continued large volume of exports in connection with a Government-financed European recovery program and also by the stimulus to consumer demand furnished by the cashing of veterans' terminal leave bonds. Distributors, experiencing a high level of consumer demand and anticipating still higher prices, increased their buying. Of similar import was the elimination of most remaining restrictions on building construction at the end of June and, with the prospect of lower building costs dimmed, a large volume of construction projects got under way in the latter half of the year. Under the stimulus of such developments, most measures of economic activity rose to new postwar peaks by the end of 1947, and in many cases new all-time records were set.

The main sustaining factors in the economy which were present at the start of 1947, with the exception of inventory accumulation, still dominated the scene at the beginning of 1948. At the turn of the year, a general atmosphere of business optimism prevailed, based on the current record-breaking levels of business activity and the continuing high level of demand for consumers' goods and capital equipment.

Production of durable goods at the year end was at the highest peacetime level on record. Nondurable goods output had recovered by November to a point close to the all-time peak, although it dropped back somewhat in December. The aggregate volume of production at the beginning of 1948 was not much greater than it was at the start of 1947, but production was better balanced; consumers now find all but a few types of goods (such as automobiles) readily available, most supply pipelines have been filled, and the bottlenecks in component parts which plagued assembly lines throughout 1946 have diminished. Yet the prospects of further expansion in output to meet the still heavy demands for consumption and investment seem limited, unless there is a substantial increase in managerial efficiency and labor productivity. The scarcity, at present high levels of output, of critical materials, such as steel, petroleum, and some nonferrous metals, in effect puts a ceiling on production.

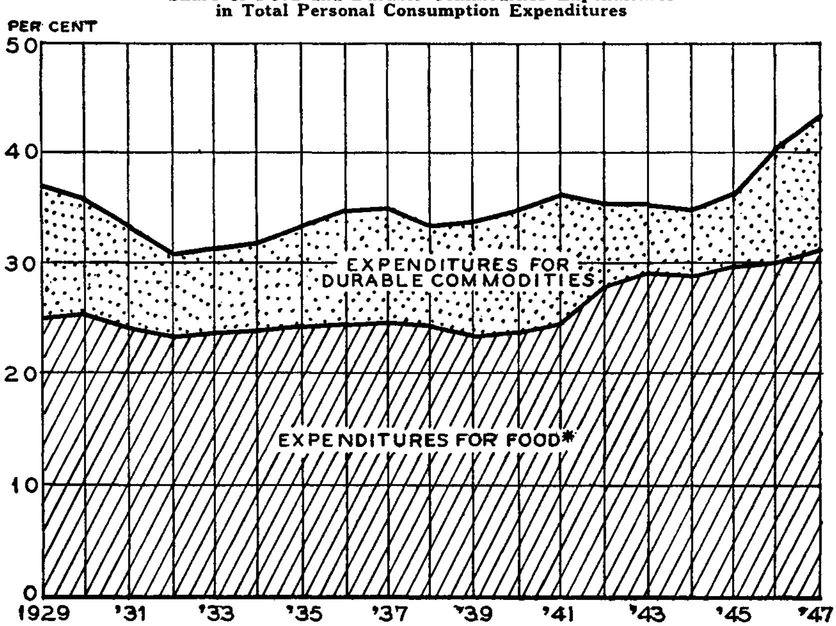
Similarly, farm production in this country has been at record or near record levels in recent years, and little further immediate expansion in output seems feasible except under unusually favorable weather conditions. At present the outlook for 1948 crops is generally favorable and, as the crop outlook in Europe and in the Southern Hemisphere has been improving; the upward pressure on farm prices has eased since the turn of the year. In view of the strong domestic and foreign demands for farm products, however, and the continued high level of agricultural prices, despite recent downward adjustments, American farmers are likely to continue to strive for maximum production.

Employment has continued to press on the goal described in recent years as "full employment." The total number employed (including those in the armed forces) was maintained close to 60 million persons during the latter half of 1947. In the closing months of the year, estimated unemployment was below 2 million persons, a level which is usually considered to represent the minimum amount of "frictional" unemployment. Labor turnover was smaller than in 1946; labor-management relations were comparatively peaceful during most of 1947; and the time lost by work stoppages reached a postwar low in December.

Wages and salaries increased generally, but workers in manufacturing and mining benefited to a larger extent than those in other industries from the second postwar round of wage increases. In December 1947, weekly earnings of manufacturing wage earners showed a rise of 13 per cent over a year previous, and miners' weekly earnings were up 10 per cent, but earnings of clerical and professional employees had advanced only 5 per cent in the same period, according to indexes compiled by this bank. Many of the less favored workers found their wage gains substantially offset, or more than offset, by the further 9 per cent rise in living costs during the year. Fixed income groups, of course, experienced the largest losses in "real" income.

Despite the rising dollar volume of consumer expenditures, the physical volume of goods distributed was little changed, and in some lines, such as department stores, an actual decrease in unit sales occurred in 1947. As shown by the accompanying chart, by the end of 1947, high food prices had raised the proportion of consumer budgets spent on food to the highest point in recent history. Furthermore, the filling of long deferred demands for durable goods in 1947 increased the share of total consumer expenditures devoted to such goods to double the wartime low and equal to the previous high level of 1941 and 1929. As a result, a smaller percentage of personal consumption expenditures was

Share of Food and Durable Commodities Expenditures in Total Personal Consumption Expenditures



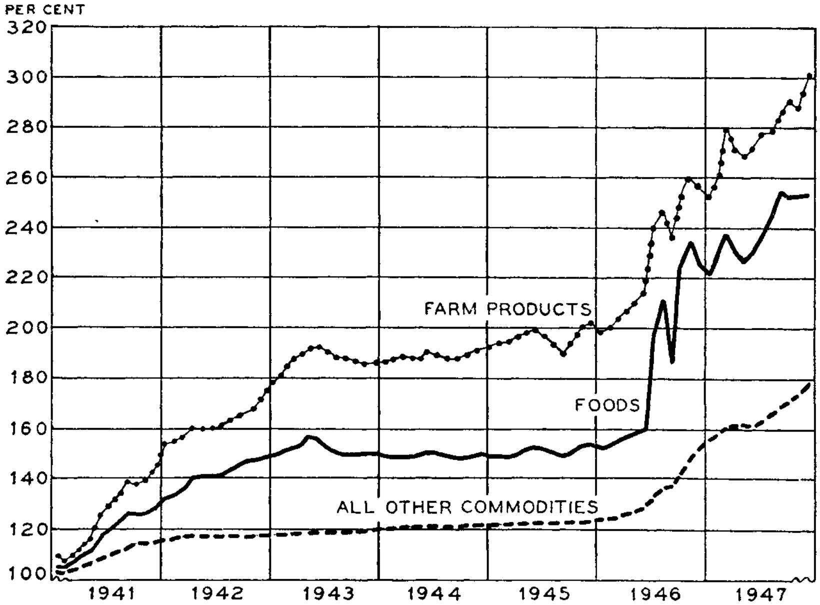
*Excluding tobacco and alcoholic beverages.
Source: U. S. Department of Commerce.

available for other nondurable goods and services in 1947 than at any time in at least two decades.

The high rate of domestic capital expenditures has been one of the most significant features of the year under review. Investment in construction and producers' durable equipment reached a record level in the last quarter of 1947. The bulk of investment in recent months has gone into housing and into plant and equipment; the renewed growth in inventories appears to be little greater than that necessitated by the continued price rise and the volume of sales. Net foreign investment, which is discussed in more detail in a subsequent section, also reached record levels in 1947.

Wholesale prices at the year end were close to the peak reached in the 1920 boom, and retail prices in general had long since exceeded all previous marks. Food prices (both wholesale and retail) had more than doubled their 1939 level, and prices received by farmers had tripled in the same period. Nearly half of the total increase in farm prices was made during the war, when the increase in prices of farm products outstripped the advance in other prices. By the end of 1946, the rapid rise in food prices following the relaxation of controls had narrowed

Indexes of Wholesale Prices
(1939 average = 100 per cent)



Source: U. S. Bureau of Labor Statistics.

the gap between farm and food prices, but prices of other commodities, which were more thoroughly controlled, had risen only about a third as much. Although the "other commodities" group made a large relative gain in 1947, it still lags far behind the farm and food groups.

Trends in the Second District

During 1947, business activity in the Second Federal Reserve District was maintained close to the high peacetime level prevailing at the end of 1946. The predominant influence, in this District, of consumers' nondurable goods industries (notably the apparel industry) had facilitated reconversion following the end of the war, and thus production, employment, and income payments had been better maintained in this area in 1946 than in the rest of the country. For the same reason, however, the year-to-year gains in 1947 were more moderate than elsewhere in the nation. For example, while factory employment in the Second District during 1947 was about 4 per cent above 1946, for the country as a whole the gain was 8 per cent. Toward the end of 1947, nonagricultural employment and payrolls in the District were well above prewar levels, and unemployment and time lost by strikes were the lowest since the end of the war.

In manufacturing, the outstanding development of the year in the Second District was the decline in activity during the spring and early summer, occasioned chiefly by more cautious buying of "soft goods" by retailers and the reappearance of the prewar seasonal drop in apparel production. At one time as many as 80,000 workers in the New York City garment industry were temporarily unemployed. Although employment has risen since that time, it has not again equaled the high level of the previous year. The dollar value of shipments of women's, misses', and juniors' outerwear from the New York metropolitan area during 1947 declined 7 per cent from 1946, compared with 3 per cent in the rest of the country. Cuttings of most types of men's clothing increased, however, as a result of continued strong demand and an easier supply of woolens.

Construction contracts awarded in this District increased at a greater rate over 1946 than in the country as a whole, owing to a 13 per cent rise in residential construction; nonresidential contracts awarded declined slightly. The rest of the country showed a reverse trend, with a 6 per cent gain in nonresidential awards and practically no change in the amount of residential contracts awarded.

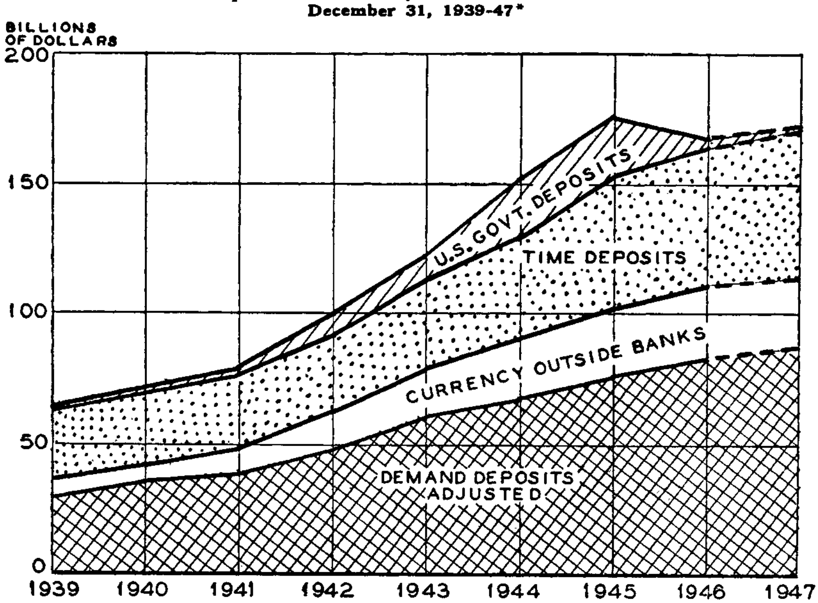
The dollar volume of department store sales in the Second District was about 9 per cent higher in 1947 than in 1946, a slightly larger gain than in the rest of the country. Sales of apparel stores, which in this District account for a large volume of sales that in other parts of the country are made by department stores and mail order houses, declined 4 per cent for the year as a whole, the first year-to-year decline experienced since 1938. The increase in the dollar volume of department store sales was not so great as the rise in retail price indexes, so that some decline in the physical volume of sales is indicated. The largest gains in the dollar volume of department store sales were apparently in the more rural areas, such as Northern New York State.

