Thirty-seventh

Annual Report

of the

Federal Reserve Bank of New York

1951

Second Federal Reserve District

FEDERAL RESERVE BANK OF NEW YORK

March 14, 1952

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

I am pleased to transmit herewith the thirty-seventh annual report of the Federal Reserve Bank of New York reviewing the year 1951.

ALLAN SPROUL,
President.

Contents

Charts

Thirty-Seventh Annual Report

Federal Reserve Bank of New York

Rearmament and Economic Stability

AGAINST the background of 1950, the year 1951 was in many ways remarkable. In sharp contrast to the conditions preceding World War II, the outbreak of the Korean war in June 1950 came when our economy had already fully recovered from the minor recession of 1949 and was operating close to capacity. This fact, combined with the dramatic suddenness of events, led to a panicky scramble for goods, by individuals, business concerns, and government, first at the outset of the war and again after the Chinese Communists intervened.

The country faced not only an already tight economic situation but also a most uncertain prospect as to what the dimensions of the new military program would be. Estimates of military expenditure came forward in rapid succession, and though it was not until April 1951 that they were broken down with any precision, they were on a steadily rising scale. Besides our domestic program, we faced a new problem abroad. At a time when Marshall Plan aid to Western Europe was tapering off—with substantial progress shown but still no definite assurance that Europe could balance its international accounts on a tolerable living standard—the threat of war opened up a wholly new prospect as to the character and dimensions of our foreign aid program.

It is thus not to be wondered at that the Korean war produced an upsurge of inflation which swept through the entire free world. In this country it reduced estimated personal saving to 2 per cent of spendable income after taxes in the third quarter of 1950, and stimulated an expansion of business inventories, which mounted rapidly until in the second quarter of 1951 it was running at the wholly unprecedented yearly rate of 16 billion dollars. To these facts must be added government stockpiling here and in Western Europe, which, combined with business buying, created acute scarcities in raw materials and ran up their prices, in some cases severalfold.

So far as this country was concerned, however, the inflationary outbursts had a psychological rather than an economic basis. They were anticipatory of economic pressures to come rather than any already

existing. This fact played a large part in the behavior of our economy in 1951. As the public realized that total war was not so imminent as at first feared, and that the threatened shortages of goods were not developing, the buying panic subsided. Personal saving rose in the last three quarters of 1951 to approximately 9 per cent of income after taxes — the highest rate since early 1946, and almost twice the pre-Korea postwar average. Business inventories continued to rise. In the first half of 1951, the rapid rise of total inventories represented the over-anticipation of consumer demand. After midyear there developed a major divergence in trend. Retail inventories turned down and, by the end of the year, were at about the same level as at the beginning. Some civilian industries — including textiles, shoes, furniture, household appliances, radios, and television sets — faced a serious problem of adjusting inventories and current output to a lower level of demand. The fact that manufacturers' inventories as a whole continued to rise in the second half of the year, though at a much slower rate, was due largely to the expansion of the defense industries.

The behavior of these two factors—savings and inventories—was largely responsible for the subsidence of inflationary pressures after the first quarter of 1951. In addition, government stockpiling here and abroad slackened off, and some progress was made with the international allocation of scarce raw materials. Another factor was that the defense program began not only to take more definite form but also to give clear indications that it would be spread over more time than had earlier been thought. Whereas a year ago the target for our national security programs—both domestic and international—had been an annual rate of 50 billion dollars by the end of 1951, the rate actually reached was 44 billion, and whereas a target of 65 billion (annual rate) had been set for the middle of 1952, that target has now been moved to the first quarter of 1953. Toward the end of 1951, the rate of expansion of the defense program slackened. During the last quarter, expenditures increased only 2 billion dollars, at an annual rate, compared with an average increase of 6 billion in each of the previous four quarters. For the year as a whole, over-all defense expenditures increased by approximately 20 billion — to 13½ per cent of gross national product, compared with 8 per cent at the end of 1950.

The slackening of inflationary pressures in 1951 was shown by the behavior of prices and of production. Basic commodity prices, which had risen by mid-February to 47 per cent above the June 1950 level, declined through July and then stabilized at about one-fourth above the

pre-Korea level. General wholesale prices rose through March, when they were 16 per cent higher than in June 1950, declined slightly until September, and then remained stable. The cost of living, however, continued to rise, by 6 per cent during 1951 and by 11 per cent over June 1950. Much of this rise came in the first quarter, representing the continuance of the sharp increase in consumer prices that began in 1950. From March through August, consumer prices stabilized, but thereafter again rose, though more moderately. The course of wholesale prices was roughly paralleled by the movement of industrial production. The index reached its high for 1951 at 223 in April and after a slight decline has since moved sidewise, with the December index at 218. Inside the aggregate there was the dual movement already described, with defense production rising and civilian production undergoing a decline.

