Thirty-fourth Annual Report

Federal Reserve Bank of New York

For the Year Ended December 31, 1948

Second Federal Reserve District

FEDERAL RESERVE BANK OF NEW YORK

April 1, 1949

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

I am pleased to transmit herewith the thirty-fourth annual report of the Federal Reserve Bank of New York reviewing the year 1948.

ALLAN SPROUL,
President.

CONTENTS

CHARTS

Federal Reserve Bank of New York
Thirty-fourth Annual Report

The year 1948 brought promising signs that postwar inflation was tapering off in the United States. Evidence from abroad during the year varied widely, but there were some countries, notably a number of those embraced by the new program for European economic cooperation, in which similarly encouraging developments appeared. By and large, where inflation still persisted it could be traced principally to current political and economic policies, rather than to the direct influence of the war and the immediate problems of reconversion. In the United States itself, the lingering threat of renewed inflation, which properly concerned the responsible authorities, arose mainly from the possible development of a budgetary deficit arising out of new programs for military preparedness or new Government spending for other purposes.

In each year since the end of the war, even as inflation continued, the American economy has passed through at least one "deflation scare." The sharp decline of commodity prices in February 1948 led to such a case of uncertainty and hesitation. But as was suggested in this bank's annual report a year ago, the pressures of general demand were still straining the capacity of the economy, and the drop in agricultural prices soon fitted into place as a desirable correction in that sector where the uneven price advance of inflation had been most seriously distorted. While there was no significant dropping back in output or employment in any major sector of the economy, and while record peaks of gross national product, consumer spending, and business investment were attained, the prices of many of the goods sold at wholesale and at retail drifted gradually downward in the latter part of the year. Nervousness was again apparent early in 1949, aggravated by a widespread belief that the sustained "excess" of effective demand, which had permeated all markets from raw materials to finished products in preceding postwar years, had finally spent most of its force.

In seesawing for more than three years between the reality of inflation and the fear of deflation, we have now passed over many of the problems of reconversion which might have upset us. With a price structure in which extreme irregularities have to a considerable extent been smoothed out, and with unprecedented capacity in plant, materials, and employed manpower, our position early in 1949 is indeed promising in terms of fundamentals. There is no reason, in the pure logic of the situation, why a progressive disappearance of the artificial wartime stimulants to demand should cause alarm. Perhaps, instead, that high rate of growth in productivity upon which our progress and standard of living ultimately depend—a rate which fell off sharply during eight years of ''sellers' markets''—will be renewed by the return of ''buyers' markets'' and the heightened rivalry among producers which such markets imply. At the close of 1948 and the beginning of 1949, at any rate, it seemed premature to conclude that the disappearance of excess demand for many commodities necessarily meant that depression would soon follow.

In some lines, especially steel and automobiles, accumulated backlogs had not yet been fully worked off by the end of the year. In other lines, while most of the demand-at-any-price may have been satisfied, there was still a sizable volume of demand awaiting further price corrections. Apparently much of this price-conscious demand could not conveniently be postponed for an extended period. Difficulties in further postponement may possibly explain the resumption in December 1948 and January 1949 of the rise in the dollar volume of some types of nonresidential construction over the corresponding months a year earlier, although construction costs had only begun to decline in September and were still well above the levels of the preceding year. In the case of those foods whose prices were most inflated, moreover, consumers reacted almost immediately to the significant price declines by purchasing a larger volume, with the result that total dollar sales of food to consumers remained roughly constant, on a seasonally adjusted basis, throughout the year.

The outstanding symptoms of a weakening in the inflationary pattern appeared near the close of the year in an increased selectivity of consumer spending. Among department stores, for example, while the combined dollar sales for the last two months of 1948 dropped behind those of the corresponding months in 1947, special promotions of merchandise at reduced prices apparently were quite successful. Illustrations of the changes which occurred in the output and sales of other lines of business, largely in response to this changing consumer behavior, are presented in later sections of this report. This return of a general wariness in purchasing, while incomes continued to expand, was also accompanied by a rise in personal saving. As a residual figure in calculations of national income and expenditures, savings rose as a percentage of disposable personal income from 5.1 in 1947 to an average of 7.7 per cent in 1948. The rate for the last quarter of 1948 reached 9 per cent.

From March until well past midsummer, however, the scope and direction of this eventual shift in consumer behavior, except in a few lines, were by no means clear. The changeableness in outlook characteristic of the entire postwar period was demonstrated again when Congress was called into special session late in July mainly to deal with the renewed inflationary tendencies then in evidence. The general indexes of consumer and wholesale prices had been rising at rates of roughly 1 to 2 per cent per month for several months. A so-called third round of postwar wage increases was just becoming effective, and probably accounted for at least half of the 5 billion dollar rise in personal incomes (at an annual rate) which occurred during the month of June alone. A reduction of income taxes during the second quarter had released about 3 billion dollars (for the calendar year 1948) into disposable personal income. Additional spending by the Economic Cooperation Administration was just getting under way in the early summer; and it was not yet generally appreciated that this contribution to our export surplus would merely replace other contributions, while the aggregate volume of our merchandise exports would actually decline as compared with 1947. Business expenditures for new plant and equipment (at an annual rate) had risen by 2.6 billion dollars, or more than 15 per cent, from the first to the second quarter of the year. The total loans of all banks had expanded by 2.4 billion dollars (roughly 6 per cent) in the seven months from January through July, despite pressures on bank reserves applied by the Federal Reserve System and the Treasury and the efforts of bankers' associations and bank supervisors to restrain unnecessary extensions of credit. The volume of bank deposits, reduced substantially by the Treasury's retirement of debt with its cash surplus of the first quarter, had begun to increase again in June. Further, in July nonbank investors resumed their unloading of Government bonds upon the Federal Open Market Account, devoting most of the proceeds to other investment or lending. Credits granted to consumers likewise continued to expand, contributing to an aggregate of demand which appeared to be out of line with the available supplies of many consumer durable goods.

From October on, the inflationary pressures lessened. While over-all demand remained high, and personal incomes continued to advance, there was increasing evidence of a progressive return to buyers' markets. Despite tax reduction and expanding outlays, there was no immediate prospect of an unbalanced Government budget, thus moderating the fear that deficit financing might provide a new spur to inflation. It appeared possible, barring early adoption of new programs requiring deficit financing through the banking system, that 1948 would stand out as the year in which the surge of demand which followed World War II became roughly equated to available supply—through the combined influence of rising output, price adjustments, and fulfilment of many accumulated backlogs of urgent demand.

As surplus demand disappeared, it became increasingly important to examine the prospects for renewed growth in productivity and for sustaining a substantial volume of new investment. The two are necessarily interrelated. The basis for an optimistic outlook, linking both factors, has already been suggested in mentioning the inducement to cost reduction provided by a return of buyers' markets. For as cost competition becomes increasingly keen, investment for the manufacture of new products, and the imaginative exploitation of new and more efficient processes, should be stimulated. An interesting survey by a private research organization suggests that before the end of 1948 business was already planning ahead for an increased emphasis upon investment of this type. While investment for plant expansion, as such, was expected to fall off markedly over the five years from 1949 through 1953, according to the findings of this survey, cost-reducing investment appeared likely to take its place to a substantial degree.

The slower growth of productivity (as distinguished from production) during the war and early postwar years left considerable room for additional cost-cutting investment, especially in the durable goods industries. While the necessity of using marginal labor and marginal plant and the delays in production caused by material bottlenecks or work stoppages also contributed to the lag in productivity, certainly part of the explanation lay in our inability to continue prewar rates of investment-per-man-employed (in terms of physical plant and equipment used for civilian production). The civilian labor force employed in manufacturing industries rose by more than 60 per cent from 1939 to 1948; the physical growth of capital equipment, measured by any of the possible alternative methods, was considerably less. A sustained rate of growth in productivity, however, would presumably have required, short of revolutionary changes in technology, a rate of growth in "real" investment at least equal to that of the employed labor force.

If the subsidence of postwar excess demand should promote investment designed to cut costs, the prospects for peacetime economic stability in the United States would be materially strengthened. On the record, there was not yet any evidence of a decline in total capital outlays (i. e., including expansion *and* modernization) at the end of 1948. Anticipated expenditures for the first quarter of 1949, furthermore, were more than 5 per cent greater in dollar volume than the actual disbursements made for plant and equipment in the first quarter of 1948, although forecasts for later in the year suggested a decline. Thus, there was also a pessimistic side. The spending plans of businesses and consumers are always subject to change, and if a pervading conviction should develop that the end of inflation meant depression, it could swiftly lead to substantial curtailment, regardless of the underlying economic prospects. Unfortunately, the occurrence and the effects of an attitude of this kind are not susceptible to precise analysis or to prediction.

The economic justification for such a state of mind was not apparent at the beginning of 1949. The scattered instances of layoffs and sales resistance frequently noted in the press late in 1948 and early in 1949 were newsworthy largely because such events had been a rarity through the years of surplus demand. They had not even reached a scale which, before the war, would have been considered evidence of normal adjustments and turnover in a robust competitive economy. And there were many new "props" within the economy which, while in some instances creating rigidities that might obstruct corrective readjustments, also provided a considerable measure of assurance against repetition of the extremes of cumulative contraction reached in the early thirties. Price supports for agriculture, maintenance of orderly conditions in the Government securities markets, the proportionately low volume of indebtedness in business and agriculture in relation to turnover, the existing balance in inventories, the availability of liquid reserves to the banking system, deposit and unemployment insurance, and the likelihood of enlarged Government spending if unemployment appeared to be reaching major proportions—were among the leading buttresses of an economy that was in itself essentially strong and resilient.

In our relations with the world economy, 1948 brought encouraging developments. Foremost among these was the vigorous launching of our four-year program of assistance to the recovery efforts of Western Europe. The Economic Cooperation Administration had authorized procurements of 4 billion dollars by the end of 1948, after some nine months of operation. From the purely domestic point of view, any potential stimulus to inflation was minimized, chiefly by financing all disbursements from ordinary Treasury receipts, but to some degree also by procuring roughly two fifths of all purchases outside the United States, thereby shifting to other countries some of the demand for goods which were in short supply here. The effects of direct aid, and of the resulting increase in intra-European cooperation, in helping to check inflation and to bring about needed structural readjustments within the diverse economies of the 19 participating countries, are described briefly in a later section of this report.

But help through grants and loans is only the first of two basic stages in the American contribution toward a sound European recovery. The second stage, presenting even greater difficulties in attainment, will be to reduce somewhat Europe's dependence upon exports from this country, while increasing our own imports in order to make Europe (and other areas) more nearly self-supporting—that is, enabling other countries to earn more of the dollars with which to pay for the exports we continue to send them in the long run. Significant progress in this second stage of our task also occurred during 1948. Our total sales of goods and services to all countries dropped from 19.7 billion dollars in 1947 to 16.8 billion in 1948; our total purchases rose from 8.5 billion dollars in 1947 to 10.5 billion in the year under review. The decisive nature of the change was most conspicuous in the second half of the year. The estimated over-all surplus of United States exports over imports (including services) was 2.8 billion dollars in the last six months of 1948, barely more than half the export surplus of 5.4 billion for the comparable period in 1947.

It is, nonetheless, much too early for complacency, either as to the outcome of the internal recovery efforts within Western Europe by 1952, or as to the prospects for a self-sustaining balance of multilateral accounts among the principal countries of the world beyond 1952. After two full years of smouldering or blazing inflation, and a steady deterioration in international trade, a number of countries were in a position by 1948 to display spectacular initial results once strong corrective efforts were launched. Progress must be expected to come much more slowly in the succeeding years.

It is heartening, in any case, to be able to record that 1948 was a year of high promise. The distortions and artificialities of inflation may actually have been checked and, to some extent, corrected in the United States; and a turning point may have been reached by many other countries as well, notably Great Britain, Belgium, Italy, and the Scandinavian group. It is at least possible to hope for greater productivity and a sturdier basis for economic stability in the United States during 1949, as well as for a strengthening of the Western European economies and, in general, for an expansion in the network of healthful international trade.

National Economic Trends in 1948

On the whole, 1948 was one of the most prosperous years in the nation's history. Practically every type of economic indicator bears witness to this prosperity. During the year, all-time records were set for such comprehensive measures as personal income, total value of goods and services produced, total civilian employment, sales of all retail stores, and agricultural output. Wholesale and retail prices, hourly and weekly earnings, and corporate profits also reached all-time peaks during 1948. Other measures, such as the physical volume of goods and services produced, reached new peacetime peaks. Those individual lines of business which did not achieve new records maintained, in most cases, a high level of activity.

By the fourth quarter of 1948, the gross national product of the American economy, i.e., the estimated total value of goods and services produced by it, had risen to a seasonally adjusted annual rate of 265 billion dollars. For the year as a whole, the gross national product averaged 255 billion dollars, compared with 232 billion in 1947. This 10 per cent rise over 1947 reflected, in part, the generally higher level of prices which prevailed during 1948. The year-to-year increase in the physical volume of goods and services produced was estimated by the President's Council of Economic Advisers at about 3 to 4 per cent. Since total employment advanced by only 2 per cent (or 1.4 million persons) between 1947 and 1948, these estimates indicate that there has been some increase in the average output per worker. The total physical volume of nonagricultural goods and utilities produced in 1948 is estimated to have been practically double the prewar (1935-39) average.

Despite the large number of new records set during 1948, the year was not characterized by sharp economic expansion, as had been the case in many lines of business during 1946 and 1947. It was rather a year of leveling off, readjustments, and narrow fluctuations. Gradual, continued advances in many sectors of the economy tended to be offset by declines in some other areas. By the end of the 1948 Christmas season, consumers were able to obtain without delay practically every type of consumers' goods, except possibly lower priced passenger automobiles. Both wholesale and retail prices declined in the latter part of the year, and in the last weeks of 1948 wholesale prices were actually somewhat lower than they had been at the end of 1947. Consumers' prices in December showed the smallest year-to-year increase since the relaxing of price controls in 1946.

The total volume of industrial production was on the whole about 3 per cent higher than in 1947, with all major categories—durable goods, nondurable goods, and minerals—sharing in the advance. In durable goods lines, metal shortages were still a limiting factor for many products, although by the end of 1948 the demand was less insistent than in 1947 and the remaining "gray markets" were less active. During the year, nearly 2 million tons of new steelmaking capacity was placed in operation. In the final quarter, steel mills operated at virtually full capacity for the first time since the peak of the war effort. Nonferrous metal supplies were little changed from 1947; production was up slightly from the previous year, but Government stockpiling and an increasing volume of armament orders restricted the amounts available for civilian production. Many consumers' durable goods entered a buyers' market during 1948; manufacturers and retailers of furniture, washing machines, stoves, refrigerators, and some other household appliances found competition stiffer in the closing months of the year. Some factories cut back production or laid off workers, but even so the output of major housefurnishings and appliances was well above prewar levels.