Although cash receipts from farm marketings in New York State showed the sizable increase of about 12 per cent over 1946 receipts, this gain was well below the increase shown in other sections of the country, particularly in areas specializing in grain and livestock production. Increased physical production of some commodities, as well as higher prices, contributed to the greater cash receipts of farmers in the Second District. New York State production of fluid milk, one of the principal sources of farm income in this District, was 6 per cent greater in 1947 than in 1946, and the New York State fruit crop as a whole compared favorably with 1946, which was also a good year. However, New York State feed grains and hay crops, important to the large dairy and poultry industries, were two-fifths less than in 1946. Production of potatoes, an important crop in this District, was about one-fifth below the 1946 crop, the record-breaking size of which had caused a serious surplus problem.

The Money Supply

Expansion of the money supply in the hands of the consuming public continued during 1947, but the rate of expansion was less rapid than in 1946 and much slower than during the war years. Total demand deposits at all banks, exclusive of Government and interbank accounts and after adjustment for "float," rose approximately 3.6 billion dollars, the smallest increase since 1938. Currency holdings of the public (i.e., currency outside the banks) decreased 130 million dollars, thus reversing the expansion which had begun in the mid-thirties. Time deposits in commercial and mutual savings banks and in the Postal Savings System continued to grow at well above the prewar rate, but the rise for the year—about 2.3 billion dollars—was less than half the increase in 1946.

Deposits and Currency in the United States
December 31, 1939-47*



*December 31, 1947 preliminary.

Government deposits held by the banking system were further reduced in 1947.

Growth of the privately owned money supply in the form of demand deposits and currency, even at the considerably reduced rate of about 3½ billion dollars in 1947, was a source of concern to the monetary authorities, in view of continuing inflationary tendencies in the economy. It is clear that the increase in the money supply was not the result of accumulation of idle balances but reflected demands for additional money for active use. The ratio of the average money supply to the gross national product turned downward in 1947 for the first time since 1942, indicating a somewhat faster turnover of money and probably an activation of money balances which the public had previously held idle. Although expansion of the real output of goods and services during 1947 (which the President's Economic Report estimates at less than 5 per cent) was somewhat greater than the increase in the money supply, it was not rapid enough to keep pace with the increase in money expenditures.

Growth in bank loans, except those on securities, was again the major factor in the expansion of the money supply in 1947. Although loans, other than those against securities, increased more slowly than in 1946, total bank loans increased by a larger amount than in 1946, as the reduction in security loans was much smaller than in the previous year. Loans to business, which accounted for the greatest share of the expansion, followed the same time pattern as in 1946—a modest increase in the first half of the year and a sharp expansion in the second half. Growth in business use of bank credit during 1947 reflected in part the need of additional working capital for a growing physical volume of business at rising prices. To some extent, however, it also represented financing of expenditures for construction or capital equipment which did not immediately contribute to greater production of consumer goods, and to this extent it contributed to the prevailing inflationary pressures by adding to the already heavy demands for scarce materials and labor. In many cases, these loans to finance capital expenditures may have been regarded by the borrowers as temporary sources of funds to be replaced subsequently by long term financing, but the unsettled conditions that prevailed during much of the past year made it difficult to raise equity capital and, at times, interfered with other types of long term financing.

Another important element in the growth of bank deposits was the large volume of foreign spending in this country which was financed

Causes of Changes in the Volume of Bank Deposits and Currency*

(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	Bank Loans: Other	Nonbank holdings of U. S. securities	Bank holdings of other securities	Gold and foreign accounts	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	+50,809	+ 798	− 1,112	−24,800	− 845	− 1,355	− 441	− 1,965	+21,089
1944	+46,146	+ 2,208	+ 206	−31,400	+ 129	− 1,163	− 647	+ 2,358	+17,837
1945	+35,751	+ 2,244	+ 2,096	−19,800	+ 1,016	− 212	− 919	+ 392	+20,568
1946	− 989	− 3,664	+ 8,950	+ 6,100	+ 931	+ 818	− 826	+ 2,891	+14,211
1947	− 6,868†	− 1,100e	+ 8,450e	+ 500p	+ 1,200p	+ 3,309†	− 580p	+ 889p	+ 5,800p

* Exclusive of U. S. Government deposits and currency in banks, but inclusive of time as well as demand deposits.

e Estimated by Federal Reserve Bank of New York.

† Adjusted for payment of United States quota in International Monetary Fund.

p Preliminary.

Source: Treasury cash income or outgo and nonbank Government security holdings — derived from *Treasury Bulletin*; all other data — Board of Governors.

by gold sales or drawings on previously accumulated deposits of foreign central banks or governments in the Reserve Banks. These foreign expenditures, which amounted to approximately 3 billion dollars, covered only part of the payments for the record volume of net exports of goods in peacetime from the United States during the past year, but represented the most inflationary element in our export surplus. Not only did they contribute substantially to the growth in bank deposits, but, to the extent that they were not offset by operations of the Federal Reserve System, they contributed also to the volume of member bank reserves, and provided a basis for additional expansion of bank credit. Thus they added to the volume of purchasing power in this country, while subtracting from the amount of goods available for domestic markets. Exports which are financed by the United States Treasury with funds obtained through tax collections or sales of securities to the public have no corresponding inflationary effects, as the diversion of goods from the domestic markets is matched by a corresponding diversion of income from actual or potential domestic spending; also there is no net effect on bank deposits or bank reserves.

Gold-financed foreign purchases in this country were reflected in an increase of 3.1 billion dollars in the gold certificate fund of the

Reserve Banks, but were not fully reflected in the increase in the United States gold stock, since nearly 700 million dollars of gold previously held by the Treasury for the Stabilization Fund was used in partial payment of the United States subscription to the International Monetary Fund. In addition, 275 million of gold held by the Treasury was credited to the gold certificate account of the Reserve Banks to provide the Monetary Fund with a working balance in the form of deposits in the Federal Reserve Banks.

The principal factor tending to counteract the effects of bank loan expansion and the inflow of foreign funds during the past year was the substantial excess of Treasury cash receipts over Government disbursements and the use of most of the funds to redeem Government securities held by the banking system, including large amounts of securities held by the Federal Reserve Banks. The excess of revenues over expenditures amounted to about 6.7 billion dollars in 1947, compared with less than one billion in 1946. The Treasury raised additional amounts which could be used for the redemption of marketable securities through net sales of 1.8 billion dollars of Savings bonds, through the sale of about 800 million dollars of closely restricted long term bonds to savings institutions on October 1, and through net sales from Government investment accounts of about 800 million dollars of Treasury bonds. Treasury deposits in the commercial banks again were drawn upon to provide funds for debt retirement, though necessarily in much smaller amounts than in 1946.

Not all of the public debt operations carried out by the Treasury during 1947, with funds obtained from these various sources, had the effect of reducing the money supply in the hands of the public, however, as some of the redeemed securities were held by nonbank investors. Furthermore, investing institutions such as insurance companies and savings banks, as well as other investors, sold considerable amounts of "bank eligible" Treasury securities to commercial banks during the first nine months of the year, and additional amounts of both "bank eligible" and "restricted" Treasury bonds were sold, through the market, to the Federal Reserve Banks toward the end of the year. (The latter sales, however, were partly offset by market purchases by these investors of short term Treasury securities, many of which were supplied by the Reserve Banks.)

The net result of all this complex of operations in Government securities, by the Treasury, the Reserve Banks, the commercial banks, and savings institutions and other investors, was a net reduction during 1947 of approximately 6.8 billion dollars in the Government security holdings of commercial and Federal Reserve Banks, most of it through operations which tended to reduce the bank deposits of the public by corresponding amounts. The net reduction in Government security holdings of the nonbank public, which tended to increase the bank deposits of the public (or at least to offset partially the reduction involved in net cash receipts of the Treasury) is estimated at about 500 million dollars.

A minor factor tending to reduce the volume of privately owned bank deposits was the further growth in the capital funds of the banks. The increase in such funds during 1947 is estimated at about 580 million dollars, a smaller amount than in 1946 when 818 million dollars was added to bank capital.

The combined effect of all credit-expanding and credit-contracting transactions during the year was a net increase of about 5.8 billion dollars in the aggregate volume of bank deposits (demand, time, and savings) and currency held by the public. Approximately two fifths of this amount was in the form of savings and other time deposits, which are not so readily usable as demand deposits and currency.

Federal Reserve Credit and Credit Policy

The general policy of the Federal Reserve System during the past year was to discourage and restrain unnecessary expansion of bank credit which would add to inflationary pressures and make the economy of this country more vulnerable to adverse developments. The implementation of this policy involved taking steps to eliminate arrangements adopted during the war to facilitate war financing, to bring about a better balance in the market for Government securities of various maturities, to counteract the effect of factors such as gold inflows which tended to expand bank reserves, and to maintain some pressure on the reserve positions of commercial banks — all with the purpose of discouraging monetization of the public debt through commercial bank purchases of Government securities from nonbank investors, and of minimizing the inducement for banks to expand their loans and their other investments. To carry out this policy, which required a coordinated program of debt management, the System worked closely with the United States Treasury.

During the first six or eight months of the year, credit control problems continued to center around the wartime pattern of interest rates, ranging from 3/8 of 1 per cent for three-month Treasury bills to 2½ per cent for longer term Treasury bonds — a pattern which was inherently unstable because of the inducement it offered savings institutions and others to shift from shorter to longer term Treasury bonds, and the inducement it offered commercial banks to bid for the medium term securities held by nonbank investors while, at the same time, selling short term securities which the Reserve System had to absorb to maintain the interest rate pattern. The absorption of short term securities by the Reserve System added to bank reserves and so tended to provide the basis for a potential expansion in commercial bank credit and deposits amounting to several times the increase in bank reserves. Furthermore, the efforts of foreign countries to supply their needs by purchases in the United States led to heavy sales of gold by such countries, the expenditure of the proceeds of which also added to bank deposits and reserves here.

During the first quarter of the year, the expansionary tendency in bank reserves and in bank deposits arising out of such transactions was offset by a heavy excess of Treasury tax collections over Government expenditures, and to a lesser extent by sales of Savings bonds in excess of redemptions. The resulting surplus of funds available to the Treasury was used to redeem maturing Government securities, a large proportion of which were held by the banking system, including considerable amounts held by Federal Reserve Banks. To the extent that the redeemed securities were held by commercial banks, the use of tax receipts for their retirement resulted in the extinguishment of bank deposits. At the same time, however, the reduction in deposits reduced the required reserves of the banks and thus released reserve funds which the banks could use as the basis for other lending and investing operations. But to the extent the funds were used to redeem securities held by the Federal Reserve Banks, both bank deposits and bank reserves were extinguished. The amount of such redemptions from Reserve Bank portfolios was more than sufficient to absorb the reserves released through the reduction in commercial banks' required reserves, and also the additions to reserves resulting from gold sales and expenditures by foreign countries during this period. As a result, the commercial banks were forced to sell short term Government securities directly or indirectly to the Reserve Banks to maintain their reserves at the required levels.