In the year 1951 as a whole, our economy was in better balance than in any previous postwar year. Indeed, we would have to go back a long way to find a year revealing such stability. Yet, taken as a whole, it was also a year of economic growth. Industrial production was 10 per cent above 1950, 25 per cent above 1949, and 120 per cent above the 1935-39 average. In real terms, after allowing for price changes, gross national product (representing total output of goods and services) was about 9 per cent above 1950, 21 per cent above 1947, 83 per cent above 1939, and more than 90 per cent above 1929. The most striking fact is that gross national product in 1951, in real terms at constant prices (1951 price level), exceeded even that of the peak war year of 1944 by nearly 8 billion dollars.

These figures present a most impressive demonstration of the growth of our economy. We had remarkable proof in World War II of our productive expansibility, but it seems no less significant that in 1947, which could be taken as a year fully reflecting postwar demobilization, gross national product, at constant (1951) prices, was 51.4 per cent above 1939; that thereafter up to Korea there was further expansion, despite the 1949 recession, and that since Korea—with a defense program far short of total war, and still in its early stages—we have reached a new all-time high in national production of goods and services. Clearly this country has greatly grown since prewar days in economic size and strength, and we must learn to think in bigger terms. The fears of stagnation so prevalent in the thirties now seem remote. For 1952, and probably also 1953, while the defense program continues to expand, there seems little prospect of serious over-all recession. But the fear, so widespread a

year ago, that inflation may undermine our efforts cannot yet be dismissed.

The traditional American attitude toward mounting economic pressure is to rely mainly on expansion of output and increased productivity—to meet rising demand with increased supply. Such a formula is oversimplified. We did in World War II have considerable success in staving off inflation through a growth of output so phenomenal that, though we were devoting 45 per cent of total production to war purposes, we enjoyed high and even rising consumer real income. But two important facts should be remembered: first, that the rise in consumer income was accompanied by an extraordinary rise in saving, amounting to 24 per cent of spendable income in 1944; and, second, that we did not prevent but merely postponed inflation, which, with controls removed, liquid resources large, and saving reduced to more normal levels, broke out violently in the early postwar years.

It should be recognized that, though less severe than an inflation caused by acute or widespread shortages, inflation can also be fostered by expansion of output, since money incomes are paid out before goods become available to consumers. This is even more true when expansion of output takes the form of capital rather than consumer goods, and when expenditures are for military purposes. In the latter case, no goods become available to match the consumers' dollars earned in the process, while in the case of capital expenditures a considerable lag is involved. While the defense program continues to expand, there will be an ever-present risk of inflation, the main counterweight being the behavior of consumer saving, than which nothing is less predictable. Another question is whether we shall continue to have the dual movement in production, with defense output rising and civilian output falling, which played such an important role in the over-all stability achieved in 1951. A further inflationary force may well be a continued rise of wages. The attitude of organized labor toward wage stabilization and the current demands for higher wages in the steel industry, which if granted would probably spread throughout industry, suggest that, while growing defense expenditure is increasing demand, the push-up of costs through increased wages (in a period when profits are not likely to rise and price control is so largely on a cost-plus basis) may combine with it to produce again the familiar wage-price spiral.

One other large question will be the adequacy of fiscal and monetary controls. Thus far, owing mainly to the increased yield of taxes at the present high level of production and to the imposition of 15 billion dollars

in new taxes since Korea, we have managed to escape a budgetary deficit. Even the fiscal 1952 budget, which the Government estimates will show a deficit of over 8 billion on an accounting basis, will probably come out close to even on a cash basis. But it seems certain that the budget for the fiscal year 1953 will show a substantial deficit. As given in the Budget Message in January, total expenditures are estimated as 85.4 billion dollars (as against 70.9 billion in fiscal 1952) with receipts (under existing tax laws and current levels of income) of 71 billion (as against 62.7 billion in fiscal 1952), leaving an accounting deficit of 14.4 billion dollars. Reduced to a cash basis, this budget deficit would amount to about 10 billion dollars. There is apparently little expectation that new taxes will be levied this year, and the outcome as to the deficit will depend upon the size of the expenditures, military and other, and the income from present taxes. To get perspective on the figures of revenue and expenditure, we may compare with the figures of fiscal 1950 (the last pre-Korea year). Expenditures for fiscal 1953 are estimated as 45.3 billion dollars over fiscal 1950 when expenditures totaled 40.1 billion, and revenue as 34 billion over fiscal 1950 when revenue was 37 billion dollars. One further interesting comparison is that total expenditures in fiscal 1953 will be only about 13 billion dollars under those of the peak war years, though of course, at the now much higher price level, the percentage relation to gross national product is much lower (estimated at around 25 per cent, compared with 45 per cent).