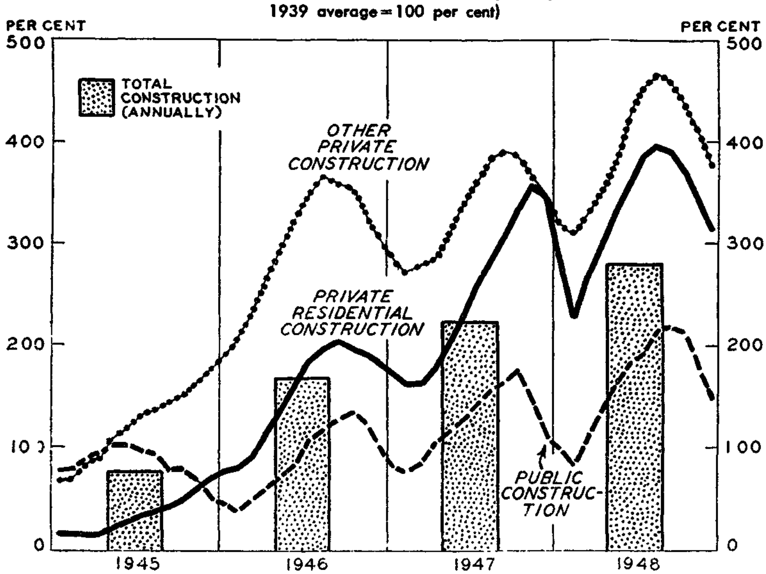
In the nondurable goods group, many readjustments of production to the price lines and qualities most in demand had occurred in 1947, but for some industries, including clothing, shoes, and certain textiles, the readjustments continued into and through 1948. Domestic consumption of cotton was at the lowest rate since 1940. In the leather goods, alcoholic beverage, meatpacking, and rubber industries, production was lower in 1948 than in 1947. On the other hand, greater output was reported for rayon, paper and pulp, petroleum products, and industrial chemicals.

Construction activity in 1948 reached a new record in value of work under way, but, when allowance is made for the high level of construction costs, the physical volume of construction was probably short of the annual volume erected during peak building years of the twenties. Over 925,000 permanent nonfarm dwelling units were started in 1948, the second highest number on record. Including farmhouses and converted dwelling units, the nation's housing supply was increased by probably well over a million residential units during 1948. After May, however, the number of new units started began to decline. Under the burden of high costs, the market for housing apparently narrowed once the most urgent demand had been met. The dollar volume of both private and public nonresidential construction showed sizable increases over 1947.

Business investment in new plant and equipment rose again in 1948, exceeding the already high rate attained in 1947. Industrial building declined somewhat, but other types of construction, particularly by commercial firms and public utilities, were substantially higher. Business expenditures on machinery and equipment also rose steadily, but by the end of the year backlogs of orders for some types of machinery were somewhat lower. Although in several industries programs for expansion of capacity appeared to be nearing completion, considerable

NEW CONSTRUCTION, 1945-48

(Index numbers of dollar volume of work put in place; 1939 average = 100 per cent)



Source: U. S. Department of Commerce.

investment was still contemplated by some lines, particularly for modernization and for cost-cutting or labor-saving equipment. Accumulation of business inventories continued during 1948, but the increase in dollar volume was by no means so great as in either 1946 or 1947, mainly because of the leveling off in prices.

Agricultural production reached the highest levels on record and this was one of the major factors in price developments during the year. Early in 1948, the prospect of a bumper wheat crop and abundant grain supplies caused a sharp break in farm prices. There was a brief and partial recovery, but as the new crops reached the market, grain prices started a steady downward movement. By mid-October, all grains except rice were at or below 90 per cent of parity, the level at which Government price supports generally become effective. The record size of some crops and the near-record size of others caused a shortage of approved storage facilities, which forced some farmers to sell their grain below the prices at which the Government would make loans on properly stored grain. Meat and livestock prices reached a peak in the summer of 1948 and declined during the remainder of the year, although prices at the year end were still well in excess of parity. Altogether, wholesale prices of farm products at the end of 1948 were about 12 per cent below the peak reached in mid-January. The gross cash income of farmers in 1948, nevertheless, was slightly higher than in 1947, owing to the greater volume of marketings.

Wholesale prices of commodities other than farm products and foods were, as a group, remarkably steady during 1948. Except for a rise around midyear, reflecting the effects of the third round of wage increases and higher raw material costs, there was little fluctuation in the weekly index of this group of prices. In several components, however, significant developments occurred. With demand for nearly all types of metals still in excess of supply, prices of metals rose substantially during the year. Fuel and lighting materials advanced in price throughout 1948, and the cost of building materials increased further, although there was some tapering off towards the end of the year.

Retail prices at the end of 1948 were about 3 per cent higher than at the end of 1947. Retail food prices in December averaged about the same as a year earlier, following a steady decline from their July peak. On the whole, the other commodities in the index of consumers' prices continued to increase during the latter half of the year, offsetting in part the drop in food prices.

Retail trade was maintained at high levels throughout the year, as the nation continued to enjoy virtually full employment at high wages. For the first time since 1944, disposable personal income rose faster than the cost of living, in part because of the reduction in personal income taxes during 1948. A larger share of this increased income, however, went into savings, and there appeared to be a tendency to invest these savings in homes, farm stock and equipment, and small businesses, rather than to accumulate readily spendable liquid assets. Consumer expenditures slackened somewhat toward the end of the year, but the aggregate dollar volume of expenditures in 1948 was about 8 per cent higher than in 1947. The physical volume of goods and services purchased by consumers was probably at least equal to that of the preceding year. By the end of 1948, practically all types of consumption goods were readily available; some concern was beginning to be felt about inventories and commitments, although, in relation to current sales volume, stocks were not believed to be excessive.

Well over a million additional workers found jobs in 1948, and unemployment was kept close to the minimum "frictional" levels. All major nonagricultural branches employed more workers than in 1947. Many workers received during 1948 a third round of wage increases and some received a fourth. In most cases, increases were, however, smaller than the preceding postwar wage boosts. Indexes computed by this bank indicate that weekly earnings of wage earners in nonagricultural industries averaged 8 per cent higher in 1948, compared with a gain of 12 per cent in 1947, while average earnings of clerical and professional workers were 7 per cent greater in 1948, about the same rise as in 1947. Toward the end of the year there were scattered layoffs of workers, but since seasonal factors appeared to be reasserting themselves more strongly than at any time since the war, some of these layoffs were probably temporary.

At the close of 1948, national business volume was still at a very high level.

Economic Trends in the Second District

The Second Federal Reserve District recorded smaller gains in business activity in 1948 than did the rest of the country. This same tendency prevailed in 1947, and in fact has been noticeable throughout the past fifteen years. During the final quarter of 1948, there was a sudden, but apparently temporary, contraction of business in the District.

According to preliminary estimates made at this bank, income payments in the Second District during 1948 were about 8 per cent greater than in 1947, and totaled approximately 34½ billion dollars, a new all-time peak. In the rest of the country, the gain appeared to be closer to 10 per cent, with the total also reaching an all-time high. The fact that the increase in the Second District was less than the gain in the rest of the country may be attributed largely to a decline in manufacturing activity here. Throughout the greater part of the year, factories employed fewer workers than in 1947. In the last five months of the year, factory employment was actually lower than in the same months of 1946.

Both durable and nondurable goods manufacturers curtailed employment during 1948, with most major industries in the District reporting fewer employees at the end of 1948 than a year earlier. In New York State, the drop in employment was particularly pronounced in the manufacture of electrical machinery and appliances, office machinery, heating apparatus, some women's wear, men's clothing and hats, and dairy products. These declines were partly offset by employment increases in the women's coat and suit industry, which is so important in this District, and also at carpet factories and lumber mills. The value of women's outerwear shipped from factories in the New York metropolitan area showed a year-to-year increase of 13 per cent in the first nine months of 1948, compared with a rise of 19 per cent in the rest of the country. Production of shoes in the Second District exceeded the previous year's total by 5 per cent, while in the rest of the country output decreased 3 per cent.

Transportation was the other major industry in the District which showed a slight decrease in average employment in 1948; in the rest of the country the number of workers in this industry also decreased during the year.

Gains in other lines of work were sufficient to offset the reduction in employment in manufacturing and transportation, so that there was no over-all decline in employed workers. In government service (and also in mining, which employs only a small number of workers) employment increased in New York State proportionately more than in other parts of the nation. The number of employees in finance in New York State was practically unchanged, while in the rest of the country the gain in this category was about 5 per cent. Employment in wholesale and retail trade, construction, and the service industries showed a somewhat smaller gain in this State than in the rest of the United States.

During 1948, the dollar volume of both residential building and private nonresidential construction in the Second District showed a somewhat better year-to-year gain than in the other sections of the country. Public construction was at a particularly high level in New York during 1947, and did not advance as rapidly in 1948 as did such construction in other States. Contract awards for public housing construction in New York and New Jersey accounted for nearly two thirds of the 1947 national total; in 1948 they dropped sharply, but were still one third of the total for the country.

The smaller rise in income and employment in the Second District than in other districts was reflected in consumer expenditures. Department store sales in this District in 1948 were about 4½ per cent larger than in 1947, compared with a 6 per cent gain in the rest of the United States. In most Upstate cities the increases in sales equaled or exceeded the national rate, but in New York City, Newark, and Bridgeport sales gains were smaller. The increase in sales in this District was approximately equal to the rise in prices of apparel and housefurnishings, so that the physical volume of sales was apparently little changed from 1947. When it became clear that pre-Christmas sales were lagging, many department stores reduced their outstanding orders sharply to minimize inventory accumulation and resorted to extensive promotional sales. As a result, the increase in inventories over 1947 was slight, and well in line with the over-all rise in sales and prices. Sales of apparel stores, which declined from 1946 to 1947, decreased still further in 1948.

The drop in grain prices, which adversely affected farm incomes in other sections of the country, helped this District. Lower feed costs meant higher net incomes for dairy and poultry farmers, as their products—the mainstay of this District's agriculture—continued to sell at relatively high prices, a reflection of continued high consumer incomes. Total milk production was close to the 1947 record, chiefly because of increased output per cow. Poultry and egg production in New York State showed an increase over 1947. The output of potatoes and truck crops, which are also important in the agriculture of the District, was larger than in 1947, but most fruit crops were below normal. On the whole, gross cash income from farm marketings in the Second District increased 9 per cent during 1948 compared with 3 per cent in the United States.

The tendency for over-all gains in income and employment in this area to lag behind similar gains in other sections of the country has persisted for a decade and a half. In appraising such trends in the economic activity of a region, one of the best and most comprehensive indicators is the amount of income payments. The Second District's share of the national total of income payments dropped from 22.7 per cent in 1932 to about 16.6 per cent in 1948. In every year of rising income since 1933, the increases in income payments in this District have been consistently smaller than those in the rest of the country, except during the period of tapering off of war production and reconversion (1944-46).

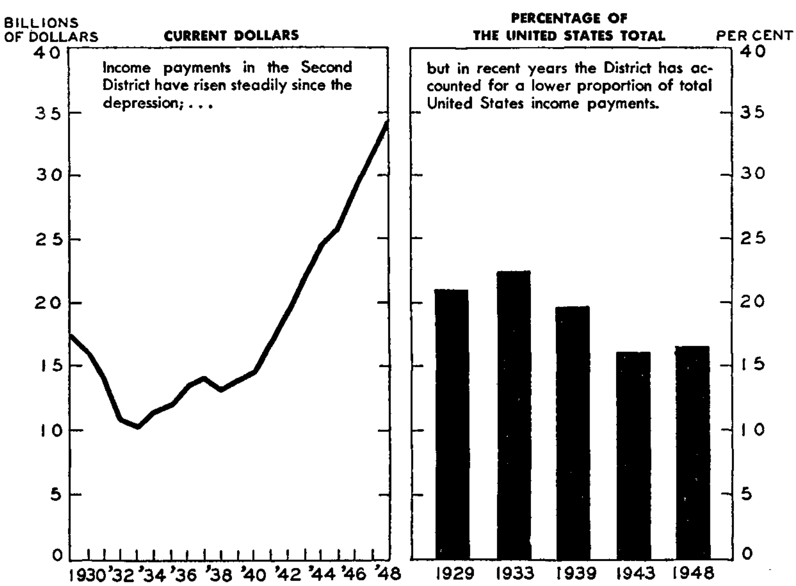
New York State, which accounts for the bulk of the District's income, has shown the smallest percentage increase in income payments between 1929 and 1947 of any State in the nation. The proportionately smaller growth of income in the State and the District reflects the interaction of two main factors: the already high state of development of this area's resources and the more stable character of the sources from which the bulk of the area's income is derived, whether in peace or in war. As a result of this latter circumstance, gains in income in this District, during recent years, have not been so rapid in periods of rising national activity as have the gains in other areas, but neither have the declines been so sharp during recessions or depressions. Between 1929 and 1932, and again between 1937 and 1938, the percentage of the nation's income originating in the Second District rose because income payments elsewhere declined much more sharply. Conversely, in periods of rising income the rate of increase in this District has ordinarily been exceeded elsewhere, and the Second District's share of the total has declined.

These tendencies reflect differences in the sources of income of this area as compared with other parts of the country. Manufacture of consumers' nondurable goods plays an extremely large part in this region's economy, whereas areas where durable goods industries predominate are subject to much wider cyclical swings. Similarly, agriculture, which is ordinarily subject to much wider fluctuations in income than other major branches of our economy, contributes less to aggregate income payments in this District than it does in other districts. Consequently, this region has not benefited so greatly from the war and postwar farm prosperity, and income here has risen less rapidly than in the major farm States. In preceding years of drought or of depressed farm prices, however, the District's income did not decline so sharply as elsewhere.

A further stabilizing factor in the economy of the District has been the large proportion of income derived from property. Income from interest, dividends, net rents, and royalties tends to fluctuate much less widely than other forms of income. In 1929, close to one quarter of this District's total income was from property. The proportion today is much lower, probably about one eighth, but it is still high when compared with other parts of the country.