After the first quarter, however, Treasury receipts and disbursements were more nearly in balance, so that there was nothing like the same volume of funds available to the Treasury for debt retirement. Meanwhile, however, the Treasury had initiated a program of selling long term marketable bonds from the various investment accounts under its control for the purpose of meeting demands in the market for such securities, and thus preventing a rise in their prices and decline in their yields, which would have tended to depress long term interest rates generally — a development not considered appropriate in view of the economic conditions then prevailing. Such sales continued in large volume through the second quarter of the year and into the third.

In addition, moderate amounts of funds in excess of immediate Treasury needs were available in Government War Loan accounts in the commercial banks. Arrangements were made whereby the Treasury, to support the System's efforts to keep bank reserves from expanding and thus to discourage unnecessary expansion of bank credit, used available funds to redeem 100 or 200 million dollars of maturing Treasury bills for a number of weeks in the second quarter. Since most such bills were held by the Reserve Banks, their redemption had the effect of taking reserves away from the commercial banks and thus offsetting additions to reserves from gold inflows and other factors.

These measures were reasonably successful, but could not be continued indefinitely, as the funds available to the Treasury for redemptions of Treasury bills and the supply of marketable Treasury bonds available for sale from Treasury investment accounts were limited. Meanwhile the need for measures to restrain credit expansion increased. While there was evidence, in the late winter and early spring of 1947, of a more cautious inventory policy and investment program on the part of business borrowers, of some lag in activity in residential building, and of a slight reduction in industrial production, these tendencies were later reversed. Signs appeared, before the middle of the year, of a change of public and business sentiment and an upward trend in consumer spending, which led retailers and others to relax their cautious buying policies and to increase their borrowing. In these circumstances, it was concluded that further steps should be taken to maintain some degree of control over the volume of Federal Reserve credit outstanding.

The initial program of the Treasury and the Federal Reserve System involved the elimination of the System's fixed buying rate for Treasury bills (3/8 of 1 per cent) and gradual moves in the direction of higher short term rates, especially the rate on Treasury certificates, which was of special significance since short term rates generally tended to be related to that rate. The first step — elimination of the fixed rate and repurchase option on new issues of Treasury bills — was taken early in July, and was followed by a Treasury offering of an 11-month 7/8 per cent certificate on August 1, a 10-month certificate at the same rate on September 1, and finally a one-year certificate at 1 per cent on October 1. This program was reenforced by continued sales of marketable Treasury bonds from Treasury investment accounts on a substantial but diminishing scale, and by an offering of highly restricted long term 2½ per cent Treasury bonds to be issued on October 1.

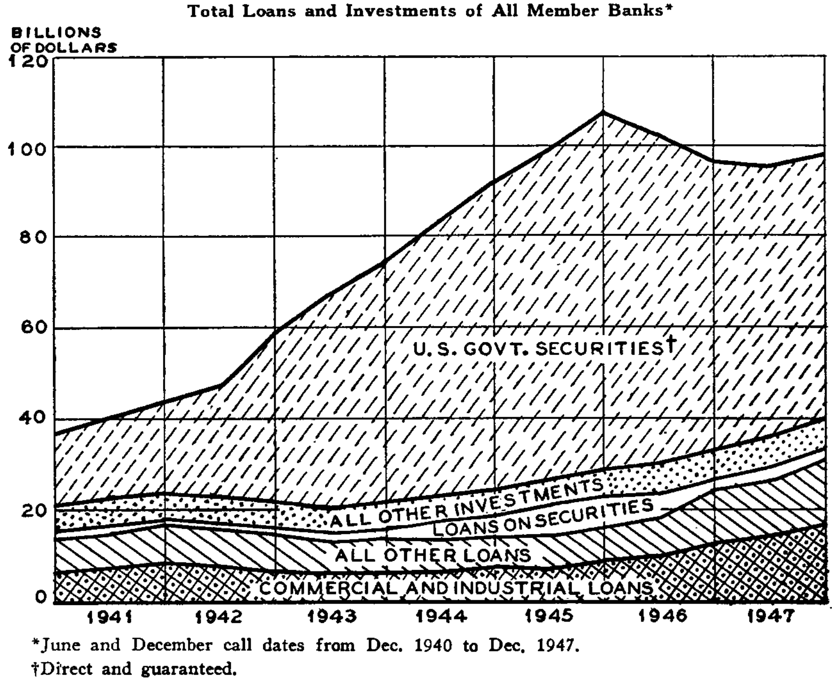
At first, it seemed that these measures were having little effect. Although the yields on new issues of Treasury bills rose rapidly to levels at least equal to yields on Treasury certificates of comparable maturity, banks and other investors showed no great inclination to increase their bill holdings. The market for both restricted and bank-eligible bonds remained firm, and there continued to be some evidence of a tendency on the part of banks and others to shift their holdings of the more recent issues of Treasury certificates into longer term Treasury bonds, although some institutions shifted at least part of the proceeds of sales of the longer certificates into bills and certificates of shorter maturities.

Meanwhile, there was a resumption of inflationary tendencies in the commodity markets, spearheaded by a strong rise in grain prices and supported by advances in coal and steel prices. Increasing evidence appeared of an abandonment of earlier business expectations that the latter half of 1947 would bring a progressive disappearance of sellers' markets, downward pressure on prices, and some contraction of business activity. There was a strong revival of home construction and rapid growth in business capital expenditures. Commercial loans, which in the aggregate had not shown much net increase during the first half of the year, expanded rapidly, and new corporate and municipal security issues were brought out at such a rate as to cause intermittent congestion in the market and rapid readjustments in the terms of new offerings. For a while, the rise in interest rates on high grade corporation bonds and on municipal bonds was regarded simply as a change in the direction of restoring a more normal relationship between the yields on such securities and the yields on United States Government bonds.

However, purchases of such securities, and an increase in the amount of mortgage financing, together with payments for the new issue of long term Treasury bonds on October 1, apparently absorbed rather fully the available funds of investing institutions, and a sharp reversal of sentiment with respect to long term investments followed. Whereas previously there had seemed to be an almost insatiable demand for long term high grade securities, questions began to be raised as to the adequacy of investment funds to meet all demands. The change in sentiment was accentuated when the Treasury announced near the middle of October that it would offer an issue of an 11-month, 1 per cent certificate in exchange for the certificates maturing November 1. This action, which was recognized as forecasting a further rise in the one-year rate to 1⅛ per cent, accentuated the tendency to conclude that a general rise in interest rates was under way, and prices of the longer term Government securities, as well as short term, declined. The earlier tendency of banks to absorb readily any available supplies of the longer term eligible bonds and to sell short term securities to the Reserve System disappeared almost entirely, and the demand for Treasury bills increased considerably.

Commercial loans as well as real estate and consumer loans continued to expand rapidly, however, and, as concern over inflation grew,

Total Loans and Investments of All Member Banks*



*June and December call dates from Dec. 1940 to Dec. 1947.
†Direct and guaranteed.

attention was directed increasingly to the growth of bank loans as a contributing factor, although there was some difference of opinion as to whether the growth in loans was more a result or a cause of inflationary pressures. The inflow of gold was pointed to as a source of reserves feeding the growth in bank credit.

In these circumstances, the President, in his message to the special session of Congress that convened on November 17, recommended that action be taken to check the growth in credit. The Chairman of the Board of Governors of the Federal Reserve System then presented to Congressional committees a recommendation of the Board that the System be given temporary authority to require all commercial banks to maintain special reserves, in addition to the reserves they are required to maintain under existing laws. It was proposed that the banks be permitted to hold the special reserves either in the form of short term Government securities or in the form of cash assets in excess of specified percentages of deposits, and that the Federal Open Market Committee be authorized to fix the new requirements at percentages up to 25 per cent of demand deposits and up to 10 per cent of time deposits. The plan was submitted as a means of counteracting the effect on bank reserves of further gold inflows, preventing banks from converting short term Government securities into additional cash reserves, reducing the multiple of credit expansion based on bank reserves, insulating part of the Government securities market against the effects of higher interest rates in the private credit market, and generally permitting the Federal Reserve System more effectively to control the volume of bank credit. Widespread opposition to the proposal, based on questions as to its necessity and as to its effectiveness in achieving the results claimed for it, were voiced at Committee hearings and elsewhere, and the Congressional committees took no action.

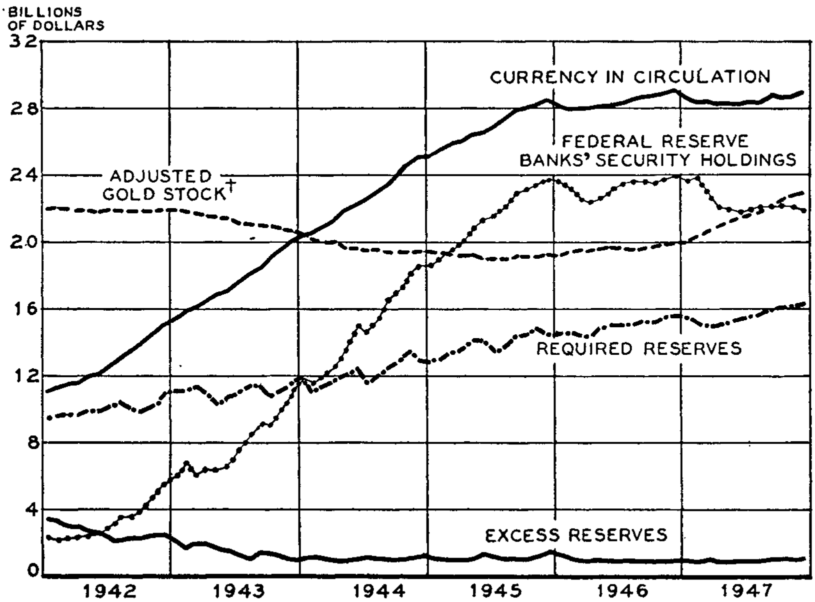
In the face of continuing inflationary pressures, further action involving the use of existing powers of monetary control and debt management was taken. In keeping with an agreement which had been reached with the Treasury in the fall, the Treasury used its surplus funds primarily to redeem the Reserve System's holdings of maturing issues of Government securities. This program was followed with respect to certificates maturing in November and December 1947, and the early months of 1948, and in connection with the retirement of part of successive maturing issues of Treasury bills. The arrangement provided an effective means of offsetting gold inflows and of keeping some pressure on the reserve position of member banks. Direct action was supplemented by a joint statement on November 25 by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks, urging the banks to avoid nonessential loans. And near the end of 1947 the American Bankers Association laid plans for a series of meetings in all parts of the country early in 1948 to promote voluntary action by the banks to avoid unnecessary or undesirable extensions of credit.

Meanwhile, however, the decline in Treasury bond prices, which had started in October, continued under the pressure of selling particularly by savings institutions such as insurance companies, which were finding investment and loan outlets in excess of their currently accumulating funds. In these circumstances, the System intervened in the market with the aid of Treasury investment accounts, beginning around the middle of November. At the same time uncertainty as to interest rate prospects led to increased demand for short term Government securities, especially Treasury bills, so that System purchases of long term bonds were readily offset by sales and redemptions of short term securities and consequently did not add to the volume of bank reserves.

Doubts persisted, however, as to the eventual level of interest rates and of prices of long term bonds, and selling of both eligible and restricted Treasury bonds continued on a substantial scale. In fact, there was growing evidence of sales, not to provide funds for other immediate uses, but rather to protect remaining profits or to prevent losses on Government bonds. In these circumstances the System's support prices were lowered on December 24. A temporary period of confusion followed in which there was a sharp increase in the volume of offerings of Government bonds which the System had to absorb. The selling in the final week of 1947 was enlarged by a substantial volume of offerings by commercial banks, some of which decided for tax purposes to establish losses to offset profits taken on Government security operations earlier in the year. Early in 1948, however, the volume of selling of Government bonds fell off rapidly.

For the past year as a whole, the System's aggregate holdings of Government securities and the total volume of Federal Reserve credit outstanding were reduced substantially. As the accompanying chart

Major Factors Affecting the Reserve Position of Member Banks*



*Monthly averages of daily figures.

†Gold stock adjusted for foreign account balances with Federal Reserve Banks and for payment of 688 million dollars to the International Monetary Fund as part of the United States subscription.

indicates, the reduction occurred mainly in the early part of the year, when heavy tax collections caused a shrinkage in the deposits and required reserves of the banks and when the usual seasonal contraction in currency circulation occurred. Thereafter there were wide fluctuations from week to week but no great net change in the System's holdings of securities. In the first week of 1948, total Federal Reserve credit in use was approximately 2 billion dollars less than a year previous.[1]

The policies followed during 1947 enabled the Federal Reserve System, in cooperation with the Treasury, to maintain a reasonable degree of stability in the Government security market, to prevent additions to member bank reserves as an outgrowth of market-supporting operations, and to counteract a considerable part of the effect on bank reserves of the heavy inflow of gold.[2] In the face of increasing demands

[1] Year-end figures were distorted by a temporary bulge in member bank excess reserves, which was quickly eliminated in the first few weeks of 1948.

[2] A further step in this direction was taken on January 12, 1948 when nine of the Federal Reserve Banks raised the rate on discounts and advances (secured by Government securities and eligible paper) from 1 per cent to 1¼ per cent. The other three Reserve Banks raised their rates correspondingly within a week.

for credit for current business, for working capital, for the financing of home and other construction, and for consumer expenditures, the System was not able to prevent some expansion in bank reserves and in the aggregate amount of bank credit based on those reserves. The growth in the money supply in the form of demand deposits and currency amounted during 1947 to about 3 per cent. This was, no doubt, a contributing influence in the rise of commodity prices, but that rise was induced primarily by other factors, such as crop failures in Europe, rising costs of industrial production in this country, and the existing excessive money supply, a heritage of the war and its financing. It is doubtful whether, in the circumstances of the year 1947, credit expansion could have been prevented entirely (it is even more doubtful that purchasing power placed in the hands of the public during the war could have been substantially reduced), except by such drastic measures as would have interfered seriously with production — production urgently needed to meet domestic and foreign demands.

Consumer Credit

During 1947, the volume of consumer credit outstanding increased by a somewhat smaller percentage than during the first postwar year, but the absolute increase was about the same—more than 3 billion dollars. At the end of 1947 the volume of consumer credit outstanding, estimated at about 13.4 billion dollars, reached an all-time peak and was more than twice as large as at the end of the war.

Instalment credits accounted for more than two thirds of the increase in the total amount of consumer credit outstanding during 1947. Instalment credits extended by merchants increased more than 80 per cent. Automobile dealers nearly doubled their outstanding volume of credits, but the total of this type of paper is still considerably smaller than in 1941, despite higher prices. Outstanding instalment accounts at department stores and mail order houses also nearly doubled and at the end of the year were nearly 40 per cent above the prewar peak. Instalment cash loans made by banks and other agencies increased more slowly.

While there was a marked reduction from the high 1946 rate of increase in other types of consumer credit, the increase in dollar volume was still substantial. Charge accounts, which rose nearly 1.1 billion dollars in 1946, increased by half that much during 1947; outstanding balances at the end of the year were 3.6 billion compared with 1.8 billion at the end of 1941.

Until November 1947, the Board of Governors of the Federal Reserve System and the Federal Reserve Banks administered the regulation of consumer credit under an Executive Order issued in August 1941. Believing that, with the return of peace, continued regulation of consumer credit should be based on a specific, legislative grant of authority, rather than on an emergency Executive Order, both the Board of Governors and the Council of Economic Advisers recommended to President Truman early in 1947 that he ask Congress for legislation bestowing specific authority on the Federal Reserve System to regulate consumer credit. The proposed legislation was similar to Regulation W in the form in which that regulation was in effect between December 1, 1946 and November 1, 1947, and covered only instalment credit. Maximum maturities for all consumer instalment credits and minimum down payments for all major durable goods were to be authorized by the law, the exact percentages to be left to the discretion of the administrative authorities. It was pointed out that the easing of credit terms under existing conditions would do little to increase the production or supply of most consumers' goods; it would primarily increase an already large demand and hence tend to accentuate price inflation.

Nevertheless, the proposal aroused strong and vocal opposition and, despite the President's recommendation that consumer credit regulation be continued on a peacetime basis, Congress passed on August 8, 1947 a Joint Resolution ending all consumer credit controls after November 1, 1947. Regulation W of the Board of Governors was accordingly discontinued as of that date.

Between the time of enactment of the Joint Resolution and the expiration of consumer credit controls, inflationary pressures throughout the economy gained greatly in strength and became recognized as a serious threat to economic stability. Consequently, when Congress was called back in November for a special session to deal with inflationary developments and European relief, the President again requested—as part of his anti-inflation program—legislation providing for the regulation of consumer instalment credit. A bill to restore the control of the Board of Governors over this type of credit until March 15, 1949 was passed by the Senate in December and sent to the House Committee on Banking and Currency, but the latter Committee did not act upon the bill before the close of the special session.

It is difficult to determine the precise effect which the termination of the emergency control has had so far on the volume of consumer credit. There was a sharp increase during November and December, but a considerable part of this was probably seasonal. The termination of control led almost immediately to some significant relaxation of instalment terms, although bankers' organizations and trade associations strongly urged all financing institutions and retailers to adhere to conservative credit practices. These efforts appear to have been fairly successful, so far as banks and finance companies are concerned, but some vendors are now offering credit terms well below the standards set by Regulation W. As competition increases, other vendors may seek to meet it by offering more liberal terms, a tendency which could sustain demand and prices temporarily, but which can have undesirable long-run consequences in the present economic situation.

Foreign Economic and Financial Reconstruction

The World-Wide Dollar Shortage

In the international field the year 1947 was characterized by a growing disequilibrium between the needs of foreign countries for American goods and services and the supply of dollars and gold at their disposal for the financing of such needs. While this so-called dollar shortage was particularly severe in the case of European countries, it was essentially a world-wide phenomenon.

During 1946 most countries had made considerable progress in their efforts to convert from war to peacetime production, and countries that had suffered physical damage and destruction had made a good start toward reconstruction. Ambitious programs to raise prevailing low consumption levels had also begun. The economic recovery of the world — with the exception of the devastated industrial areas of Germany and Japan and of certain other areas in Asia and the East Indies — appeared to be well under way.

Commencing early in 1947, however, a number of adverse factors combined to arrest and even to reverse this trend. An unusually severe winter in Western and Central Europe interfered with production, disrupted transportation, and led to increased demands upon the United States for fuel and food. Inclement spring weather in Europe, followed by the driest summer in decades, resulted in widespread crop failures and in curtailment of hydroelectric power production. In Western Germany, inadequate food rations, political unrest, and indecision regarding the permissible level of industrial activity brought rehabilitation to a virtual halt. The production and export of German coal, vital to the industrial output of other European countries, fell far short of the target set by the occupation authorities. Growing political tension between the Western Powers and Soviet Russia had adverse repercussions in the form of strike waves in France and Italy, which added to the inflationary pressures. Finally, the sharp rise in American prices which had begun in the summer of 1946 increased the cost of the goods and services that had to be purchased from the United States.

Largely as a result of these influences, European countries faced sharply increased balance-of-payments deficits with the United States in 1947. This deterioration in Europe's condition contributed to a general worsening in the dollar position of other foreign countries, which for the most part had surpluses with Europe. But the main causes of the worsened dollar position of non-European countries were a rapid rise in their imports of American goods, now more freely available, to meet large backlogs of demand, and the higher prices of these goods. In one or two countries, notably Canada, the dollar shortage may have been aggravated by heavy foreign lending in the immediate post-war period. The general deterioration abroad necessitated a more rapid rate of utilization, than in 1946, of outstanding foreign loans and credits and of existing foreign dollar and gold reserves. In fact, drafts on these combined resources were carried to a point where, to prevent their early exhaustion, foreign countries were increasingly forced to tighten their import restrictions on purchases of American goods, to the detriment of their domestic consumption and investment. In the latter half of the year, when funds earlier appropriated by the United States Government for foreign aid had been virtually exhausted, new emergency aid programs had to be devised and a long-range aid program (now called the European Recovery Program) began to take shape.

Probably the most serious development in the international field during 1947 was the marked weakening of the British international financial position. British reserves of gold and United States and Canadian dollars fell by about 610 million dollars to about 2.1 billion by the end of 1947, while the unutilized portion of the American credit dwindled from 3,150 million dollars to 300 million.[1] The clause of the Anglo-American credit agreement which required Britain to make all sterling accruing to foreigners on current account convertible into dollars

[1] By March 1, 1948, this small balance had been completely exhausted.

went into effect on July 15, 1947. An unexpectedly severe run on sterling followed which reached its peak about the middle of August, when in the course of six working days the British were forced to pay out 237 million dollars. On August 20, they found themselves compelled to suspend convertibility. Further measures to save dollars were taken during September, under a new "austerity" program. These measures included a slashing of imports from hard-currency sources, a corresponding reduction of consumption, and increased diversion of domestic output to export markets. Present aims are to increase exports during the first 6 months of 1948 to an average of 125 per cent of their 1938 volume (compared with the 120 per cent attained by the end of 1947), and to reduce the balance-of-payments deficit on current account (in all currencies) from an estimated 675 million pounds in 1947 to 136 million in the first half of 1948. The attainment of this goal, however, would still leave a *dollar* deficit of 227 million pounds in the latter period. What will happen to the balance of payments in the last six months of 1948 depends on United States aid.

The suspension of convertibility, of course, had an adverse effect on Britain's creditors, who were deprived of expected dollar revenues. Particularly hard hit was Canada, which imports heavily from the United States and exports largely to countries unable to pay for more than a limited part of their imports in "hard" currencies. In spite of an over-all balance-of-payments surplus, Canada was forced in 1947 to draw heavily on its gold and United States dollar reserves, reducing them from 1,245 million dollars at the beginning of the year to 480 million in November, when measures were decreed to restrict expenditures of United States dollars. By the end of the year, Canada's gold and United States dollar reserves had risen to 502 million dollars.