Despite the decline in this area's share of the nation's income, the people of the District have continued to enjoy the highest average annual incomes of any Federal Reserve District. To the extent that the increased income in other parts of the country during recent years represents greater permanent economic growth, this District will not be able to regain its former position. Nevertheless, the comparatively stable character of the Second District's income structure has been chiefly responsible in the past for maintaining a high and rising level of income for its inhabitants, and it is likely that it will continue to do so.

INCOME PAYMENTS IN THE SECOND FEDERAL RESERVE DISTRICT



Source: Computed by Federal Reserve Bank of New York from U. S. Department of Commerce data; 1948 estimated from preliminary data.

The Money Supply

In 1948, for the first time since 1937, the money supply[1] held by the public was lower at the end of the year than at the beginning. While the average amount of money available for use by the public during the year was larger than in the preceding year, the increase was very slight and much smaller than in the other postwar years.

Demand deposits, excluding Government and interbank deposits, dropped 1.3 billion dollars during 1948, while currency in the hands of the public declined 800 million dollars. Government deposits, in a reversal of the movements of the last two years, increased somewhat. Time deposits held in banks (including mutual savings banks) and the Postal Savings System continued to expand in 1948, but the rate of growth was the lowest in any calendar year since 1942.

While expansion in the money supply was checked or reversed during the year, the "income velocity" of money (as measured by the ratio of the gross national product to the average money supply) increased again in 1948. The rise in money velocity was greater than in 1947 and brought the annual rate of turnover to its highest point since 1944.

The rise in money turnover reflected the continued prevalence of nonmonetary inflationary forces during 1948. While there was a moderate increase in the physical volume of goods and services produced, the accelerated turnover of money paralleled more closely the rise in the average level of prices.

[1] Demand deposits (excluding Government and interbank deposits, and adjusted for cash items in process of collection) and currency outside the banks.

Ratio of Gross National Product to Yearly Averages of Total Demand Deposits Adjusted and Currency Outside Banks
(In billions of dollars)

Year	Total demand deposits adjusted and currency outside banks	Gross national product (GNP)	Ratio of GNP to total demand deposits adjusted and currency outside banks
1939	33.8	90.4	2.67
1942	54.8	159.6	2.91
1944	85.1	212.2	2.49
1945	98.9	213.4	2.16
1946	106.0	209.3	1.97
1947	109.3	231.6	2.12
1948 p	109.6	254.9	2.33

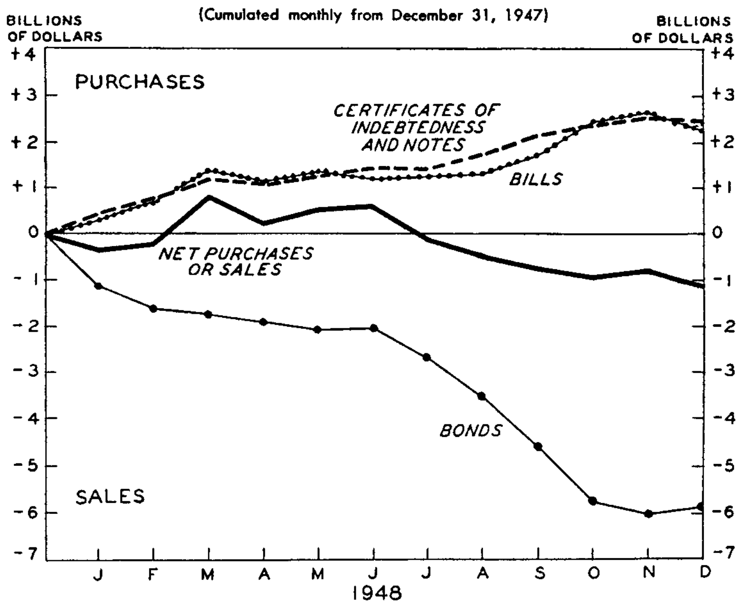
p Preliminary.

The measure of control over the money supply regained by the Federal Reserve System during 1948 was largely the consequence, of course, of the greatest net Treasury cash income in any year in our history. About 5.5 billion dollars of these net Treasury receipts were used to redeem securities held by the System, thereby giving rise to pressure on bank reserves as well as deposits. The remaining part of the Treasury net cash income was employed to redeem the unexchanged portions of maturing marketable securities held chiefly by nonbank investors.

To some extent the deposits siphoned off the income stream by tax collections were replaced with funds acquired by investing institutions and other nonbank investors through sales of Government securities, which were purchased, mainly, by the Reserve Banks. Portfolios of Government securities held by nonbank investors were reduced not only by sales of "bank restricted" securities to the Federal Reserve Banks, but also by redemptions of parts of maturing issues by the Treasury at the option of the holders (the holders offset many of these sales

MARKET PURCHASES OR SALES OF GOVERNMENT SECURITIES BY NONBANK INVESTORS*, BY TYPE OF ISSUE

(Cumulated monthly from December 31, 1947)

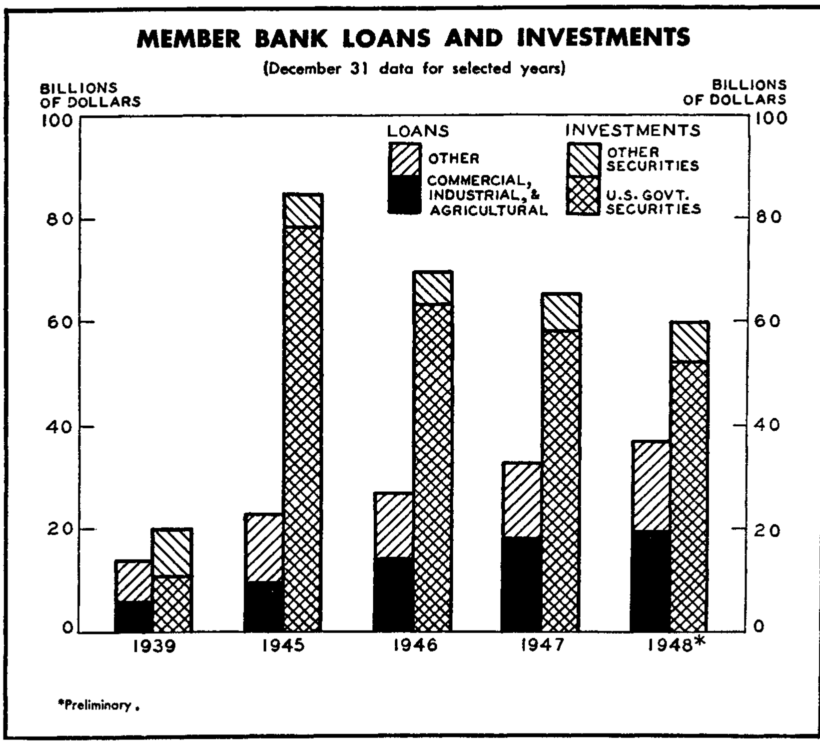


*Includes insurance companies, mutual savings banks, stock savings banks, and "all other investors."
Source: *Treasury Bulletin*, April 1948—March 1949.

and redemptions, of course, by purchases of short-term issues in the market and by net purchases of nonmarketable issues from the Treasury). All these operations involving the Treasury, the Federal Reserve System, the commercial banks, other institutional investors, and individuals added up to a net reduction of about 1.7 billion dollars in Government security holdings of nonbank investors[2] during the year.

This reduction was attributable to a fall in the holdings of insurance companies, which were the heaviest and most persistent sellers of "bank restricted" issues of Treasury bonds. Such sales, which were made largely to obtain funds for the purchase of new, higher-yield, corporate securities, created a difficult problem of credit control, since System purchases of long-term Government bonds, to maintain stable and orderly markets, tended to increase the deposits and reserves of the banks. An offsetting influence, however, was the System's ability to make substantial sales, to banks and others, of short-term Treasury obligations.

[2] Including savings banks but excluding Government agencies and trust funds.



Another factor tending to increase the deposits (but not the reserves) of the banks was a further growth in bank loans to supply additional working capital to business organizations, and to finance building construction and consumer expenditures, especially for durable goods. While the year's increase in total loans was over 5 billion dollars, however, it was about one-fourth less than the loan expansion of 1947. The slower rate of growth in bank loans may be attributed to several factors, among which were the efforts of the Federal Reserve System and other supervisory agencies and of the American Bankers Association to restrain unnecessary extensions of credit, as well as the more cautious attitude of the individual banks in their lending operations. Aside from a sizable increase in loans to Government security dealers by the big New York City banks (which apparently was largely of a temporary character), the increases in all major categories of loans, including commercial and agricultural, real estate, and consumer loans, appear to have been less in 1948 than in 1947.

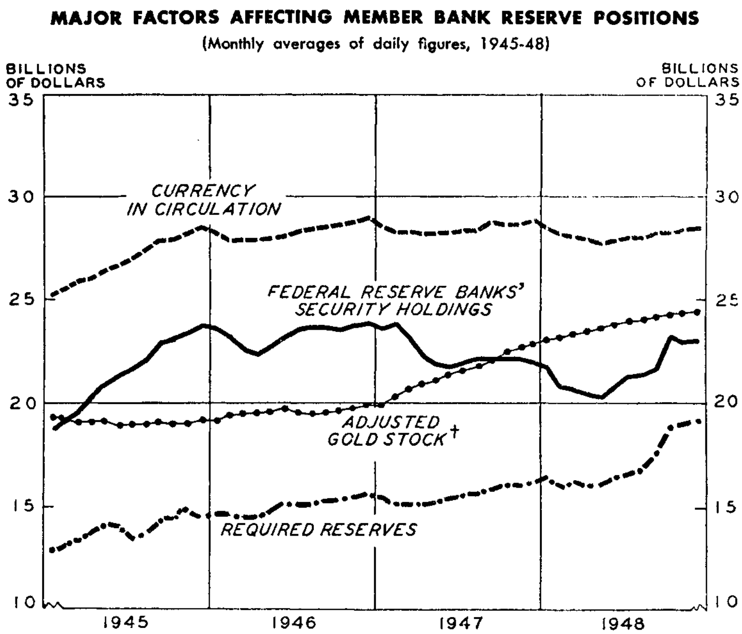
By far the most striking change in the banking situation during 1948, as compared with 1947, was the much smaller growth in business borrowing from the banks. One factor, which may have been either cause or effect, was the reduction in business working capital needs, associated with a decrease in the rate of inventory accumulation, in contrast to the increased demand for "fixed capital" for investment in plant and equipment. Another factor was the repayment of bank loans, by corporations, out of the proceeds of sales of new securities to insurance companies and others. Some of the proceeds of such security sales may also have been used to finance new short-term needs, thus obviating the need for bank borrowings. A few companies (e.g., tobacco companies) deliberately chose this method of financing higher-priced inventories. Others probably were moving from the first preparatory stage of expansion of plant and equipment, which had been loan financed, to a later stage where heavier expenditures and longer-term financing would be required. Security financing of the costs of the entire projects, in such cases, permitted repayments of the previous short-term borrowings. Still other concerns may have borrowed in the capital markets ahead of their needs in anticipation of a later rise in interest rates, and then used some of these funds temporarily for working capital purposes. As a result of both increased security flotations and diminished corporation working capital needs, commercial loans of the weekly reporting banks in leading cities rose only 6 per cent in 1948, compared with 30 per cent in 1947.

Other factors affecting the public's money holdings were relatively minor and, moreover, tended to cancel out on balance. While the banks' purchases of about 600 million dollars of non-Government securities tended to increase deposits, the addition of 600 million dollars to bank capital funds during the year was an offsetting factor tending to lower deposits.

Federal Reserve Credit and Credit Policy

In view of the persistence of inflationary pressures during much of the past year, credit policy continued to be directed toward restraining expansion of bank credit and of the money supply. As in the preceding two years, this credit policy was closely interwoven with problems arising out of the management of a Federal debt of more than 250 billion dollars. Such problems narrowed the scope of action open to the Federal Reserve System and complicated its efforts to restrain credit expansion. At the same time, however, implementation of the System's policies was largely dependent upon the surplus of Treasury receipts over disbursements (referred to in the preceding section of this report) and the method of use of this surplus in debt retirement operations.

While the general character of the problem faced by the System, in its efforts to prevent further monetary expansion, was similar to that of the preceding year, there were considerable changes in the character of demands for credit and capital and in the relative importance of the factors tending to contribute to further growth in bank reserves, and hence in the ability of the banks to extend credit and to expand the money supply. The demand for loans was still strong, particularly in the mortgage and consumer credit fields, but less urgent than in 1947. The demand for long-term business capital was undiminished. The gold inflow was again large (about 1.5 billion dollars), but it declined considerably from the 1947 rate. Contrariwise, the net return flow of currency to the banks was larger in 1948 than in 1947. Most difficult of all, Reserve Bank purchases of Government bonds, in support of an orderly market for such bonds, had to be much greater in 1948 than in 1947, and periodically forced reserves into the banking system. The task of credit policy was to prevent the reserves, flowing from these various sources, from becoming the basis for further large growth in the money supply. In the end the absorption of such funds was successfully accomplished through a combination of fiscal and credit measures.



†Gold stock adjusted for foreign account balances with Federal Reserve Banks and for a payment to the International Monetary Fund in 1947 as part of the United States subscription.

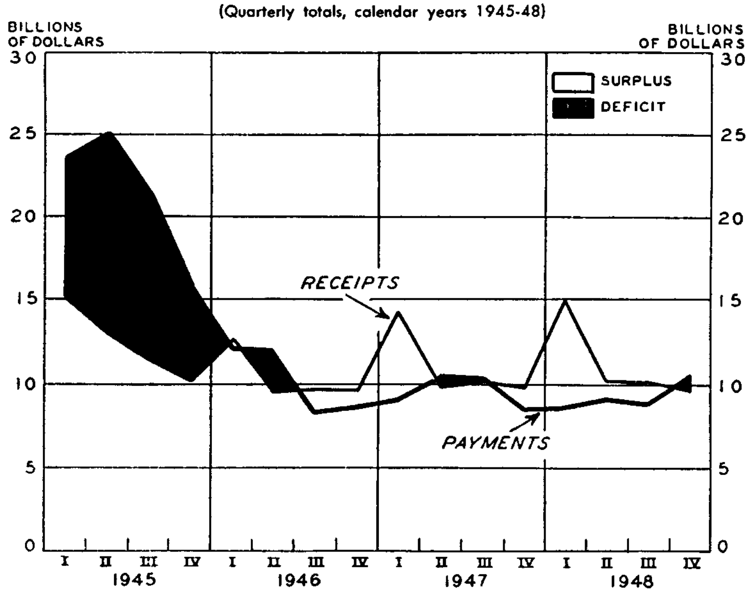
As the year opened, the System was in the midst of operations required to demonstrate both its ability and the firmness of its intention to carry out the policy which was announced at the time its support prices for Government bonds were lowered on December 24, 1947. It may be recalled that in the final week of that year more than 1 billion dollars of Government bonds were purchased by the Reserve Banks in carrying out their commitment to clear the market of any bonds for which other buyers were not available at the System's support prices. Purchases of Treasury bonds by the System continued on a large but diminishing scale through January and February 1948, but by March the selling by other investors had largely "dried up", and at the end of that month market quotations for most issues of Treasury bonds had risen at least slightly above the System's support prices. In the first three months of 1948, the System purchased a total of nearly 3 billion dollars of Treasury bonds.

In addition, there was a return flow of currency from circulation of nearly 1,100 million dollars, a gold inflow of nearly 400 million dollars, and a reduction in the aggregate required reserves of member banks, due to deposit reductions, amounting to about 900 million dollars during the first quarter of the year. Thus there were potential additions to member bank reserves from all sources aggregating over 5 billion dollars. This increase in potential reserve funds was offset mainly by a reduction in the System's holdings of Treasury bills and certificates. There was also an increase of about 500 million dollars in the aggregate required reserves of banks in New York City and Chicago, as a result of the action of the Board of Governors in increasing the reserve requirements against demand deposits of central reserve city banks by 2 percentage points—from 20 per cent to 22 per cent—effective February 27, 1948.

The reduction in the System's holdings of short-term Government securities was largely possible because of the condition of the Federal budget. The Treasury's net cash receipts, chiefly from tax collections, were more than 6 billion dollars in the first quarter of

FEDERAL CASH RECEIPTS AND PAYMENTS*

(Quarterly totals, calendar years 1945-48)



*In accordance with the revised procedure adopted in the January Budget Message for fiscal 1950, refunds have been deducted from receipts rather than included as an item of expenditure
Source: U. S. Treasury.

1948. Nearly three fifths of that amount was used to redeem maturing securities held by the Federal Reserve Banks, including 400 million dollars of certificates maturing on January 1, 1,600 million dollars of certificates maturing on February 1, 450 million dollars of certificates and bonds maturing on March 1 and 15, and at least 100 million dollars a week of maturing Treasury bills in most weeks during the first quarter. The funds used for the redemption of securities held by the Reserve Banks did not get back to the commercial banks, from which they were largely collected, so that reductions in both deposits and reserves of the banks resulted.

In addition, the Reserve System was able to sell short-term Government securities in the market, from time to time, as demands for such securities were stimulated by a rise in their yields. The interest rate on one-year Treasury certificates was advanced from 1 per cent to 1⅛ per cent on January 1, and this was followed by a general increase in basic Reserve Bank discount rates from 1 per cent to 1¼ per cent. Corporations and other nonbank investors bought short-term Government securities in sizable amounts, in some cases for investment of funds not immediately needed for business purposes, and in other cases for temporary employment of the proceeds of sales of long-term securities. The demands for short-term securities, growing out of higher yields, were reinforced by a tendency of commercial banks to enlarge their holdings of liquid assets. This was accomplished by shifts of some of their longer-term investments into Treasury bills and other short-term Treasury securities, and through the purchase of such securities with other funds becoming available to them from time to time.

The increased emphasis on liquidity, on the part of banks and other investors, was stimulated not only by the uncertainties with respect to the outlook for market values of longer-term securities, but also, in the case of the banks, by some concern over the liquidity of their loan portfolios which was induced or accentuated by the sharp break in prices of a number of agricultural commodities in February. As a result of this break in commodity prices, there developed a tendency to conclude that the postwar boom might be over and that the general business situation, if it did not deteriorate, would at least become more highly competitive during the remainder of the year.

The combined result of all Treasury and Reserve System operations, together with the reduced rate of growth of bank loans, during the first quarter of 1948 was a net reduction of about 6½ billion dollars in the money supply in the form of demand deposits (adjusted) and currency in the hands of the public.

In the spring, however, there were several developments which, taken together, brought about a marked change in business sentiment and in market psychology. These included the Administration program for a substantial increase in military expenditures, the prospect of early Congressional approval of the European Recovery Program and other foreign aid, the reduction in individual income taxes, and evidence that a third round of wage increases and accompanying increases in production costs were not to be avoided. The commodity and security markets strengthened and renewed indications of inflationary pressures developed.

At the same time the ability of the Federal Reserve System and the Treasury to keep some pressure on the reserves of the commercial banks diminished. The excess of Treasury cash receipts over disbursements, which in the first quarter of the year had been at the rate of more than 2 billion dollars a month, fell off, in the second quarter, to about 400 million dollars a month. Fortunately, the Treasury had carried over part of its surplus receipts of the first quarter in the form of deposits in War Loan accounts at banks. And these deposits were augmented beginning near the end of March when the Treasury adopted a new procedure permitting banks to credit to War Loan deposit accounts on their books the withheld income taxes collected by employers who are among their customers, instead of remitting such taxes directly to the Treasury. As a result, deposits in War Loan accounts increased and the Treasury was able, in periods of net Government disbursements, to offset the effect of such disbursements on the reserves of the banks by making withdrawals from War Loan accounts. In addition, some of the funds accumulated by the Treasury in its deposit accounts in the Reserve Banks during the first quarter, together with part of the funds withdrawn from the commercial banks during the second quarter, were used for further redemptions of securities held by the Federal Reserve Banks.

Reserve Bank purchases of Treasury bonds during the second quarter were almost entirely limited to purchases of short-term bonds. These bonds were sold in some volume by the commercial banks, many of which preferred to shift from such securities to Treasury bills, and especially to short-term Treasury certificates, in view of the rather general expectation that a further increase in the one-year interest rate would be announced by the Treasury in connection with its June and July refunding operations. In this situation the Reserve System had no difficulty in offsetting its bond purchases by sales and redemptions of Treasury bills and certificates.

The return flow of currency to the banks ceased in this period, but the gold inflow continued at a moderate rate. In June, the Board of Governors of the Federal Reserve System announced a second advance of 2 percentage points in the reserve requirements of central reserve city banks (against their demand deposits), effective June 11. Again the banks affected obtained the required reserves chiefly by selling Government securities which were purchased by the Federal Reserve Banks. On the whole the reserve position of the commercial banks, in the aggregate, was somewhat easier than in the first quarter. Total loans and investments of the banks increased moderately, and the total money supply rose by about 1.2 billion dollars, thus offsetting a small part of the shrinkage during the first quarter.

The announcement by the Treasury, in the middle of May, that the 1⅛ per cent interest rate would be retained on its offerings of one-year certificates at the time of its June and July refunding operations had the effect, temporarily, of strengthening the market for practically all issues of Treasury bonds, and prices of a number of issues rose well above the Reserve System's support prices. In June, however, this situation was reversed following a Treasury announcement of expanded offerings of Savings bonds in connection with a special Savings bond drive. For a limited period in July savings institutions were permitted to increase their subscriptions to Series F and G Savings bonds to a total, for the year, of 1 million dollars for the two series combined (compared with the usual annual limit of $100,000), and commercial banks holding savings deposits were permitted to purchase up to $100,000 of F and G Savings bonds combined. When surveys in the market indicated that total subscriptions to these Savings bonds might run as high as 1 billion dollars, thus draining off a substantial volume of investment funds which would otherwise have been available for purchases of other securities, and quite possibly involving some sales of existing security holdings, prices of long-term marketable Treasury bonds dropped sharply to around the System's support prices.

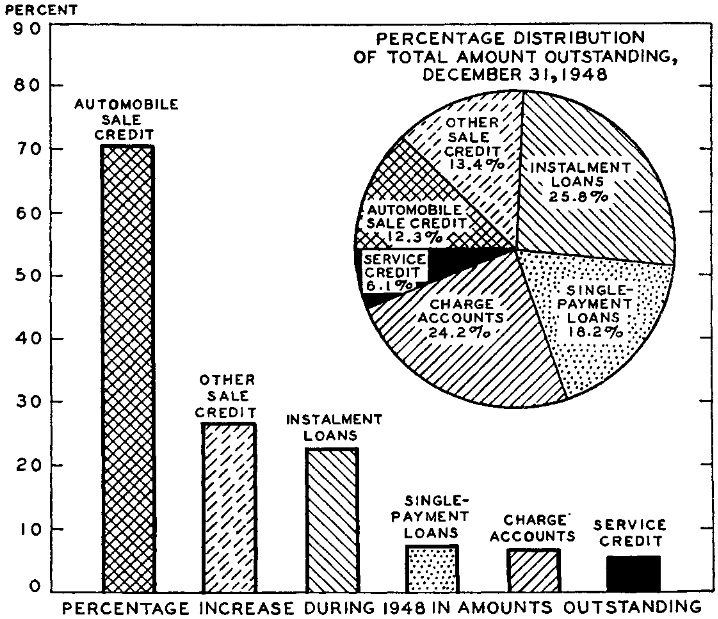
No substantial selling of such bonds developed until July, but at that time offerings ran considerably in excess of purchase orders, and it again became necessary for the Federal Reserve System to absorb substantial amounts of long-term Treasury securities. Some of the sales of Government bonds apparently were made to obtain funds for the purchase of Series F and G Savings bonds, but the major purpose of the sales, especially by insurance companies, was to provide funds for investment in corporate securities.

During July and August the Reserve System was unable fully to offset its purchases of Treasury bonds by sales and redemptions of short-term Treasury securities, so that some expansion of member bank reserves resulted. At the same time there was a revival of demands for bank credit and there were also further evidences of inflationary pressures.

Shortly before the middle of August, the Treasury announced that in its September 15 and October 1 refunding operations the interest rate on one-year securities would be raised from 1⅛ to 1¼ per cent. All Reserve Banks followed this action by raising their rediscount rates from 1¼ to 1½ per cent.

The special session of Congress which met in July and August, on call by the President to act on a series of proposed measures designed to restrain inflation, approved only those proposals relating to restraint of credit expansion. The Board of Governors of the Federal Reserve System was authorized to increase the required reserves of all classes of member banks by 4 percentage points on demand deposits, and 1½ percentage points on time deposits above the previous maximum percentages. The so-called ''anti-inflation'' act also authorized the Board, until June 30, 1949, to regulate consumer credit. Acting under these authorizations, the Board announced increases of 2 percentage points in required reserves for demand deposits and 1½ percentage points for time deposits for all classes of member banks, effective in September, and promulgated a new Regulation W to control extensions of credit to consumers for the financing of instalment purchases of twelve major types of consumers' durable goods. The increase in member bank reserve requirements had the effect of increasing by about 2 billion dollars the aggregate amount of reserves which all member banks were required to maintain, and forced the banks to sell a corresponding amount of Government securities to obtain the necessary reserves.

CONSUMER CREDIT



The growth in bank loans continued throughout the third quarter of the year at about the same rate as in the corresponding period of 1947, the increase amounting to approximately 1.9 billion dollars for all commercial banks. Total investments of the banks, however, were reduced by approximately 2.1 billion dollars, largely as a result of the increase in member bank reserve requirements and the resulting conversion of part of their investments in Government securities into additional reserve balances. The money supply in the form of demand deposits and currency increased by about 1.3 billion dollars during the quarter, a considerably smaller increase than in the third quarter of 1947.

During the final three months of the year, despite a substantial growth of loans to finance the carrying of the large crops (including Commodity Credit Corporation loans), the over-all demand for credit slackened, reflecting a moderate downturn in commodity prices and the development of some uncertainty as to business prospects. The increase in total loans of all commercial banks was slightly under 1 billion dollars in this period compared with an increase of 2½ billion in the last three months of 1947.

Selling of long-term Government bonds by insurance companies, and others, continued through October and the first days of November, as these investors sought the funds with which to take up large amounts of higher-yielding security issues being placed in the market by business concerns to finance capital expenditures. In the absence of other buyers the Reserve System had to absorb most of the offerings of Government bonds. The System's purchases of bonds in that period were very largely offset by sales and redemptions of short-term Treasury securities, however, so that the total volume of Federal Reserve credit in use showed little change.

After the early part of November, the selling of Treasury bonds by nonbank investors diminished considerably and the demand for such bonds increased. During the closing weeks of the year, therefore, the Reserve System was able to reverse its Government security operations, selling Treasury bonds to maintain orderly conditions in the market, and purchasing short-term Government securities for the same reason, and in order to provide member banks with the reserves they required.

The money supply increased further by about 1.8 billion dollars during the final quarter of the year, but as was pointed out in a preceding section of this report, there was a net reduction for the year as a whole of approximately 2.1 billion dollars, which compares with an increase of more than 3.5 billion dollars in 1947, and an increase of 7.7 billion dollars in 1946.

As the year closed, there was evidence of a lessening of demand for bank credit in most of its principal forms, including not only commercial and industrial loans, but also real estate loans and consumer credit.

Corporate Finance and the Capital Markets

While business needs for working capital increased less in 1948 than in either of the two preceding years, capital requirements for expansion and replacement of plant and equipment rose still further, and the volume of financing obtained from lending and investing institutions and the capital markets was very large. American corporations (excluding banks and insurance companies) required, in 1948, approximately 17 billion dollars to meet the cost of new plant construction and of new equipment, and another 10 billion dollars to finance increased working capital needs. Capital expenditures rose 13 per cent over the 1947 spending for similar purposes, and were greater than in any other year on record. During 1948 capital expenditures rose in all major industries, except in transportation other than railroads, the most pronounced increases being reported for telephone, electric, and gas utilities, railroads, and commercial and miscellaneous industries (including trade, service, and finance). A large part of the year's expenditures continued to be for purposes of expansion, although new capital investments for improving efficiency of operations also rose, since an increasing amount of corporate investment was for new machinery and equipment.

The growth of short-term working capital needs of business corporations was substantially less in 1948 than in any other postwar year. Inventory accumulation amounted to 5.3 billion dollars in 1948, one-fourth less than in 1947, as the process of filling up "pipe-lines" approached its end. To some extent the reduced growth of inventories reflected a slowing down of the rise, or even declines, in commodity prices. The volume of new credit extended to customers also declined substantially as a consequence of the slower expansion of sales. The increase in corporate trade receivables, however, was larger than the expansion of trade payables, indicating further extension of credit by corporations to unincorporated businesses and to individuals. On the whole, expansion of working capital contributed less to inflationary forces in 1948 than in the earlier postwar years.