The European Recovery Program

In the early summer of 1947, when it had become apparent that further large-scale financial aid from the United States was necessary to enable European countries to maintain minimum consumption standards and to carry through reconstruction, Secretary of State Marshall, in a speech at Harvard University, suggested that, if European countries wished to prepare and to cooperate in a program of reconstruction, the United States would stand ready to support such a program "so far as it may be practical for us to do so." As a result, a conference of sixteen

Western European countries[2] convened in Paris in July 1947 and set up a Committee for European Economic Cooperation.

In its report, presented to the United States on September 22, the Committee outlined a production program in the participating countries and in Western Germany designed to raise the over-all agricultural and industrial output of those areas to above prewar levels by 1951 and to achieve by that date a reasonable equilibrium in their over-all balances of payments. To help attain these objectives, the participants pledged themselves to mutual assistance in the joint development of resources and trade and to the creation and maintenance of internal financial stability. The report emphasized, however, that the achievement of the production goals depended predominantly upon a sustained large flow of imports from the rest of the world, and especially from the United States. It was estimated that over the four-year period of 1948-51, after allowance for receipts from exports of goods and services, the participants would have a cumulated balance-of-payments deficit of 16.5 billion dollars with the United States and of 22.4 billion with the Western Hemisphere as a whole.

Three American committees, appointed on June 22 by President Truman, studied the implications of the Marshall Plan for the United States. A committee of Government specialists (the Krug Committee) examined the state of this country's resources from the viewpoint of our ability to support the plan. A second committee, consisting of the President's Council of Economic Advisers, studied "the impact on our economy of aid to other countries." An advisory group of 18 business, labor, and educational leaders under the chairmanship of Secretary of Commerce Harriman, analyzed the broad aspects of the program and "the limits in which the United States may safely and wisely plan to extend . . . assistance." In their reports, issued in October and November, all three committees agreed that the proposed program was well within our physical and financial capacity.

On December 19, 1947 the President submitted to Congress a bill (the Economic Cooperation Bill of 1948), incorporating many of the conclusions of these three committees, as well as some of the recommendations of the Select Committee on Foreign Aid of the House of Representatives (the Herter Committee). The proposed legislation contained an authorization to appropriate, for the 15-month period

[2] Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

April 1, 1948 to June 30, 1949, a sum of 6.8 billion dollars[3] to be used for grants and loans to the participating countries and Western Germany for purchases of goods and services in the United States or in any other country. The Administration estimated that the full program, over the entire period up to June 30, 1952, might necessitate appropriations of about 17 billion. The Administration bill also called for the establishment of a new Government agency, the Economic Cooperation Administration, to administer the program.

Government Relief and Loan Operations

In the course of 1947 the form, if not the basic character, of the United States Government's postwar program of loans and financial assistance to foreign countries underwent certain changes.

By June 30 the United States contribution of 2.7 billion dollars to the United Nations Relief and Rehabilitation Administration had been entirely committed and the activities of that international agency were formally brought to a close. Largely in order to complete the work of UNRRA, a number of new emergency aid programs, involving appropriations of 1,340 million dollars, were undertaken by the United States Government. In July Congress appropriated 332 million for post-UNRRA relief to Austria, Greece, Italy, and Trieste, and for certain special relief funds; in December an additional sum of 18 million was appropriated for China. In July, also, Congress appropriated 71 million for American participation in the activities of the International Refugee Organization, which was to take over from UNRRA the task of caring for displaced persons in Europe and in the Middle East. The inability of the United Kingdom to continue aid to Greece after March 31 necessitated special aid to the latter country. In July, therefore, Congress appropriated 300 million dollars for economic and military aid to Greece, and at the same time voted 100 million for military aid to Turkey. To bridge the gap until April 1948, when the European Recovery Program was expected to be enacted, Congress passed in December the Foreign Aid Act of 1947, under which a sum of 522 million dollars was appropriated for interim relief to France, Italy, and Austria.

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[3] On March 14, 1948 the Senate approved a bill authorizing 5.3 billion dollars for the 12-month period April 1, 1948 to March 31, 1949. The monthly rate of aid under the Senate bill would be about the same as under the Administration's proposal.

During the year additional appropriations of 940 million dollars were made by Congress for civilian relief in occupied areas (Germany, Korea, and Japan). Beginning November 1, the United States Government assumed the total dollar cost of civilian supplies for the bizonal area of occupied Germany, in view of the British Government's inability to continue financing its share of these costs.

The amount of aid actually made available by this country under official relief programs in 1947 was approximately 2.2 billion dollars. Provision of goods and freight services under UNRRA aggregated slightly over 500 million dollars. Shipments under the post-UNRRA program and the Greek-Turkish Aid program amounted to 245 million and 93 million dollars, respectively. Civilian supplies made available to occupied countries aggregated somewhat more than 1.0 billion dollars. War damage and other transfers to the Philippine Republic totaled 120 million, and miscellaneous transfers under official programs 221 million.

During the year the Export-Import Bank authorized new credits of 614 million dollars and made total disbursements of 825 million. The largest authorization involved a credit of 300 million to Canada for the purchase of equipment and raw materials. A credit of 100 million dollars was authorized for specific segments of Italian industry to assist them in restoring and expanding their export markets. A 50 million dollar credit was granted to Belgium for the purchase of essential materials and equipment, and another of the same size to Mexico for the financing of specific industrial projects. Of the Bank's aggregate authorizations in 1947, only 30.5 million dollars was actually disbursed during the year, the bulk of the loan disbursements being made from previously authorized credits. The largest disbursements were made to France (536 million) and the Netherlands (90 million) under reconstruction credits granted in 1946. By the end of 1947 uncommitted funds of the Export-Import Bank had declined to 497 million dollars, compared with 919 million at the end of 1946.

The final winding up of the lend-lease program was virtually completed during 1947. Lend-lease "pipeline" credits (of which about 1.2 billion dollars had been authorized after V-J Day) had been almost completely utilized by the end of 1946. "Straight" (nonreimbursable) lend-lease, which had been of some quantitative importance in 1946, was negligible in 1947. During the year final lend-lease settlements were agreed upon with the Netherlands and the Union of South Africa, and at the end of the year negotiations for such settlements were in progress with the governments of the Soviet Union, China, Brazil, Czechoslovakia, Greece, Norway, and Yugoslavia.

About 200 million dollars of credits were authorized during the year by the Foreign Liquidation Commissioner of the State Department in order to finance the sale to foreign countries of United States surplus property located abroad. Small credits were authorized by the United States Maritime Commission for financing the sale abroad of war-built vessels, under the Merchant Ship Sales Act of 1946. Total disbursements under the surplus property and ship sale credits amounted to 317 million dollars during the year.

The World Bank and Fund

In the course of 1947 the International Bank for Reconstruction and Development began the operational phase of its activities, both as lender and as borrower. On May 9 its first loan, totaling 250 million dollars, was made to France, followed by loans of 195 million to the Netherlands, 40 million to Denmark, and 12 million to Luxembourg (the last figure including the equivalent of 2 million dollars in Belgian francs.) On July 15 the Bank undertook its first security marketing operations, successfully floating 150 million dollars of 25-year 3 per cent and 100 million of 10-year 2¼ per cent bonds, nearly all of which were taken by investors in the United States. In the latter part of the year, the Bank did not engage in any financial operations but had a substantial amount of loan applications under review and was preparing to supplement the economic aid provided by the European Recovery Program. On December 31 the Bank held 485 million dollars in uncommitted dollar balances, while loan applications by eight nations amounted to nearly 2,290 million.

The International Monetary Fund, having opened for business on March 1, 1947, carried out its first operations in May 1947 with sales of 25 million dollars to France and 6 million dollars and 1.5 million pounds sterling to the Netherlands. By the end of the year, the Fund had completed 22 transactions, amounting to 468 million dollars and involving the currencies of Belgium, Chile, Denmark, France, Mexico, the Netherlands, Turkey, the United Kingdom, and the United States.

During the year, the Fund had to fix its policy with respect to monetary actions on the part of several of its members. In June it approved the introduction of a multiple exchange rate system in Ecuador for the purpose of helping that country to conserve its foreign exchange resources. In December it received notification from Italy of that country's adoption of a system of multiple and flexible exchange rates. Although deeming the new system not in accordance with its long term objectives, the Fund issued a statement expressing its sympathy with the Italian measures, since they were stated to be temporary. Italy has not yet agreed with the Fund on the par value of its currency. On January 25, 1948 the Fund refused to approve a French Government proposal to establish a transitional system of dual exchange rates, official and free. The Fund felt that the proposed system would be discriminatory and might prove disruptive to international trade and monetary relationships. The French Government, however, did not subscribe to this viewpoint and has put its plan into effect.

A recommendation to members that they prevent transactions in gold with other countries at premium prices was made by the Fund in June, and a number of countries (including the United States) have since taken steps to carry out this recommendation. A proposed gold production subsidy in Canada was approved (after some revision) by the Fund in December; at that time the Fund emphasized that future proposals of a similar nature would be considered on their individual merits.

The United States Balance of Payments

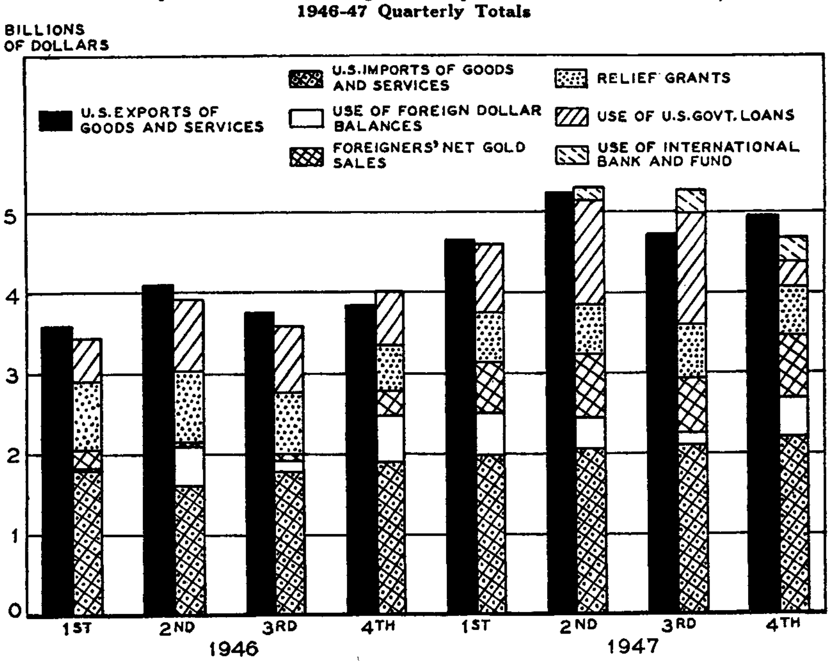
Although the United States balance of international payments in 1947 conformed broadly to the pattern that had prevailed in 1946, it nevertheless underwent some important quantitative changes. Most notably, there was a sharp expansion in net transfers of goods and services to foreign countries, as well as a conspicuous increase in the rate of drain on their gold and dollar reserves.

According to estimates of the Department of Commerce, the United States provided about 19.6 billion dollars of goods and services to foreign countries during 1947, compared with 15.2 billion in 1946. Payments due foreign countries for imports of goods and for services increased from 7.1 billion dollars in 1946 to 8.3 billion in 1947. Our net transfers of goods and services consequently rose to 11.3 billion, compared with 8.1 billion in 1946. In the latter half of the year, however, under the impact of increasing import restrictions against American goods, induced by the growing world-wide dollar shortage, the volume of these net transfers was considerably less than in the first half of the year.