To meet their large requirements for additional capital, corporations again relied heavily upon retained earnings. Total corporate profits in 1948 are estimated to have reached an all-time record of 21 billion dollars after taxes, compared with 18 billion in 1947. Continuing their conservative dividend policies, corporations paid out to stockholders only about 35 per cent of net income after taxes. Undistributed profits, therefore, provided more than two fifths of all corporate capital needs in 1948, thus setting a new high record for this mode of financing. Depreciation allowances (5 billion dollars) accounted for another fifth of total capital needs, so that the funds obtained directly from corporate operations accounted for over three fifths of all capital requirements.

External financing consequently accounted for only about two fifths of total needs, and was considerably reduced as compared with the 1947 volume. The increase in short and medium-term debt, both indebtedness to customers and bank borrowing, was sharply below that of the preceding year, a corollary of the above-mentioned smaller increase in working capital requirements. The growth of bank loans was also held in check by the pressure maintained on bank reserves throughout the year and by the organized efforts of the banks themselves to promote restraint in extensions of bank credit. Total corporate borrowing from the commercial banks is estimated to have risen only 0.8 billion dollars in 1948, compared with 2.9 billion in 1947.

Despite the fact that the volume of external financing was considerably below the 1947 total, corporate demands upon the long-term capital market were unprecedentedly large in 1948. The capital markets were called upon to absorb 5.7 billion dollars of "new money" corporate security issues (bonds and stocks), 900 million dollars more than in 1947. The amount of refunding securities was unusually small (less than 300 million dollars), reflecting some firming of interest rates, as well as the completion of many refunding programs in the preceding two years.

The stock exchanges were dull during most of the year, and prices moved in a narrow range that provided little stimulus for investment in new share issues. Tax considerations and other factors, including the fact that interest rates were still relatively low, also continued to favor the issuance of bonds. Consequently, the amount of equity issues offered for new money purposes was less than a billion dollars, or about 25 per cent below the level of the preceding year, while new money bond issues reached a record high of 4.7 billion dollars in 1948, a gain of about one-third over the preceding year's total of 3.6 billion dollars, the previous record. The capital market absorbed the large volume of bond issues fairly smoothly, despite pressure on bond prices during the first quarter and again in the summer and early fall of the year. Nevertheless, in most cases, corporate issuers had to offer their new bonds at yields higher than they had obtained in the years since the war, on bonds of comparable quality and maturity. Private sales to insurance companies and other institutions remained large, representing about two fifths of all new corporate securities issued during the year.

Notwithstanding the large volume of debt financing during 1948, corporate financial positions (measured by the ratio of net worth to total liabilities) did not change significantly—with exceptions in some industries—because of the common practice of retaining substantial proportions of current earnings for use in financing new capital requirements.

Municipal Financing

In an effort to catch up on war-deferred improvements and to proceed with postwar expansion programs such as the construction or rehabilitation of schools, water and sewer systems, hospitals, roads, and airports, State and local governments made peak outlays for construction in 1948 (2.7 billion dollars compared with 1.9 billion in 1947). Since taxes and other revenues of the municipal governments were barely sufficient to meet current expenses, most of these capital programs, and large State bonus payments to veterans as well, were financed through the flotation of new security issues in the capital market. For the second successive year total new offerings of long-term municipal securities rose to record highs, amounting to 3.0 billion dollars, compared with 2.4 billion in 1947. Of the 1948 total, approximately 650 million dollars were bonus issues, down slightly from 685 million in 1947.

Reception of new municipal issues by the market was mixed. Unsettled conditions prevailed, particularly during the earlier months of the year and in the months leading up to the national elections, and the flotation of new issues was complicated by heaviness in the price trend at such times. Prices rallied after the national elections on prospects for increased taxes and increased value of tax exemption, thus facilitating sales of the tax-free municipal issues, and helping to clear dealers' shelves of unsold securities.

Foreign Economic and Financial Reconstruction

The European Recovery Program

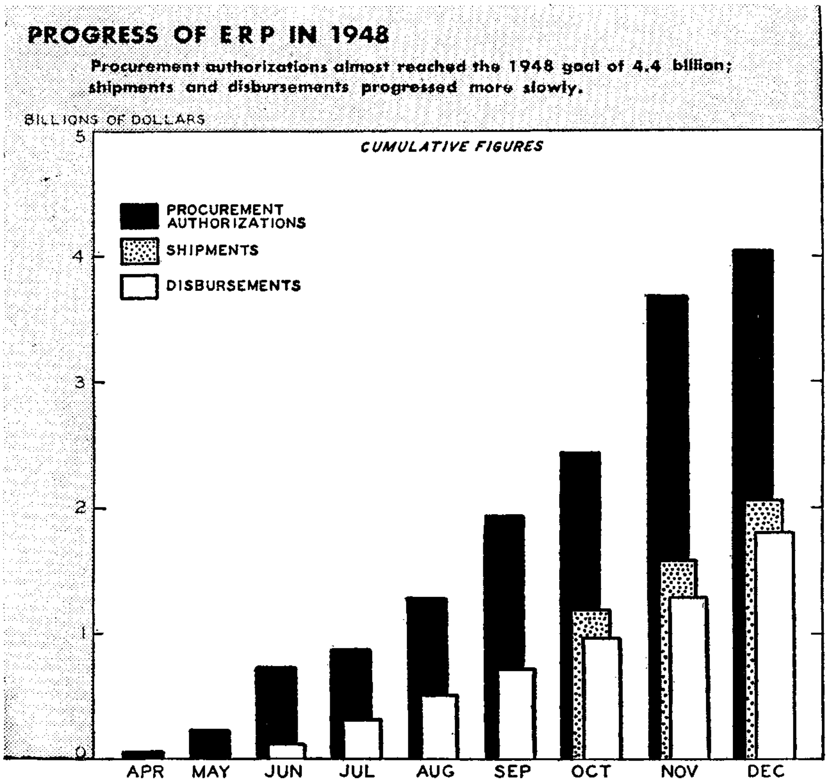
With the signing of the "Foreign Assistance Act of 1948", on April 3, and of the "Foreign Aid Appropriation Act, 1949", on June 28, the European Recovery Program formally came into existence, and a new stream of American aid began to flow to Western Europe. As a whole, however, 1948 was a year of transition, in which the ERP was only beginning to operate and in which earlier foreign aid programs still played a relatively important part. Some of the earlier programs, including the credit of 3,750 million dollars to Britain and post-UNRRA and interim aid, were exhausted during the course of 1948, while in the case of some other aid programs only small unspent balances remained at the end of the year.

For the first year of the ERP (April 1948-March 1949), Congress made available 5 billion dollars, consisting of an appropriation of 4 billion dollars[1] and an authorization to the Economic Cooperation Administration (entrusted with the execution of the program) to borrow 1 billion from the Treasury for granting loans and giving transfer guarantees covering private American investments in ERP countries.[2] Of the 5 billion dollars, the ECA allocated 4,386 million to the nine-month period April-December 1948, and 536 million to the first quarter of 1949, the remainder of 78 million representing miscellaneous items, including expenses. Of the 4,386 million dollars programmed for 1948, approximately 3,106 million was allocated to direct grants, 825 million to loans, and 455 million to "conditional allotments", which (as explained below) are conditional upon the recipient's extending a corresponding amount of "drawing rights" in its own currency to other participating countries.

The accompanying chart indicates how the program was actually implemented in the period April to December 1948. After a relatively slow start, the ECA gradually stepped up its authorizations of procurement on behalf of ERP countries, and by the end of the year 4,045 million dollars of procurement had been authorized. There were, of course, time lags between procurement authorizations, shipments, and disbursements. On December 31 shipments (including freight services) aggregated 2,053 million dollars and disbursements 1,797 million. The chief recipients of the shipments were Britain with 766 million dollars, France with 495 million, Italy with 196 million, the Netherlands with 155 million, Western Germany with 140 million, and Austria with 106 million. Of the total shipments, an amount of 1,001 million dollars was procured in this country, 457 million in Canada and Newfoundland, 163 million in participating countries, 143 million in Latin America, and 106 million in other countries, while 183 million represented freight. About one half of the procurement orders which had been initiated by the end of the year was for food and agricultural commodities, and about one half for industrial commodities.

[1] The appropriation of 4 billion dollars was authorized for the 15-month period ending June 30, 1949, but it was specified that the entire amount could be obligated and expended during the 12 months ending April 2, 1949, if the President deemed such action necessary. In November 1948 the President authorized the ECA to commit the full amount by April 2, 1949. In addition to the 5 billion dollars for ERP, Congress made available in 1948 an aggregate of 2,560 million dollars for other foreign aid programs, including 1,443 million for Army relief in occupied areas; 400 million for aid to China; 225 million for aid to Greece and Turkey; and 492 million for a variety of other foreign aid programs.

[2] Of these guarantees, which were limited to 300 million dollars, virtually no use has been made.



Source: ECA releases and daily U. S. Treasury statements. Figures for shipments are available only from October on.

On the European side, sixteen Powers[3] and the Western Zones of Germany signed on April 16, 1948, a convention in which they pledged themselves to "close and lasting collaboration" through a permanent Organization for European Economic Cooperation.[4] The OEEC was established to help administer American aid and to promote, both individually and collectively, the economic recovery of the participating nations through efficient use of their resources and through a progressive modernization of their economies.

Partly as a result of ERP, Western European production expanded substantially during 1948. Increased supplies of fertilizers and farm equipment, as well as favorable weather, facilitated an increase in agricultural output to a level that was considerably higher than in

[3] The Governments of Austria, Belgium, Denmark, Eire, France, Greece, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

[4] The British-United States Zone of the Free Territory of Trieste was admitted to the OEEC on October 14, 1948.

1947 and not far from prewar levels. Owing to the growth in Western Europe's population, however, per capita agricultural production was still well below prewar. Industrial production in Western Europe continued to expand during the first half of the year as fuel and raw material supplies increased and living conditions improved. By June most countries had reached or surpassed prewar production levels—Germany, Austria, Italy, and Greece being the chief exceptions. Particularly notable increases over 1938 were scored by most Western European countries in the production of steel, cement, electric power, and machinery. The coal shortage, which since the war has been one of the principal obstacles to European recovery, was largely eliminated during the year. As in the earlier postwar years, production gains were generally greater in the capital goods than in the consumers' goods industries. During the second half of the year, however, signs developed that the expansion of industrial production was tending to slacken. Existing productive capacity and labor in many countries had become almost fully employed, and further expansion in those areas depended on additional investment and greater per capita productivity.

A problem of special importance was presented in 1948 by the slowness of recovery of intra-European trade. This trade has lagged far behind the growth of production, partly because of the very strong demand within each country for the domestic output, and partly because of the growing payment difficulties between countries under the postwar network of bilateral payment agreements and credit lines. While these payment and credit arrangements had given an initial impetus to trade, their progressive exhaustion and the failure of attempts to provide relief through multilateral clearing showed that special measures were needed to prevent a growing deterioration of intra-European trade.

To meet this need, the OEEC developed an intra-European payments plan that makes ECA dollars do double duty by utilizing them indirectly to settle intra-European debit balances. Under the plan, countries with intra-European payment surpluses receive part of their ECA dollar aid only on the condition that they, in turn, grant aid to their respective debtors in the form of "drawing rights" in their own currencies. The debtors then utilize these local-currency drawing rights to meet their liabilities to their European creditors. The workability of this plan remains contingent, of course, upon the continued flow of American aid. A permanent solution of the intra-European payments problem presupposes the success of European countries in balancing their over-all international accounts. Even then the solution may remain difficult of achievement unless in addition they succeed in reducing their bilateral surpluses and deficits vis-a-vis one another.

The ERP nations through OEEC also cooperated in other ways during the year in planning their economic future, both short and long term. Among the immediate problems successfully dealt with was a proposal for the division of United States aid for the year ending June 1949. The individual country programs underlying this first annual instalment reflected chiefly the immediate needs of the participating nations; dollar-aid requests for the second ERP year, submitted in the latter part of 1948, formed more clearly a part of their long-term economic programs.

These long-term programs themselves were submitted to the Organization for European Economic Cooperation towards the end of the year. Their initial appraisal by the OEEC indicated the need for considerable modification if they were to be molded into an integrated whole. It also became apparent from this appraisal that the basic European problem was even more difficult than perhaps had been generally realized at the inception of the Marshall Plan.

The task of integrating the various national plans will put the possibilities of European cooperation to a major test. The countries of Western Europe, however united they may be in the will to retain their freedom and regain their prosperity, have many divergent interests involving questions of military security, relations with overseas areas, industrial rivalries, and economic philosophy. But even a high measure of success in reconciling these interests will not, according to the preliminary OEEC appraisal, ensure the viability[5] of the ERP countries by 1952. Implicit in the OEEC report was the suggestion that some European countries might have to adopt more vigorous measures in order to avoid the need of assistance after the end of the Recovery Program. Also implicit was the necessity for a reexamination of the position of the United States in world trade and finance if the Recovery Program was to have the measure of success contemplated.

[5] By the "viability" of an ERP country is meant its ability to carry on without "extraordinary outside assistance."

The lagging recovery in Western Germany has constituted a special problem of European recovery, and one of particular importance because of the country's potentially large contribution to European revival. The sharp economic upturn in Western Germany in the second half of 1948, therefore, was particularly significant. The expansion of industrial output in the Anglo-American occupation zone, from 46.8 per cent of the 1936 average at the beginning of the year to 78 per cent in December, reflected the success of a series of measures by the Western occupation powers and the German authorities to normalize the area's economic life and reintegrate it with that of the rest of Europe. Among these measures were a comprehensive monetary reform program and the repeal of some of the more repressive price and export controls. Western Germany was also the recipient of approximately 1 billion dollars of aid from the United States and Britain.

Economic conditions in Western Germany, however, are still far from normal. ERP deliveries have not prevented industrial production from running into a succession of bottlenecks, nor has real monetary stability yet been achieved, despite the large net inflow of goods and the drastic contraction of the money supply. Furthermore, even the measure of economic revival that has taken place has reawakened fears among Germany's neighbors that her recovery will be given preference over their own and will endanger their security.

The World-Wide "Dollar Shortage"

During 1948, a large number of countries again wished to buy United States goods and services in excess of their capacity to finance their purchases, either from current receipts or from reserves. To the extent that such countries have suffered no unusual impairment of their productive plant or of their international trade and investment position, the remedy for the "dollar shortage" seems to lie largely in their own hands, through appropriate adjustments in their fiscal, monetary, exchange rate, and trade policies. To the extent, however, that productive capacity, trade position, and invisible income have undergone material deterioration, as a result of war or other causes, the dollar problem can hardly be expected to yield quickly to ordinary adjustment processes.