Recorded merchandise exports aggregated 14.5 billion dollars in 1947, an increase of 4.8 billion over the preceding year. This sharp rise was largely a reflection, on the one hand, of the greater availability of goods for export and their higher prices, and, on the other, of a setback in industrial and agricultural output in Western Europe. Recorded relief shipments of goods, however, declined from somewhat over 1 billion dollars in 1946 to only about 700 million dollars in 1947 (in both cases excluding goods shipped by the Army for use in occupied countries). Because of production difficulties abroad, merchandise imports of the United States rose only moderately, from 4.9 billion in 1946 to 5.7 billion dollars in 1947. Our recorded merchandise export surplus in 1947 rose most sharply with respect to Canada, Western Europe, the Union of South Africa, and certain Latin American countries.

Although United States Government loans and other aid to foreign countries appear to have been somewhat higher in 1947 than in the

Principal Means of Financing U. S. Exports of Goods and Services, 1946-47 Quarterly Totals



Source: Basic data from U. S. Department of Commerce.

preceding year, the increase in the current account deficit of foreign countries with the United States was so sharp that, on balance, those countries lost almost 3 billion dollars of gold to the United States during 1947. This was the largest net gold movement in our balance of payments in any year since 1940 and more than offset our total net gold losses to foreign countries in 1942 to 1945 inclusive. Of the foreign net loss of gold in 1947, 1,057 million dollars was attributable to net releases to the United States of foreign gold earmarked here and the remaining amount to net exports to this country. The largest net imports of gold into this country came from the United Kingdom, Canada, Argentina, the Union of South Africa, and France. There were relatively few exports or sales of gold to foreign countries during the year.

The international gold movement of 1947 reduced the amount held under earmark in this country for foreign accounts at the end of the year to 2,766 million, compared with 3,823 million dollars as of December 31, 1946. Despite its gold contribution of 687.5 million dollars to the International Monetary Fund in February 1947, the United States' net gain of gold from all international transactions, together with a small gain from domestic production, increased the monetary gold stock by 2,225 million dollars to 22,754 million dollars as of December 31, 1947, or to the highest level since September 1942.

In addition to the export of capital from the United States resulting from Government foreign loans and financial assistance, there was also a recorded net "outflow" of nearly 2.1 billion dollars through banking and brokerage channels.[1] This movement, which compares with a net "outflow" of 1.2 billion dollars in 1946, was predominantly attributable to a reduction of approximately 2.0 billion dollars in banking funds held in the United States for foreign accounts.[2] Other net capital movements through banking and brokerage channels were comparatively small; these smaller movements included net "inflows" of about 175 million dollars through long term security transactions[3] and a net

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[1] This figure does not take account of the capital "inflow" in international and foreign accounts combined resulting from the 2,375 million dollars contributed by the United States to the International Monetary Fund and Bank.

[2] This figure excludes the increase in balances arising not only from transactions mentioned in footnote 1, but also from the sale in this country in July of 249.3 million dollars of debentures of the International Bank.

[3] Allowance is not made here for the sale of the International Bank debentures mentioned in footnote 2.

"outflow" of nearly 255 million dollars through increased United States banking claims on foreign countries.

The net decrease of approximately 2.0 billion dollars in foreign banking funds[4] occurred chiefly in accounts held for Canada, China, the United Kingdom, Italy, Sweden, France, the Netherlands, Brazil, Norway, and the Netherlands East Indies. In most cases these decreases were closely associated with the financing of foreign deficits on current account with the United States. In the case of the United Kingdom, however, heavy drains on these accounts were also incurred through the conversion, under the terms of the Anglo-American credit agreement, of foreign sterling balances into dollars, until sterling convertibility was partially suspended in August.

The net capital "inflow" of about 175 million dollars through international transactions in long term securities[5] was the result of net redemptions and repurchases by foreign countries of slightly more than 280 million dollars of their own obligations held in this country, offset in part by net sales of foreign-owned American securities. The latter were executed primarily for Dutch and French accounts under the security liquidation programs pursued by those countries for the purpose of obtaining much needed dollars. Net redemptions and repurchases of foreign securities were carried out primarily by Canada, Argentina, Australia, and the Dominican Republic. There were cash redemptions of about 30 million dollars of Dominion of Canada obligations, as well as of a number of Canadian corporate and provincial issues. A large refunding operation was carried out by the City of Montreal, which in February sold nearly 80 million dollars of serial refunding debentures in order to retire a wide list of old issues of varying interest rates and maturity dates. In addition, two relatively small foreign issues were sold in the American market to obtain new money: 10.0 million dollars of the Kingdom of Norway 3½ per cent sinking fund external loan bonds, and 20.0 million of the Kingdom of the Netherlands 10-year 3¾ per cent bonds.

The small net rise of nearly 255 million dollars in this country's banking claims on foreign countries involved chiefly increases in claims on certain European and Latin American countries. These increases reflected new commercial bank loans to foreign countries under Export-Import Bank guarantee and certain other short term accommodations

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[4] See footnote 2 on preceding page.
[5] See footnote 3 on preceding page.

granted by commercial banks to foreigners, particularly in connection with the financing of American exports. However, there were sizable net repayments on the loans, secured by gold, by the Federal Reserve Banks to foreign central banks, which had been outstanding at the end of 1946.

Developments in the Foreign Exchange Market

The volume of trading in the New York foreign exchange market rose rather sharply in 1947, primarily because of increased activity in sterling in the first eight months of the year. The larger turnover in sterling was associated with certain adjustments in the British exchange regulations which were undertaken to make sterling balances acquired currently by other countries convertible into dollars, in keeping with the terms of the Anglo-American Financial Agreement. With the suspension of sterling convertibility on August 20, the volume of transactions in the foreign exchange market declined somewhat.

Several minor changes in official exchange rates were made early in the year and were reflected in the ruling quotations in this market. On January 3, 1947 the Banco do Brasil fixed a new buying rate for dollars of 18.38 cruzeiros to the dollar (equivalent to $0.054406), compared with the previous rate of 18.50 to the dollar ($0.054054). Effective January 13, the British authorities changed their official buying and selling rates for dollars from $4.03½ and $4.02½, respectively, to $4.03¼ and $4.02¾. Similar minor adjustments were made shortly thereafter in the official rates of certain other sterling area countries.

Despite occasional tendencies towards weakness in the pound sterling, spot quotations on that currency were, in general, held within the limits of the buying and selling rates established on January 13, 1947. The spot rate was quoted on December 31, 1947 at $4.03 3/16, indicating no net change for the year as a whole. The quotations for three months' forward deliveries of sterling, however, were more responsive to Britain's changing dollar position, and shifted from a premium of 3/16 of a cent at the end of 1946 to a discount early in 1947 which widened to 3¾ cents by August 8. This trend appears, for the most part, to have been related to growing concern over the ability of the British authorities to maintain the official rate for the pound. After the partial suspension of sterling convertibility, the forward rate followed an irregular course; at the end of the year, a discount of 2¾ cents was quoted.

The unofficial rate for the Canadian dollar declined in a thin market by about 5½ cents during the year, being quoted on December 31 at $0.894375. This weakness was primarily associated with Canada's rapid rate of loss of United States dollars, and with resulting periodic rumors of an impending depreciation of the Canadian dollar rate. Despite rigid dollar-saving measures introduced by the Canadian authorities in November, the unofficial rate showed continued weakness in the remaining weeks of the year.

The "free" rate for the Swiss franc declined gradually during the year from $0.2825 to $0.2412. This decline, which narrowed considerably the spread between the free rate and the official rate of $0.2336, was attributable in part to steps taken by the Swiss authorities to make francs more freely available against United States dollars at the official rate.

The only important changes in Latin American currency quotations occurred in the rate for the Peruvian sol, which declined from 14 cents early in the year to 5½ cents in October. By December 31, however, it had recovered to 8½ cents.

Effective November 28, the Italian authorities modified their dual exchange rate system so that the official buying rate for foreign currencies, which had been rigid, was to be fixed each month at the average free rate for the preceding month.

Effective January 26, 1948, the rates at which the French Exchange Stabilization Fund bought and sold foreign currencies in terms of francs were raised by 80 per cent. The new official rate for the United States dollar thus amounts to 214.392 francs (equivalent to $0.004664 per franc). In addition, the French authorities created a "free" market in which the United States dollar and the Portuguese escudo are quoted. The free market for dollars will be supplied by one half of the proceeds of exports to the dollar area (the other half to be turned over to the Exchange Stabilization Fund at its official buying rate for dollars) and by noncommercial payments and the repatriation of French holdings of dollars. Exchange acquired in the free market may be used for payment for imports of other than essential commodities and for all other payments licensed by the exchange control authorities. The market rate for the franc in New York declined from $0.0084 on January 23 to about $0.0033 early in February (corresponding approximately to the free market rate in Paris at that time).

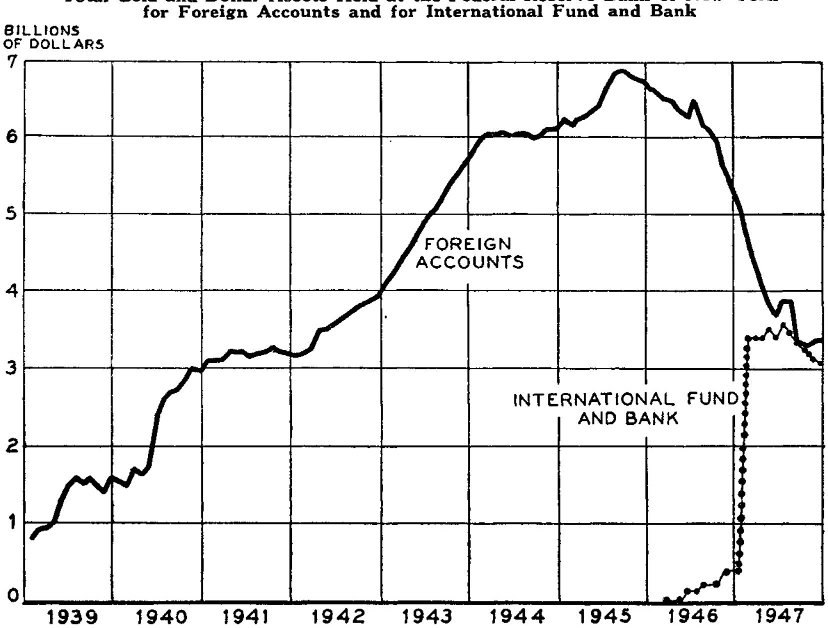
Foreign Relations of the Federal Reserve System

Total assets held by the Federal Reserve Banks for account of foreign central banks and governments, including accounts maintained with the Federal Reserve Bank of New York as fiscal agent of the United States, declined 1,960 million dollars further during 1947 to 3,370 million dollars. This amount compares with the peak of about 7 billion dollars reached soon after the end of hostilities in 1945. The reduction during the past year, which reflected the continued heavy foreign requirements for dollars, is even more significant when considered in the light of the large-scale shipments of foreign-owned gold to the United States and the substantial amounts of dollars made available under the United States Government's foreign lending program and by the International Bank and the Monetary Fund.

In contrast to the decline in assets held for foreign account, the total of dollar balances, United States Government securities, and gold held at the Federal Reserve Bank of New York for the International Bank and the Monetary Fund increased substantially during the year.