Increasing balance-of-payments difficulties in 1948 affected in particular many Latin American countries, despite their record exports. For most of these countries, this situation reflected past or current credit expansion, which, superimposed on the high income currently derived from exports, had led to a very high demand for imports. In the case of Argentina, the difficulties were intensified by the fact that a large part of her export proceeds consisted of balances in inconvertible currencies. Most Latin American countries also were affected adversely by some further rise in the prices of United States manufactured goods, and by the scarcity of new foreign capital available to their economies, which in the past have been geared to a substantial inflow of capital during periods of high employment.

The results of the various Latin American balance-of-payments deficits were a decline in exchange reserves and a tightening and extension of exchange control. Currency devaluation was not generally resorted to, since under present conditions of near-capacity export production and high export prices, it was believed that such an additional stimulus to exports would serve mainly to increase exporters' profits and generate new inflationary pressures. However, increased use and adjustment of multiple exchange rates were made; this form of partial depreciation was considered appropriate in a number of countries where under prevailing conditions a change in the rate applicable to exports was deemed undesirable but where means nevertheless had to be found to restrain imports, particularly of nonessentials.

The pressure on the dollar position of the sterling area continued during 1948. Since international economic conditions made impossible an immediate return to unrestricted multilateral trade, the United Kingdom made a series of bilateral agreements to minimize the demands on its gold and dollar resources. Such agreements were concluded with Argentina, Australia, New Zealand, and Eire, and arrangements to exchange British coal and machinery for food and raw materials also were made with Western and Eastern European countries. At the same time a number of financial accords were reached with Britain's important creditors, particularly India, Pakistan, and Egypt, which blocked the bulk of the sterling holdings accumulated by those countries during the war. Agreements were also reached with various European countries for the reciprocal holding of balances up to specified amounts. In addition, steps were taken to curtail the dollar drain by tightening the exchange control system, both in Britain and elsewhere in the sterling area, especially in Australia, Hong Kong, and the Union of South Africa.

An intensive export drive, which expanded the physical volume of British exports from 120 per cent of the 1938 average in December 1947 to 152 per cent in December 1948, played a major role in reducing Britain's balance-of-payments deficit. In consequence, the British deficit on current account dropped from 630 million pounds in 1947 to an annual rate of 300 million in the first six months of 1948, and the loss of gold and dollars dropped from 1,024 million pounds to an annual rate of 508 million. In the second half of 1948, the gold and dollar drain was further reduced to an annual rate of 338 million pounds, while the over-all current account balance of payments actually showed a surplus, at an annual rate of 60 million pounds.

In contrast to the British improvement, one of the Dominions—the Union of South Africa—experienced an exchange crisis. The excess of the Union's dollar imports over its merchandise exports, and over its large current gold output (the purchasing power of which was greatly reduced by world price increases), caused a sharp decline in its reserves. The drop was intensified by the loan in February 1948 of 80 million pounds' worth of gold to Britain. The Union's gold reserves fell from 187 million pounds at the end of December 1947 to 57 million on November 5, 1948, when import restrictions were imposed to curtail the need for nonsterling currencies.

In Canada, on the other hand, where a foreign exchange crisis had been feared in the fall of 1947, improvement was recorded in 1948. Restrictions on imports from the United States, combined with an expansion of exports to this country, resulted in a decline of the adverse trade balance with the United States from 890 million dollars (excluding gold) in 1947 to 289 million in 1948. This reduction of net dollar expenditures was supplemented by an increase in dollar earnings from ERP offshore purchases in Canada, which totaled 454 million dollars in 1948, and by the floating of a 150 million dollar private loan in New York (of which, however, 140 million was used to repay 1948 drawings on the 300 million credit previously secured from the Export-Import Bank; the rest of the Export-Import Bank loan will not be used). As a result of these corrective steps, reserves of gold and United States dollars increased from 502 million dollars at the end of 1947 to 998 million at the end of 1948.

The Bretton Woods Institutions

Since the ECA and the Export-Import Bank were the main channels of American aid to Europe in 1948, the lending activities of the International Bank for Reconstruction and Development were limited to relatively minor transactions.[6] In March the Bank approved two loans totaling 16 million dollars to Chile to finance hydroelectric development and the purchase of agricultural machinery. In May 1948, a supplemental loan agreement was made with the Netherlands for a new loan of 17 million Swiss francs (about 4 million dollars) and a cancellation of an equal portion of the 195 million dollar loan of 1947; the Bank acquired Swiss francs for this purpose through the sale of its 2½ per cent Swiss franc serial bonds to the Bank for International Settlements. This was the first borrowing by the Bank of a currency other than United States dollars. In July, the Bank made loans aggregating 12 million dollars to four Dutch shipping companies, and later refinanced part of this amount through a sale of Dutch notes to a group of United States banks.

Loans to more than twenty member countries came under consideration by the Bank during the late summer, discussions with the applicants ranging from exploratory talks to detailed negotiations.

The International Monetary Fund purchased currency from its members in 1948 to a value of 208 million dollars. These transactions were with Belgium, Costa Rica, Czechoslovakia, Denmark, Ethiopia, India, the Netherlands, Nicaragua, Norway, the Union of South Africa, and the United Kingdom. Except for 500 million Belgian francs (equivalent to about 11 million dollars), all of the purchases made by the members were of United States dollars. In addition, the Fund supplied about 6 million dollars to Norway for gold. The sale of dollars to ERP countries was discontinued in April following a decision by the Fund's executive board that during the first year of the ERP "the attitude of the Fund and ERP members should be that such members should request the purchase of United States dollars from the Fund only in exceptional or unforeseen cases".

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[6] Early in 1949, however, the Bank's lending increased somewhat in volume. In January 1949, two loans aggregating 34.1 million dollars were made to two government agencies in Mexico, and a loan of 75 million dollars was made to the Canadian-owned Brazilian Traction, Light, and Power Company, Ltd., in Brazil.

The United States Balance of Payments

The United States balance of payments in 1948 was characterized by a marked shift towards a more normal peacetime pattern of international transactions. Most notable was a sharp decline in our net transfers abroad of goods and services as a result of our providing a smaller total of goods and services to foreign countries, and receiving a larger total from them, than in 1947.

According to estimates of the Department of Commerce, aggregate transfers of goods and services by the United States amounted to about 16.8 billion dollars in 1948, or about 3 billion dollars less than in 1947. This country's purchases of goods and services, however, rose from 8.5 billion dollars in 1947 to 10.5 billion in 1948. Our combined net surplus on current account was consequently reduced from 11.2 billion dollars to 6.3 billion. This pronounced shift was in large part attributable to the rise in production abroad, to the absence of "natural disasters" abroad of the kind which greatly interfered with agricultural and other production in 1947, and to tighter import restrictions in many foreign countries.

The aggregate value of United States merchandise exports, including shipments to our armed forces abroad for distribution to civilians in occupied areas, declined from 15.3 billion in 1947 to 12.6 billion in 1948. The largest reductions occurred in exports to the United Kingdom, Argentina, Sweden, France, Belgium-Luxembourg, and Canada. Merchandise imports rose by 1.4 billion dollars to a total of 7.1 billion in 1948. About one third of the increase represented a rise in our imports from Canada; the balance reflected increased imports from the Far East, Europe, and most Latin American countries.

Of the 6.3 billion dollars of net transfers of goods and services made by the United States to foreign countries in 1948, approximately 5.0 billion dollars were financed by foreign grants and loans of the United States Government. Such grants and loans included about 2,000 million dollars under the European Recovery Program; 1,250 million under United States Army relief in occupied areas; 640 million under post-UNRRA and Interim Aid; 350 million under the Greek-Turkish aid program; 300 million under the credit to the United Kingdom; 170 million under the Chinese aid program; 170 million (net) under credits of the Export-Import Bank; and about 120 million under other miscellaneous aid programs. The aggregate amount of this aid to foreign countries, however, was somewhat less than in 1947.

To a much more limited extent, foreign countries financed their excess purchases of United States goods and services by net sales of gold to this country. These net sales of gold amounted, in 1948, to about 1.5 billion dollars, or nearly 50 per cent less than the amount sold in 1947. Because of our gold acquisitions from abroad, the monetary gold stock of the United States increased by nearly 1.5 billion dollars in 1948, reaching an all-time high of 24.2 billion on December 31.

In contrast to the net capital "outflow" from this country of 2.1 billion dollars in 1947 as a result of banking and security transactions, there was a net "inflow" of about 250 million dollars through these channels in 1948. The over-all net movement was dominated by an increase of about 975 million dollars in foreign banking funds, which was more than accounted for by a rise in official foreign balances. This increase was offset in part by foreign net sales of about 285 million dollars of long-term domestic and foreign securities, and by a minor capital "outflow" through other banking and brokerage transactions with foreigners. Comparatively large gains were recorded during 1948 in banking funds held in this country for Canadian, British, Italian, German, and Swiss accounts; these gains were partly offset by moderate decreases in balances held for the U.S.S.R., the Union of South Africa, and the Netherlands East Indies. On the other hand, there was a reduction of 393 million dollars in balances held for international accounts, owing largely to foreign drawings on the dollar assets of the International Monetary Fund and Bank. The net "outflow" of capital arising from long-term security and other brokerage transactions with foreigners was chiefly the result of net sales of securities by Canada, Switzerland, the Netherlands, and France.

Developments in the Foreign Exchange Market

During 1948 the values of foreign currencies traded in the New York foreign exchange market tended, with a few exceptions, to fluctuate narrowly within limits set by fixed official buying and selling rates. The over-all volume of trading remained at relatively low levels.

The rate for the unofficial Canadian dollar gained somewhat more than 3 cents during the year, in keeping with the improvement in Canada's United States dollar position; the quotation at the end of the year was $0.9250. The value of the "free" Swiss franc similarly rose from $0.2412 at the end of 1947 to $0.2506 at the end of 1948. The spot rate for the pound sterling showed little change, being quoted at $4.03 7/32 at the close of the year. The discount on three months' forward sterling underwent rather sharp fluctuations, especially in the early months of the year, but had narrowed by the end of the year to 1⅛ cents.

Revaluations were made during the year in the official exchange rates of a few foreign currencies, and these were reflected in the New York market quotations. Effective January 26, 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 quotation for the franc in terms of dollars amounted to $0.004664, and the official franc rate in New York dropped immediately to that level. With the establishment of a free exchange market in Paris in dollars (and Portuguese escudos) on February 2, a "free" rate for francs began to be quoted in New York. By the end of the year that rate had declined to $0.0031 7/16.

Effective December 18, the par value of the Colombian peso was reduced from 1.75 pesos per dollar (or $0.5714 per peso) to 1.95 pesos per dollar (or $0.5128 per peso). On August 19, the New Zealand pound was raised to approximate parity with the British pound; this resulted in a rise of nearly 80 cents in the value of the New Zealand pound in the New York market.

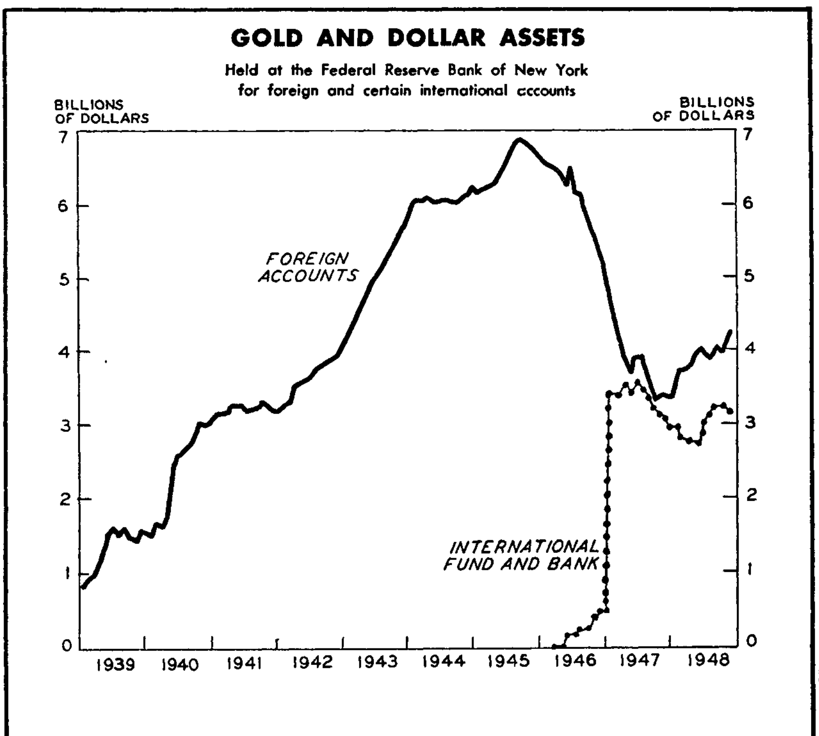
On June 22 and August 11, respectively, the Argentine and Uruguayan authorities lowered the support levels for their "free" rates. As a result, the quotations for the Argentine and Uruguayan pesos in New York declined, respectively, from $0.2500 and $0.5300 on those dates, to $0.2071 and $0.4450 at the end of 1948. The Mexican peso underwent a substantial depreciation following the unpegging of that currency on July 22, the rate in New York declining from $0.2062 to $0.1456.

Foreign Relations of the Federal Reserve System

The total dollar and gold assets held at the Federal Reserve Bank of New York for foreign and certain international accounts rose during 1948 to 7,412 million dollars, an increase of 1,003 million. Assets held for foreign central banks and governments increased 876 million and assets held for the International Bank and International Monetary Fund increased 127 million. The increase during the year in holdings for foreign account, which occurred despite the continued heavy foreign requirements for dollar exchange, reflected chiefly heavy shipments of foreign-owned gold to the United States for sale or earmark. Substantial amounts of dollars (including sizable payments by the Economic Cooperation Administration) also were credited to foreign accounts at this bank during the year, under the United States Government foreign aid program; such payments, however, represented primarily reimbursement for previous outlays, by the foreign countries concerned, for goods and services covered by the European Recovery Program.

The rise in total assets held for foreign account took the form of increases of 406 million dollars in United States Government security holdings, 275 million in deposits and other dollar assets, and 195 million in gold held under earmark.

The accompanying chart shows the trend, during recent years, in aggregate gold and dollar assets held at the Federal Reserve Bank for foreign account and for the International Bank and Fund. The total amount of these foreign accounts, after declining sharply in the early postwar years from the peak of nearly 7 billion dollars reached



in September 1945, has been gradually rising since November 1947 and by the end of 1948 stood at somewhat above 4 billion dollars. The increase during 1948 in assets held for the International Bank and Fund was on a much smaller scale than in 1947, when a sharp rise resulted primarily from member countries' payments of their quotas to the Fund and of a part of their subscriptions to the Bank.

During the year accounts were opened by this bank, acting as principal, for the Bank deutscher Laender (the new central bank for the three western occupation zones of Germany) and for the Austrian National Bank.

As a result of increased demands by foreign central banks for loans against gold, the total of such loans outstanding rose from 50.6 million dollars at the beginning of the year to a new record high of 259.7 million in August and then tapered off to 190.1 million dollars at the end of the year. In line with the general policy of the bank, all advances against gold initially were for periods not exceeding three months and were designed to cover temporary dollar deficiencies of the borrowing countries. Interest was charged on all such loans at the discount rate of this bank.

Of the four loans on gold outstanding at the beginning of the year, two were paid off during the year, and one was partly repaid. Loans were made during the year to five other central banks; two of these loans were repaid in full, while the other three had been considerably reduced by the end of the year.

The volume of operations undertaken for foreign account continued at a high level. Items handled for collection, and gold imported for earmark or sale, exceeded the volume of 1947, while certain other transactions—such as payments and the purchase of bankers acceptances for foreign account—declined in volume. Operations handled for the International Bank for Reconstruction and Development and the International Monetary Fund continued to be of a varied nature. For the International Bank these operations consisted primarily of making investments in United States Government securities, holding securities in custody, receiving deposits, making payments under loans granted by the Bank, and acting as fiscal agent of the Bank in connection with its two bond issues floated in 1947. Operations for the Monetary Fund were largely in the form of dollar payments in connection with its foreign exchange and gold transactions with member countries.

Volume and Trend of the Bank's Operations

The over-all volume of the bank's operations remained high during the year 1948. There is no single precise measure of the total operations of the bank, of course, but according to the various measures shown in the accompanying table, the postwar contraction of war-induced functions of the bank continued during 1948, though at a reduced rate, while further expansion occurred in many of the principal peacetime operations.

The lending facilities of the bank were utilized slightly less in 1948 than in 1947, if measured by the number of applications received from member banks. On the basis of the total dollar volume represented by such applications, however, discounts and advances increased 35 per cent, reflecting a rise in the average size of the loans. Since the elimination of the Treasury bill option agreement in July 1947, member banks have relied to a greater extent upon our direct loan facilities for alleviating temporary shortages of reserves.

Operations connected with the supplying of currency and coin to the banks of the District expanded moderately, as gauged by the number and dollar volume of notes and coin received and counted. Both the total number and the dollar volume of checks handled expanded to all-time high levels in 1948. A further modest postwar decline occurred in the number of Government checks processed, but was more than offset by the gain in the number of checks processed for businesses and individuals; the dollar volume of both types of checks was higher than a year ago. A decline by about one third in the number and dollar volume of gold bars and bags of gold coin handled was due to a reduction in the volume of gold released from earmarked stocks, and also to the nonrecurrence in 1948 of the gold handling occasioned by the Treasury's subscription, in 1947, to the International Monetary Fund. Among the collection items, payments of United States Government coupons declined moderately in both number and dollar amount. This was a reflection of exchanges into larger denominations of Government securities, of the year's reduction in the public interest-bearing debt, and of the fact that between September 1, 1946 and August 1, 1947, all outstanding certificates of indebtedness had been replaced by issues which did not carry semiannual interest coupons. "All other" collection items showed divergent trends, the number processed increasing while the dollar volume declined.

The number of items handled by the bank as fiscal agent of the United States in connection with the issuance, redemption, and exchange of Government securities was, in the aggregate, about 5 per cent less in 1948 than in the previous year, but the transactions involved represented a 3 per cent larger dollar volume. The number of Savings bonds processed showed a decline of about 600,000 pieces, as a decline in the number of redemptions of small-denomination issues exceeded the increase in the number of new issues. The dollar volume of Savings bonds handled rose moderately, however, owing primarily to the purchase of larger denominations of F and G bonds by institutional investors and commercial banks during the Security Loan Drive in July 1948. The volume of "all other" United States Government securities issued, exchanged, transferred, and redeemed declined by about one sixth during 1948, but increased 3 per cent in dollar volume. The drop in the number of such securities processed was occasioned by a sizable decline in transactions in Armed Forces Leave Bonds, in which 1948 operations were confined largely to redemption of a part of the 1947 issue; the increase in the aggregate dollar volume, on the other hand, resulted from heavier exchanges and transfers, which together more than offset the decline in the dollar volume of new issues and redemptions.

Expansion in the volume of transfers of Government securities during 1948 was partly due to the broadening of the scope of the Reserve Banks' facilities for telegraphic transfers of such securities between certain cities in the twelve Federal Reserve Districts. Since 1921, these facilities have been used for the transfer of short-term Government securities (Treasury bills, certificates of indebtedness, and notes) in connection with sales of such securities, in order to facilitate the development of a country-wide market at relatively uniform prices. On March 1, 1948, the service was extended to include the telegraphic transfer of Treasury bonds. This broadening of facilities had become particularly desirable because of the increased proportion of the public debt which is in the form of bonds as a result of war financing. Use of the Federal Reserve System's wire transfer facilities expedites deliveries of bonds between distant points and reduces expenses of shipment and insurance of the securities. The expanded service has been well received and actively used.

Disbursements of the bank as fiscal agent of the Reconstruction Finance Corporation, its subsidiaries, and the Commodity Credit Cor-

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

	1948	1947
Number of pieces handled*		
Discounts and advances	2,720	2,950 r
Currency received and counted	978,239,000	913,007,000
Coin received and counted	1,759,625,000	1,710,827,000#
Gold bars and bags of gold coin handled	317,000	472,000
Checks handled:		
United States Government checks	40,444,000	42,033,000
All other	338,976,000	304,893,000
Collection items handled:		
United States Government coupons paid	6,162,000	6,663,000 r
All other	5,634,000	4,682,000 r
Disbursements as fiscal agent for		
Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	30,000	60,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Savings bonds	22,597,000	23,221,000
All other United States obligations	3,158,000	3,834,000
Obligations of the International Bank for Reconstruction and Development	190,000	284,000
Safekeeping of securities:		
Pieces received and delivered	4,243,000	11,585,000
Coupons detached	1,551,000	1,590,000
Transfers of funds†	225,000	212,000 r
Incoming and outgoing mail:		
Registered	472,000	507,000
Ordinary	9,376,000	8,980,000
Amounts handled		
Discounts and advances	$ 7,760,124,000	$ 5,729,077,000
Currency received and counted	6,352,616,000	5,731,126,000
Coin received and counted	137,713,000	137,674,000#
Gold bars and bags of gold coin handled	4,184,698,000	6,517,079,000
Checks handled:		
United States Government checks	20,687,994,000	16,587,953,000
All other	209,221,357,000	180,993,904,000
Collection items handled:		
United States Government coupons paid	1,519,420,000	1,554,709,000 r
All other	798,876,000	993,912,000 r
Disbursements as fiscal agent for		
Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	500,266,000	910,080,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Savings bonds	2,505,974,000	2,146,487,000
All other United States obligations	263,940,171,000	256,510,910,000
Obligations of the International Bank for Reconstruction and Development	260,023,000	298,234,000
Safekeeping of securities:		
Pieces received and delivered (par value)	460,507,275,000	559,285,746,000
Transfers of funds†	120,443,671,000	89,976,186,000

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

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

† Includes wire and mail transfers; excludes Treasury transfers and Reserve Bank interdistrict settlements.

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poration were markedly lower during 1948, owing to the continued curtailment of the RFC's wartime activities. Fiscal agency operations for the International Bank for Reconstruction and Development (shown separately in the table) were confined largely to exchanges and declined moderately.

The bank's safekeeping function showed a rather sharp decline in volume of operations during the year. This was largely because of the discontinuance, in late 1947, of the privilege previously accorded New York City banks (during the life of the Treasury bill option agreement) of making deposits and withdrawals of Treasury bills in and from excess collateral accounts maintained at the Reserve Bank.

Financial Statements

Statement of Condition

This bank's assets continued to rise in 1948, increasing 854 million dollars to a total of over 13.7 billion dollars. As in 1947, the rise was occasioned by an increase in gold certificate reserves; while other asset accounts, especially the components of the Government security portfolio, showed sizable changes, the net decline in such items was only a partial offset to the over-all gain from increased gold certificate holdings.

The increase in this bank's gold certificate reserves in 1948 was nearly as great as in 1947, despite a reduction by nearly half in additions to the United States gold stock through imports and through net releases of gold from stocks held under earmark for foreign accounts. Gold certificate reserves at this bank rise as the Treasury deposits gold certificates in the Reserve Bank to reimburse itself for payments made for the purchase of gold imports, gold released from foreign (or international) earmark accounts, or domestic gold production. The rise during the postwar period has usually been largely offset, so far as the Second District is concerned, by a substantial adverse balance in transactions through the interdistrict settlement fund, through which domestic flows of funds between the several Federal Reserve Districts are finally cleared. In 1948 the net outflow of funds from this District to the rest of the country was much smaller than in 1947, however, and did not so largely offset the rise in the New York Reserve Bank's gold certificate reserves.

The decline of 66 million dollars in the redemption fund for Federal Reserve notes reflected net redemptions by the Treasury and also transfers to the gold certificate account (interdistrict settlement fund) to the extent that the redemption fund exceeded the lawful minimum (5 per cent of Federal Reserve notes outstanding less gold certificates held by the Federal Reserve agent as collateral).

Total holdings of United States Government securities in the portfolio of the bank declined 101 million dollars in 1948, while consolidated holdings of the twelve Reserve Banks increased 774 million dollars. (This divergence in movement resulted from a reallocation of participations in the System Open Market Account early in 1948.) A sharp contraction in the bank's holdings of Treasury bills was approximately offset by an increase in holdings of Treasury bonds. The decline in the bill portfolio was primarily the result of cash redemptions of a portion of the Reserve Banks' Treasury bill holdings. The rise in bond holdings reflected open market purchases in pursuance of the System policy of supporting the Treasury bond market. Holdings of

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

Assets	Dec. 31, 1948	Dec. 31, 1947
Gold certificates	$ 7,390,440	$ 6,259,354
Redemption fund for Federal Reserve notes	55,182	120,919
Total gold certificate reserves	$ 7,445,622	$ 6,380,273
Other cash	$ 42,544	$ 39,413
Discounts and advances	$ 78,700	$ 41,860
U. S. Government securities:		
Bills	$ 1,317,805	$ 3,270,067
Certificates	1,457,291	1,482,995
Notes	189,560	322,183
Bonds	2,632,140	622,496
Total U. S. Government securities	$ 5,596,796	$ 5,697,741
Total loans and securities	$ 5,675,496	$ 5,739,601
Due from foreign banks	$ 16*	$ 30*
Federal Reserve notes of other banks	20,331	17,676
Uncollected items	507,096	670,430
Bank premises	8,022	8,239
Other assets	35,252	25,057
Total assets	$13,734,379	$12,880,719
*After deducting participation of other Federal Reserve Banks amounting to	$ 33	$ 65

certificates of indebtedness and of Treasury notes declined, the former principally as a result of cash redemptions, and the latter because of a conversion of notes into certificates of indebtedness under Treasury exchange offers.

Despite a 35 per cent increase in the volume of discounts and advances to member banks during 1948, the amount outstanding at the end of the year was slightly below the level of December 31, 1947. The net rise of 37 million dollars in this bank's total discounts and advances reflected a net increase in loans to foreign central banks secured by gold. The volume of both uncollected items and deferred availability items, the net of which represents the outstanding "float" of this bank, declined moderately. The item "Other assets" increased 10 million dollars owing to a greater volume of premiums paid and interest accrued on Government securities.

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

Liabilities	Dec. 31, 1948	Dec. 31, 1947
Federal Reserve notes	$ 5,582,297	$ 5,765,916
Deposits:		
Member bank—reserve account	$ 6,701,274	$ 5,573,276
U. S. Treasurer—general account	184,745	229,639
Foreign	209,368*	168,000*
Other	430,977	472,411
Total deposits	$ 7,526,364	$ 6,443,326
Deferred availability items	$ 390,868	$ 449,937
Other liabilities	2,670	4,109
Total liabilities	$13,502,199	$12,663,288
Capital accounts:		
Capital paid in	$ 69,333	$ 68,888
Surplus (Section 7)	143,019	138,596
Surplus (Section 13b)	7,319	7,319
Other capital accounts	12,509	2,628
Total capital accounts	$ 232,180	$ 217,431
Total liabilities and capital accounts	$13,734,379	$12,880,719
Contingent liability on bills purchased for foreign correspondents	$ 1,065†	$ 787†
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	56.8%	52.3%
* After deducting participation of other Federal Reserve Banks amounting to	$ 432,276	$ 223,720
† After deducting participation of other Federal Reserve Banks amounting to	2,264	1,673

Federal Reserve notes (of this bank) in circulation, which usually account for the major part of all currency in use in the District, declined 184 million dollars during 1948. This was the first year-to-year contraction in nearly two decades. Percentagewise it amounted to 3.2 per cent, compared with a decline of 2.7 per cent in the amount of Federal Reserve notes in circulation in the country as a whole.

Member bank reserve accounts increased substantially during the year, as the member banks complied with the regulations of the Board of Governors of the Federal Reserve System requiring greater reserves against net demand and time deposits. Deposits of foreign central banks and governments increased 41 million dollars, reflecting an excess of receipts from gold transactions and other sources over disbursements to the market. The deposits of the U. S. Treasury ended the year 45 million dollars lower than at the close of 1947. "Other" deposit balances at this bank fell by 41 million dollars owing to declines in nonmember clearing account balances and in the balances of the International Bank for Reconstruction and Development.

Capital accounts in the aggregate increased nearly 15 million dollars during the year. Approximately 4½ million dollars of net earnings was added to the regular surplus (Section 7) and 10 million was added to "Other capital accounts" as reserves for contingencies. Capital paid in, reflecting payments by member banks that increased their own capitalization, rose about ½ million dollars.

The ratio of gold certificate reserves to combined deposit and Federal Reserve note liabilities increased from 52.3 per cent at the close of 1947 to 56.8 per cent on December 31, 1948, as the year's gain in the bank's gold certificate reserves was proportionately greater than that in deposits and note liabilities combined.