Of the various types of assets held for foreign account, by far the largest reduction during 1947 occurred in gold held under earmark,

Total Gold and Dollar Assets Held at the Federal Reserve Bank of New York for Foreign Accounts and for International Fund and Bank



which declined from 3,823 million dollars to 2,766 million. Holdings of United States Government securities decreased from 969 million dollars to 187 million dollars, and dollar balances from 508 million to 392 million.

One regular account was opened during the year for a newly organized foreign central bank, the Banco Central de la Republica Dominicana. In addition two foreign accounts were established by this bank acting as fiscal agent of the United States, but three fiscal agency accounts, which had been established during the war to facilitate the United States Government's operations abroad, were closed, as was also one regular account.

The increased activity in loans on gold to our foreign correspondents, which first developed in 1946, continued throughout the year, although the total of such loans outstanding declined about 100 million dollars, to approximately 50 million. All of these loans were made for initial periods not exceeding three months, and interest was at the discount rate of this bank, which remained at 1 per cent throughout 1947.[1] At the beginning of 1947 loans against gold to five European and Latin American central banks were outstanding. New loans were made to the central banks of six countries during the year, while outstanding loans to seven central banks were repaid in full. The four loans against gold which were outstanding at the end of 1947 were all to European central banks.

Although earmarked gold held at this bank for foreign account showed a net decline of 1,057 million dollars during the year, the volume of gold transactions handled by this bank was at a record level. Such transactions included handling imports of gold from abroad, purchasing gold for earmark here, and releasing gold from earmark for sale or export, as well as making transfers between earmarked accounts. Other activities for foreign account showing an increase in volume during the year included dollar payments, collections, and investments in bankers acceptances.

The Federal Reserve Bank of New York, acting as fiscal agent of the United States, continued to carry out the transactions of the United States Stabilization Fund under authorizations from the Treasury Department.

Rather extensive operations were performed during the year by this bank as depository for the International Bank for Reconstruction

[1] The rate was raised to 1¼ per cent on January 12, 1948.

and Development and the International Monetary Fund. In addition, as provided for in the Bretton Woods Agreements Act, this bank was requested to act as fiscal agent of the International Bank in connection with that bank's first two bond issues, dated July 15, 1947. With the cooperation of other Federal Reserve Banks, this bank also continued to render services to the Export-Import Bank, in the capacity of fiscal agent, in connection with the participation of commercial banks in the 200 million dollar Export-Import Bank credit to the Kingdom of the Netherlands.

Volume and Trend of the Bank's Operations

The year 1947 witnessed further sizable postwar contractions in the bank's war-enlarged fiscal agency operations, but the volume of normal peacetime operations of the bank continued at a high level. The over-all operational volume, although reduced somewhat from that of 1946, remained relatively high.

As in recent years, the Reserve Bank facilities for discounts and advances were used only moderately by the member banks in 1947; while the number of applications for discounts and advances increased somewhat, the aggregate dollar volume declined. The dollar volume of currency and coin received and counted at this bank reached an all-time peak during the year; there was, however, a slight reduction in the number of pieces, reflecting a trend toward the use of the higher denominations. The number and dollar amount of gold bars and bags of gold coin handled by the bank increased nearly fourfold during the year as a result of the heavy inflow of gold from abroad. In the case of collection items handled, United States Government coupons paid declined both in number and dollar volume, reflecting the effect of the Treasury's public debt redemption program. The collection of a smaller number and dollar volume of corporate coupons also is reflected in the reduction in "All other" collection items shown in the accompanying table.

The postwar contraction in the number and dollar volume of United States Government checks cleared and collected continued during the year, but there was an increase in checks cleared and collected for businesses and individuals, as well as in wire transfers of funds, reflecting the rise in prices and in general business activity. Except for minor interruptions, the total number and dollar volume of checks handled have increased steadily ever since the early 1930's; in this period the number of checks processed increased from 143 million to 347 million

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

	1947	1946
Number of pieces handled*		
Discounts and advances	3,000	2,300
Currency received and counted	913,007,000	917,697,000
Coin received and counted	1,964,191,000	2,046,492,000
Gold bars and bags of gold coin handled	472,000	121,000
Checks handled:		
United States Government checks	42,033,000	61,730,000
All other	304,893,000	290,828,000
Collection items handled:		
United States Government coupons paid**	6,820,000	7,305,000 r
All other	4,794,000	5,736,000#
Disbursements as fiscal agent for		
Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	60,000	110,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Government direct obligations	25,693,000	35,046,000
All other†	365,000	182,000
Safekeeping of securities:		
Pieces received and delivered	11,585,000	27,676,000
Coupons detached	1,590,000	1,328,000
Transfers of funds‡	213,000	197,000
Incoming and outgoing mail:		
Registered	507,000	578,000
Ordinary	8,980,000	10,040,000
Amounts handled		
Discounts and advances	$ 5,729,077,000	$ 8,496,610,000
Currency received and counted	5,731,126,000	5,470,460,000
Coin received and counted	233,407,000	170,361,000
Gold bars and bags of gold coin handled	6,517,079,000	1,813,632,000
Checks handled:		
United States Government checks	16,587,953,000	19,763,836,000
All other	180,993,904,000	172,736,289,000
Collection items handled:		
United States Government coupons paid**	1,561,776,000	1,771,718,000 r
All other	2,272,932,000	2,564,566,000 r
Disbursements as fiscal agent for		
Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	910,080,000	1,139,277,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Government direct obligations	175,741,508,000	182,907,272,000
All other†	1,414,172,000	1,708,798,000
Safekeeping of securities:		
Pieces received and delivered (par value)	559,285,746,000	614,362,919,000
Transfers of funds‡	89,976,186,000	77,880,003,000

* 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.

\# Change from previous Annual Report figures due to difference in method of counting items.

† Includes issues of International Bank for Reconstruction and Development in 1947.

‡ Includes wire and mail transfers; excludes gold transfers.

r Revised.

per annum and the dollar volume from 58 billion dollars to 197 billion dollars.

The rapid growth in the volume of checks handled has been accompanied by a constant endeavor on the part of this bank to improve the efficiency of its operating technique, with the aim of rendering better service to the member banks, and through them, to agriculture, commerce, and industry and to the general public. In pursuit of this policy, and in conjunction with other Reserve Banks and the American Bankers Association, this bank continued to promote the use by member banks of the Federal Reserve check routing symbol. This symbol, which is a distinct aid in sorting checks for clearing purposes, is now being used by all commercial banks in this District, and a substantial portion of checks handled by this bank now bear the recommended fractional symbol. A further step in check handling technique has been the expansion in the use of air transportation to include the shipment of virtually all interdistrict checks sent to other Reserve Banks. The consequent saving in the time required for presenting such checks for payment has reduced this bank's average daily float by virtually two thirds and has also resulted in earlier availability of about 50 million dollars daily for "direct-sending" member banks participating in these shipments. To encourage further the use of the direct-sending privilege and to facilitate consolidated check shipments by air, the Federal Reserve Banks began on August 1, 1947 to absorb all transportation costs on direct sendings, which had previously been prorated between the Reserve Banks and the direct-sending banks. This absorption of such costs has had the incidental result of moderately increasing the number of member banks using the Reserve Bank check collection facilities.

Among the fiscal agency functions of this bank, new issues, redemptions, and exchanges of U. S. direct obligations declined substantially during 1947, reflecting the continued tapering off in Treasury financing operations. This process was also reflected in a reduced volume of securities handled by the safekeeping department. In both instances, however, the number of security transactions declined proportionately more than the dollar volume. The major factor in the greater proportionate decline in number than in dollar volume of security transactions was the reduction in Savings bond transactions, which involve numerous but relatively small individual dollar amounts. This factor was only partly offset by the processing in 1947, of 178 million dollars of Armed Forces Leave Bonds which averaged only about $200 apiece. Issues, redemptions, and exchanges of securities other than direct Government obligations rose sharply in number owing to the inclusion for the first time of bond issues of the International Bank for Reconstruction and Development, which were issued in relatively small denominations, compared with the large denominations of Treasury guaranteed obligations. There was a downward trend in the dollar volume of Government guaranteed securities handled, and disbursements for the Reconstruction Finance Corporation, its subsidiaries, and the Commodity Credit Corporation also declined.

Financial Statements

Statement of Condition

This bank's assets increased nearly 1.2 billion dollars during 1947, to a total of 12.9 billion dollars. The past year's rise was occasioned entirely by an increase in gold certificate reserves; other asset accounts showed sizable changes in several instances, but a small net reduction in the aggregate.

The enlargement in gold certificate reserves stemmed mostly from the 2.8 billion dollars of net gold imports and releases of earmarked gold during the year. The imported gold is purchased by the Treasury (either directly or through the Stabilization Fund), which then reimburses itself by crediting the gold certificate account of the Reserve Banks in exchange for a deposit credit to its account in the Reserve Banks. In addition, gold certificates amounting to 275 million dollars were credited by the Treasury to the Federal Reserve Bank of New York in 1947 in order to provide the International Monetary Fund with dollar balances. However, the gold certificate increase at this bank, from these sources, was reduced by a rather heavy unfavorable balance in the movement of funds between the Second Federal Reserve District and the remainder of the country, which were consummated through the interdistrict settlement fund.

Total holdings of United States Government securities showed a decline of 102 million dollars during 1947, representing this bank's share of a larger decline at all Reserve Banks. Reductions in this bank's holdings of Treasury bills and certificates of indebtedness of 360 million and 407 million dollars, respectively, were only partly offset by increases of 232 million in Treasury notes and 433 million dollars in Treasury bonds. The declines in bill and certificate holdings reflected cash redemptions by the Treasury during 1947 and the increased demand by investors which followed the unpegging of the 3/8 per cent Treasury bill rate on July 3 and the gradual hardening thereafter of short term interest rates. Treasury notes and bonds, on the other hand, were purchased by this bank in the market during the latter part of the year in furtherance of the System's policy with respect to the longer term Government securities.

Discounts and advances, which represent member bank borrowing, were 17 million dollars less on December 31 than a year previous, but, as the banks tend to reduce their borrowings to a minimum at the year end, the figure for that date is not usually of much significance. However, as reflected in the table showing volume of operations, the total amount of advances to member banks was substantially less during 1947 than in 1946. Uncollected items and deferred availability items (the latter on the liability side of the statement) both recorded sizable increases, owing in part to the further growth in the volume of this bank's check clearing activities.

Assets of the Federal Reserve Bank of New York

(In thousands of dollars)

Assets	Dec. 31, 1947	Dec. 31, 1946
Gold certificates	$ 6,259,354	$ 5,061,375
Redemption fund for Federal Reserve notes	120,919	124,008
Total gold certificate reserves	$ 6,380,273	$ 5,185,383
Other cash	$ 39,413	$ 44,537
Discounts and advances	$ 41,860	$ 58,935
U. S. Government securities:		
Bills	$ 3,270,067	$ 3,630,224
Certificates	1,482,995	1,890,027
Notes	322,183	89,585
Bonds	622,496	189,958
Total U. S. Government securities	$ 5,697,741	$ 5,799,794
Total loans and securities	$ 5,739,601	$ 5,858,729
Due from foreign banks	$ 30*	$ 34*
Federal Reserve notes of other banks	17,676	19,882
Uncollected items	670,430	576,280
Bank premises	8,239	8,459
Other assets	25,057	11,182
Total assets	$12,880,719	$11,704,486
*After deducting participation of other Federal Reserve Banks amounting to	$ 65	$ 68

Federal Reserve notes in actual circulation, which represent roughly 85 per cent of all outstanding currency in circulation, rose 52 million dollars further in the New York District during 1947 (but declined 177 million in the remainder of the United States, principally as a result of the reduced note circulation of the San Francisco Bank). The rise in the Second District is the smallest year-to-year increase of the past decade; it compares with an increase of 306 million in 1946, 557 million in 1945, and a record wartime increase of 1,084 million dollars in 1944.

Among the deposit liabilities member bank reserve accounts rose 670 million dollars during the year, reflecting an increase in reserve requirements and a temporary rise in excess reserves at the year end. Additions to member bank reserves during the year were largely the result of the heavy inflow of gold from abroad, but most of these additions were not long retained. The proceeds of gold imports and releases

Liabilities of the Federal Reserve Bank of New York
(In thousands of dollars)

Liabilities	Dec. 31, 1947	Dec. 31, 1946
Federal Reserve notes	$ 5,765,916	$ 5,714,364
Deposits:		
Member bank—reserve account	$ 5,573,276	$ 4,903,039
U. S. Treasurer—general account	229,639	94,716
Foreign	168,000*	189,873*
Other	472,411	224,947
Total deposits	$ 6,443,326	$ 5,412,575
Deferred availability items	$ 449,937	$ 362,569
Other liabilities	4,109	2,811
Total liabilities	$12,663,288	$11,492,319
Capital accounts:		
Capital paid in	$ 68,888	$ 65,801
Surplus (Section 7)	138,596	136,549
Surplus (Section 13b)	7,319	7,253
Other capital accounts	2,628	2,564
Total capital accounts	$ 217,431	$ 212,167
Total liabilities and capital accounts	$12,880,719	$11,704,486
Contingent liability on bills purchased for foreign correspondents	$ 787†	$ 2,181†
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	52.3%	46.6%
* After deducting participation of other Federal Reserve Banks amounting to	$ 223,720	$ 317,868
† After deducting participation of other Federal Reserve Banks amounting to	1,673	4,366

from earmark are initially credited to foreign account balances at the Reserve Bank, but these accounts showed a small net decline for the year, as disbursements by foreign central banks and governments constantly offset the credits from gold transactions and other sources, including loans from the United States Government. Disbursements in New York for foreign accounts, however, were largely offset by commercial transfers to other districts. Losses of reserves to member banks through Treasury operations and other transactions were met by sales of Government securities directly or indirectly to the Federal Reserve System. "Other" deposit balances at this bank rose 247 million dollars during the year, primarily because of increases in the accounts of the International Monetary Fund and the International Bank for Reconstruction and Development.

The ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined, increased from 46.6 per cent at the close of 1946 to 52.3 per cent on December 31, 1947, owing to a greater proportionate gain in the bank's gold certificate reserves than in deposits and note liabilities.

Earnings and Expenses

Gross earnings of the Federal Reserve Bank of New York increased 1.5 million dollars during 1947 to 38.9 million. The increase resulted entirely from a higher rate of return on the somewhat smaller average holdings of United States Government securities during the year, and reflected the firming of short term interest rates in the latter half of 1947 and purchases of longer term securities after the middle of November. Earnings on loans again declined because of a reduced average volume, and previous small earnings from holdings of bankers acceptances almost disappeared.

Operating expenses of the bank increased 1.3 million dollars to 15.0 million during the year, leaving a gain in net operating income of approximately $200,000. The rise in operating expenses was occasioned by an increase in wages of employees and a general rise in the costs of providing Reserve Bank services. Additions to current net earnings, principally as a result of net profits on U. S. Government securities sold, were $200,000 greater than in 1946, while deductions from current net earnings were some $500,000 less, owing to the nonrecurrence of a 1946 contribution to the retirement fund, which included payments to equalize benefits to employees returning from military service.

Consequently, net earnings after all adjustments, but before dividends, totaled 24.6 million dollars for the year, or about $900,000 more than in 1946. Of this total 4.1 million dollars, representing the usual 6 per cent statutory dividend on capital stock, was paid to the member banks, while 18.4 million was transferred to the United States Treasury in payment of an interest charge on Federal Reserve notes levied by the Board of Governors of the Federal Reserve System under Section 16 of the Federal Reserve Act. The balance of the year's earnings, 2.1 million dollars, was transferred to the bank's surplus accounts.

Profit and Loss Account
For the Calendar Years 1947 and 1946
(In thousands of dollars)

	1947	1946
Earnings	$ 38,907	$ 37,443
Net expenses	15,014	13,740
Current net earnings	$ 23,893	$ 23,703
Additions to current net earnings:		
Profit on U. S. Government securities sold (net)	$ 637	$ 433
All other	98	132
Total additions	$ 735	$ 565
Deductions from current net earnings:		
Retirement system salary computation adjustment	$ —	$ 531
All other	70	72
Total deductions	$ 70	$ 603
Net earnings	$ 24,558	$ 23,665
Paid United States Treasury (Section 13b)	$ 25	$ 63
Dividends paid	4,053	3,865
Paid United States Treasury (Interest on Federal Reserve notes)	18,368	—
Transferred to surplus (Section 13b)	65	48
Transferred to surplus (Section 7)	2,047	19,689
Surplus (Section 7) beginning of year	$ 136,549	$ 116,860
Addition as above	2,047	19,689
Surplus (Section 7) end of year	$ 138,596	$ 136,549

Changes in Membership

Six State banks and trust companies in the Second Federal Reserve District were admitted to membership during 1947. There was a net decline of four in the number of member banks in the District, however, owing to mergers with other members involving ten member banks. There were 797 member banks at the end of the year, which is 87 per cent of the total number of banks in the District, and these member banks held about 95 per cent of total assets of all national banks, State banks, and trust companies in the District. All national banks are members of the Federal Reserve System, and 69 per cent of all State banks and trust companies in this District are also members.

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, 1947			December 31, 1946		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	538	0	100	542	0	100
State banks and trust companies	259	117	69	259	124	68
Total	797	117	87	801	124	87

Changes in Federal Reserve Membership in Second District during 1947

Total membership beginning of year	801
Increases:	
State banks and trust companies admitted	6
Decreases:	
Member banks combined with other members	10
Total membership end of year	797

* Banks in actual operation.

State Banks and Trust Companies in the Second Federal Reserve District Admitted to Membership in the Federal Reserve System during 1947

		Effective Date
Dobbs Ferry Bank	Dobbs Ferry, N. Y.	January 25, 1947
Bank of Commerce	Newark, N. J.	May 7, 1947
Bronxville Trust Company	Bronxville, N. Y.	May 28, 1947
The Nassau Union Bank	Glen Cove, N. Y.	July 16, 1947
Security Trust Company of Rochester	Rochester, N. Y.	December 3, 1947
Citizens Bank of Cape Vincent	Cape Vincent, N. Y.	December 23, 1947

Changes in Directors and Officers

At a regular election in the autumn of 1947, Frederic E. Worden, Chairman of the Board and President of The National Bank of Auburn, Auburn, N. Y., was elected by member banks in Group 2 as a Class A director for a term of three years, beginning January 1, 1948, to succeed Harry H. Pond, Chairman of the Board of The Plainfield Trust Company, Plainfield, N. J., whose term expired December 31, 1947. At the same time, Charles E. Adams, Chairman of the Board of the Air Reduction Company, Inc., New York, N. Y., was reelected by member banks in Group 2 as a Class B director for a term of three years, beginning Janauary 1, 1948.

The Board of Governors of the Federal Reserve System reappointed William I. Myers, Dean of the New York State College of Agriculture, Cornell University, Ithaca, N. Y., as Deputy Chairman of this bank for the year 1948.

In December 1947, the directors of this bank appointed Clyde C. Brown, President of The Cuba National Bank, Cuba, N. Y., as a director of the Buffalo Branch, for a term of three years, beginning January 1, 1948, to succeed Charles H. Norton, President of the Erie County Trust Company, East Aurora, N. Y., whose term expired December 31, 1947.

The directors of this bank also designated Carl G. Wooster, of Union Hill, N. Y., as Chairman of the Board of Directors of the Buffalo Branch for the year 1948.

In January 1948, the Board of Governors of the Federal Reserve System appointed Lewis B. Swift, President of the Taylor Instrument Companies, Rochester, N. Y., as a director of the Buffalo Branch for the remainder of the term of three years ending December 31, 1950, to succeed Marion B. Folsom, Treasurer of the Eastman Kodak Company, Rochester, N. Y., whose term expired December 31, 1947.

Changes in Officers

Howard D. Crosse, formerly a Special Assistant in the Cash and Collection function, was appointed a Manager, effective July 3, 1947, and assigned to the Collection Department.

Loren B. Allen, an Assistant Vice President, resigned effective August 11, 1947, to become an officer of The Northern Trust Company, Chicago, Illinois.

Dudley H. Barrows, Manager, Cash Department, who entered the bank as Assistant Secretary in February 1918, died December 26, 1947.

J. Wilson Jones, Vice President, who had been with the bank for more than thirty years, and had been an officer since January 1918, retired from active service with this bank, effective January 31, 1948.

Member of Federal Advisory Council

At its meeting on January 8, 1948, the Board of Directors of this bank selected W. Randolph Burgess, Vice Chairman of The National City Bank of New York, to serve for another year as 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	FREDERIC E. WORDEN Chairman of the Board, and President, The National Bank of Auburn, Auburn, N. Y.	1950
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 of the Board, Air Reduction Company, Inc., New York, N. Y.	1950
B	3	CARLE C. CONWAY Chairman of the Board, Continental Can Company, Inc., New York, N. Y.	1948
C		Vacancy — *Chairman*	1950
C		WILLIAM I. MYERS, *Deputy Chairman* Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1948
C		ROBERT D. CALKINS Director and Vice President, General Education Board, New York, N. Y.	1949

DIRECTORS — BUFFALO BRANCH	Term expires Dec. 31
CARL G. WOOSTER, *Chairman* Farmer, Union Hill, N. Y.	1948
THOMAS ROBINS, JR. President, Hewitt-Robins, Incorporated, Buffalo, N. Y.	1949
LEWIS B. SWIFT President, Taylor Instrument Companies, Rochester, N. Y.	1950
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
CLYDE C. BROWN President, The Cuba National Bank, Cuba, N. Y.	1950

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*
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*

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*
Curtis R. Bowman, *Manager, Credit Department, and Manager, Discount Department*
Harry M. Boyd, *Manager, Safekeeping Department*
Wesley W. Burt, *Manager, Savings Bond Department*
James J. Carroll, *Manager, Planning Department*
John J. Clarke, *Assistant Counsel, and Assistant Secretary*
Howard D. Crosse, *Manager, Collection Department*
Paul R. Fitchen, *Manager, Cash Custody Department*
Marcus A. Harris, *Manager, Government Bond Department, and Manager, R.F.C. Custody Department*

William A. Heinl, *Manager, Personnel Department*
Peter P. Lang, *Manager, Foreign Department*
Spencer S. Marsh, Jr., *Manager, Securities Department*
Michael J. McLaughlin, *Manager, Government Check 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, Cash Department*
Roy E. Wendell, *Manager, Check Department*
Harold M. Wessel, *Manager, Accounting 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*