Earnings and Expenses

Gross earnings of the Federal Reserve Bank of New York rose to a record level in 1948, increasing 34.3 million dollars to 73.2 million. Increased income from Government securities was the cause of the growth in earnings, a rise in the average rate of return more than offsetting the effect on earnings of a decline in average holdings. The higher rate of return on the Government security portfolio of the bank reflected not so much the continued gradual firming in short-term interest rates as the lengthening maturity of the portfolio. This was the result of both cash redemptions of Treasury bills and certificates of indebtedness and of large net purchases of Treasury bonds.

Profit and Loss Account
For the Calendar Years 1948 and 1947
(In thousands of dollars)

	1948	1947
Earnings	$ 73,223	$ 38,907
Net expenses	16,467	15,014
Current net earnings	$ 56,756	$ 23,893
Additions to current net earnings:		
Profit on U. S. Government securities sold (net)	$ 1,502	$ 637
All other	4	98
Total additions	$ 1,506	$ 735
Deductions from current net earnings:		
Reserves for contingencies, etc.	$ 9,884	$ 64
All other	4	6
Total deductions	$ 9,888	$ 70
Net earnings	$ 48,374	$ 24,558
Paid United States Treasury (Section 13b)	$ —	$ 25
Dividends paid	4,142	4,053
Paid United States Treasury (Interest on Federal Reserve notes)	39,809	18,368
Transferred to surplus (Section 13b)	—	65
Transferred to surplus (Section 7)	4,423	2,047
Surplus (Section 7) beginning of year	$ 138,596	$ 136,549
Addition as above	4,423	2,047
Surplus (Section 7) end of year	$ 143,019	$ 138,596

Income from advances to member banks and from loans against gold to foreign banks increased moderately as a result of the higher rates charged during the year and the higher average volume of both types of transactions.

The gain in current net earnings in 1948 as compared with 1947 amounted to 32.9 million, or 1.5 million less than the gain in gross earnings, the difference being caused by an increase of 1.5 million in net expenses, to 16.5 million. The rise in expenses reflected higher salaries and generally heavier expenses of operation, including the increased cost of supplying Federal Reserve currency and enlarged assessments for the expenses of the Board of Governors of the Federal Reserve System. Additions to current net earnings ($1,506,000), almost entirely the result of net profits on U. S. Government securities sold, were $770,000 greater than in 1947. Deductions from current net earnings, however, increased to 9.9 million dollars, reflecting additions to reserves for contingencies.

Net earnings, after all adjustments but before dividends, totaled 48.4 million dollars for the year, or nearly double the 1947 net earnings of 24.6 million. Out of the 1948 earnings, the usual statutory dividend of 6 per cent, amounting to 4.1 million dollars, was paid to the member banks, and 39.8 million dollars (21.4 million more than in 1947) 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, 4.4 million dollars, was transferred to the bank's regular (Section 7) surplus account.

Changes in Membership

As a result of mergers of 14 member banks with other member banks, there was a net decrease of 14 in the number of member banks in the Second District during the year. At the year end there were 783 member banks in the District, and the ratio of member banks to all banks was 87 per cent, unchanged from December 31, 1947. All national banks were members, and 69 per cent of the State banks and

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, 1948			December 31, 1947		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	532	0	100	538	0	100
State banks and trust companies	251	115	69	259	117	69
Total	783	115	87	797	117	87

Changes in Federal Reserve Membership in Second District during 1948

Total membership beginning of year	797
Increase:	
State banks and trust companies admitted**	1
Decreases:	
Member banks combined with other members	14
Withdrawal from membership	1
Total membership end of year	783

* Banks in actual operation.
** Also two nonmember banks were merged into member banks.

trust companies. One State bank, The Waddington Bank, Waddington, N. Y., was admitted to membership during the year, and another State bank, the Cranford Trust Company, Cranford, N. J., voluntarily withdrew from membership. Two nonmember banks were merged with member banks.

The 783 member banks in the District at the end of 1948 held about 96 per cent of the total assets of all national banks, State banks, and trust companies in the District, and the member State banks and trust companies held about 93 per cent of the total assets of all State banks and trust companies in the District.

Changes in Directors and Officers

In May 1948, the Board of Governors of the Federal Reserve System appointed Robert T. Stevens, Chairman of the Board of J. P. Stevens & Co., Inc., New York, N. Y., a Class C director for the unexpired portion of the term ending December 31, 1950, and designated him as Chairman and Federal Reserve Agent for the remainder of 1948. Mr. Stevens was redesignated as Chairman and Federal Reserve Agent for the year 1949.

At a regular election in the autumn of 1948, Roger B. Prescott, President of The Keeseville National Bank, Keeseville, N. Y., was elected by member banks in Group 3 as a Class A director for a term of three years, beginning January 1, 1949, to succeed Howard A. Wilson, President of the Citizens National Bank and Trust Company of Fulton, Fulton, N. Y., whose term expired December 31, 1948. At the same time, Jay E. Crane, a director of the Standard Oil Company (New Jersey), New York, N. Y., was elected by member banks in Group 3 as a Class B director for a term of three years, beginning January 1, 1949, to succeed Carle C. Conway, Chairman of the Board of the Continental Can Company, Inc., New York, N. Y., whose term expired December 31, 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., a Class C director for a term of three years, beginning January 1, 1949, and redesignated him as Deputy Chairman of this bank for the year 1949.

In December 1948, the directors of this bank appointed George G. Kleindinst, President of the Liberty Bank of Buffalo, Buffalo, N. Y., as a director of the Buffalo Branch for a term of three years beginning January 1, 1949, to succeed Charles H. Diefendorf, President of The Marine Trust Company of Buffalo, Buffalo, N. Y., whose term expired December 31, 1948. The Board of Governors of the Federal Reserve System reappointed Carl G. Wooster, of Union Hill, N. Y., as a director of the Buffalo Branch for a term of three years, beginning January 1, 1949. Thomas Robins, Jr., was designated by the directors of this bank as Chairman of the Board of Directors of the Buffalo Branch for the year 1949. Mr. Robins is President of Hewitt-Robins, Incorporated, Buffalo, N. Y.

Changes in Officers

Robert H. Brome, formerly Assistant Counsel and Assistant Secretary, who resigned as an officer of the bank during 1946, was reappointed an officer of the bank with the title of Assistant Counsel, effective April 30, 1948.

Donald J. Cameron, formerly Assistant General Auditor, was appointed an Assistant Vice President, effective August 16, 1948.

Marcus A. Harris, formerly Manager, Government Bond Department, and Manager, R. F. C. Custody Department, was appointed Assistant General Auditor, effective October 1, 1948.

Walter C. Warner, Chief of the Credit Division of the Credit Department, was appointed an officer of the bank, with the title of Acting Manager, effective October 1, 1948 and was assigned to the Credit and Discount Departments.

Member of Federal Advisory Council

At its meeting on January 6, 1949, the Board of Directors of this bank selected W. Randolph Burgess, Chairman of the Executive Committee, The National City Bank of New York, New York, N. Y., to serve for a third successive year as the member of the Federal Advisory Council from the Second Federal Reserve District.

Directors and Officers

Class	Group	DIRECTORS	Term expires Dec. 31
A	1	WINTHROP W. ALDRICH Chairman of the Board, The Chase National Bank of the City of New York, New York, N. Y.	1949
A	2	FREDERIC E. WORDEN Chairman of the Board, and President, The National Bank of Auburn, Auburn, N. Y.	1950
A	3	ROGER B. PRESCOTT President, The Keeseville National Bank, Keeseville, N. Y.	1951
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, Incorporated, New York, N. Y.	1950
B	3	JAY E. CRANE Director, Standard Oil Company (New Jersey), New York, N. Y.	1951
C		ROBERT T. STEVENS, *Chairman*, and Federal Reserve Agent Chairman of the Board, J. P. Stevens & Co., Inc., New York, N. Y.	1950
C		WILLIAM I. MYERS, *Deputy Chairman* Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1951
C		ROBERT D. CALKINS Director, General Education Board, New York, N. Y.	1949

DIRECTORS — BUFFALO BRANCH	Term expires Dec. 31
THOMAS ROBINS, JR., *Chairman* President, Hewitt-Robins, Incorporated, Buffalo, N. Y.	1949
LEWIS B. SWIFT President, Taylor Instrument Companies, Rochester, N. Y.	1950
CARL G. WOOSTER Farmer, Union Hill, N. Y.	1951
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
GEORGE G. KLEINDINST President, Liberty Bank of Buffalo, Buffalo, N. Y.	1951

MEMBER OF FEDERAL ADVISORY COUNCIL

W. RANDOLPH BURGESS,

Chairman of the Executive Committee, 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*
DONALD J. CAMERON, *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. TENEYCK, *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, Government Bond Department, and Manager, R.F.C. Custody Department*
HARRY M. BOYD, *Manager, Safekeeping Department*
ROBERT H. BROME, *Assistant Counsel*
WESLEY W. BURT, *Manager, Savings Bond Department*
JAMES J. CARROLL, *Manager, Personnel Department*
JOHN J. CLARKE, *Assistant Counsel, and Assistant Secretary*
HOWARD D. CROSSE, *Manager, Bank Relations Department*
PAUL R. FITCHEN, *Manager, Cash Department*
WILLIAM A. HEINL, *Manager, Personnel Department*
PETER P. LANG, *Manager, Foreign Department*

SPENCER S. MARSH, JR., *Manager, Securities Department*
MICHAEL J. MCLAUGHLIN, *Manager, Cash Custody Department*
O. ERNEST MOORE, *Manager, Research Department*
FRANKLIN E. PETERSON, *Manager, Collection Department*
WALTER H. ROZELL, JR., *Manager, Foreign Department*
RALPH W. SCHEFFER, *Manager, Check Department*
CHARLES N. VAN HOUTEN, *Manager, Government Check Department, and Manager, Service Department*
WALTER C. WARNER, *Acting Manager, Credit Department, and Acting Manager, Discount Department*
ROY E. WENDELL, *Manager, Check Department*
HAROLD M. WESSEL, *Manager, Accounting Department, and Manager, Planning Department*

WILLIAM H. DILLISTIN, *General Auditor*
MARCUS A. HARRIS, *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*

* Mr. Douglas died on March 21, 1949.

A Condensed Directory
(as of January 31, 1949)
of the

FEDERAL RESERVE BANK OF NEW YORK

Head Office

PRESIDENT
ALLAN SPROUL

FIRST VICE PRESIDENT
LESLIE R. ROUNDS

Functions and Departments	*Officers in Charge*
Accounting, Planning, and Service	HERBERT H. KIMBALL, *Vice President*
Accounting Department	HAROLD M. WESSEL, *Manager*
Planning Department	HAROLD M. WESSEL, *Manager*
Service Department	OTTO W. TENEYCK, *Assistant Vice President* CHARLES N. VAN HOUTEN, *Manager*
Audit	WILLIAM H. DILLISTIN, *General Auditor*
Auditing Department	MARCUS A. HARRIS, *Assistant General Auditor*
Bank Supervision and Bank Relations	REGINALD B. WILTSE, *Vice President*
Bank Examinations Department	WILLIAM F. SHEEHAN, *Chief Examiner*
Bank Relations Department	HOWARD D. CROSSE, *Manager*
Cash and Collections	VALENTINE WILLIS, *Vice President* DONALD J. CAMERON, *Assistant Vice President* FELIX T. DAVIS, *Assistant Vice President*
Cash Department	PAUL R. FITCHEN, *Manager*
Cash Custody Department	MICHAEL J. MCLAUGHLIN, *Manager*
Check Department	RALPH W. SCHEFFER, *Manager* ROY E. WENDELL, *Manager*
Collection Department	FRANKLIN E. PETERSON, *Manager*
Government Check Department	CHARLES N. VAN HOUTEN, *Manager*
Foreign	L. WERNER KNOKE, *Vice President*
Foreign Department	HAROLD A. BILBY, *Assistant Vice President* HORACE L. SANFORD, *Assistant Vice President* PETER P. LANG, *Manager* WALTER H. ROZELL, JR., *Manager*
Foreign Funds Control Department	NORMAN P. DAVIS, *Assistant Vice President*
Relations with International Bank, International Monetary Fund, and Export-Import Bank	NORMAN P. DAVIS, *Assistant Vice President*

Functions and Departments	*Officers in Charge*
Government Bond, Safekeeping of Securities, and R. F. C. Custody	ARTHUR PHELAN, *Vice President*
	JOHN H. WURTS, *Assistant Vice President*
Government Bond Department	CURTIS R. BOWMAN, *Manager*
R. F. C. Custody Department	CURTIS R. BOWMAN, *Manager*
Savings Bond Department	WESLEY W. BURT, *Manager*
Safekeeping Department	HARRY M. BOYD, *Manager*
Security Custody Department	WILLIAM F. ABRAHAMS, *Manager*
Legal	WALTER S. LOGAN, *Vice President and General Counsel*
	TODD G. TIEBOUT, *Assistant General Counsel*
	RUFUS J. TRIMBLE, *Assistant General Counsel*
	ROBERT H. BROME, *Assistant Counsel*
	JOHN J. CLARKE, *Assistant Counsel*
Loans and Credits	ARTHUR PHELAN, *Vice President*
Credit Department	WALTER C. WARNER, *Acting Manager*
Discount Department	WALTER C. WARNER, *Acting Manager*
Open Market Operations, Treasury Issues, and Margin Regulations	ROBERT G. ROUSE, *Vice President*
Securities Department	SILAS A. MILLER, *Assistant Vice President*
	WILLIAM F. TREIBER, *Assistant Vice President*
	SPENCER S. MARSH, JR., *Manager*
Margin Regulations	NORMAN P. DAVIS, *Assistant Vice President*
Personnel	*EDWARD O. DOUGLAS, *Vice President*
Personnel Department	JAMES J. CARROLL, *Manager*
	WILLIAM A. HEINL, *Manager*
Research and Statistical	HAROLD V. ROELSE, *Vice President*
Research Department	O. ERNEST MOORE, *Manager*
Secretary's Office	WILLIAM F. TREIBER, *Secretary*
	JOHN J. CLARKE, *Assistant Secretary*

Buffalo Branch

GENERAL MANAGER

INSLEY B. SMITH

Operating Divisions	*Officers in Charge*
Accounting, Office Service, Securities	HALSEY W. SNOW, *Cashier*
Bank Relations	M. MONROE MYERS, *Assistant Cashier*
Cash, Check, Collection, Credit, and Discount	GEORGE J. DOLL, *Assistant Cashier*

* Mr. Douglas died on March 21, 1949.