How accurate these estimates will turn out to be is difficult, if not impossible, to foresee. Since the end of the war, we have not made a good record in reducing nonessential or wasteful expenditures. We believe in economy in the abstract but show little evidence of it in the concrete. As to the defense expenditures, it may be argued, on the one hand, that any military program of such magnitude builds up slowly, yielding only a trickle of deliveries in its early phase which mounts to a flood later on; but, on the other hand, it may be argued that in present circumstances, where we are concerned not with war but with defense, once we have got beyond the acute stages of unpreparedness, there may be increasing emphasis on design and on caution against waste through obsolescence; the emphasis might turn increasingly toward readiness to produce military end-products as against actual production. But barring such changes or substantial cuts in nondefense expenditures, it does seem certain that we shall in the second half of 1952 be entering upon a period of substantial deficit financing, which may greatly increase

the problems of debt management and monetary control.

Since the end of the war, the Reserve System has been endeavoring to regain control over bank reserves by unfreezing the pattern of rates set up in the war period, and the Treasury has been trying to place as large a part of the debt as possible in the hands of nonbank investors. Progress has been made toward these dual objectives. In 1951, following earlier progress in unfreezing short-term rates, we achieved something in the nature of a renaissance of monetary policy. In March 1951, this process was carried to its logical conclusion through the unpegging of the long-term rate following the Treasury-Federal Reserve accord; and in December 1951, the Government security market staged a demonstration of its ability to stand pretty much on its own feet — with a minimum of support through open market operations — and to stage a revival of rediscounting up to nearly a billion dollars, for the first time in 18 years, and with no visible signs of panic. Thus, some freedom to exercise monetary restraint has been regained. But despite this fact, and the further support given to the policy of restraint by the Voluntary Credit Restraint Program, the money supply did increase substantially in 1951 as well as in 1950. Moreover, we still face a dilemma (which is far from being merely a jurisdictional dispute) as how best to combine debt management and monetary policy. Even when the budget is balanced, monetary control has to step aside temporarily when the Treasury is engaged in refunding operations, and the main emphasis has to be placed upon providing an adequate security market. This problem—of how best to combine debt management and an effective monetary policy under conditions of substantial deficit financing and frequent Treasury refundings—will represent a new chapter of postwar experience, and will of course require the closest cooperation. To the extent that deficits are unavoidable, there will be the important question of how to direct the debt into the hands of nonbank investors, and thus avoid a new inflationary increase of bank credit.

Conditions abroad present even more serious problems than those at home. As indicated earlier, the rearmament program in Western Europe, and the many uncertainties in the Near and Far East, have greatly changed the character and dimensions of our foreign aid program. Economic developments in Western Europe have, since 1945, pursued a highly uneven course. Since the ECA program was begun in April 1948, there has been a marked gain in industrial production. This expansion has been fairly continuous and is now most marked in Germany, which had previously

been lagging. For Western Europe as a whole, industrial production is now 30 to 40 per cent above prewar, a much greater and a more rapid recovery than after World War I. But there have been some important gaps, notably in coal, which still has to be imported from this country, at a cost equivalent to about two thirds of the 1 billion dollars of economic aid that had been originally appropriated for this fiscal year under the Mutual Security Program.

Meanwhile, inflation has been a recurrent problem, and reserve crises have recurred in every odd year since 1945. That of 1949 forced a wave of devaluations of currencies. But the devaluations, though temporarily improving the trade balance, greatly worsened the terms of trade, which were later made still more adverse by the rise in prices of raw material and food imports. Though the international position temporarily improved in 1950, and European reserves were substantially increased, there has since been another adverse swing of the pendulum, resulting in a severe reserve crisis in England and France. In the second half of 1951, the decline in British gold and dollar reserves amounted to 1,532 million dollars from a peak of 3,867 million in June to 2,335 million at the end of December, and Britain is once again back to what since the end of the war she has regarded as her "prudence minimum" reserve position. From June 1950 to the end of 1951 the wholesale price level rose 28 per cent in Britain and 47 per cent in France.

The problems raised by rearmament are more acute for the Western European countries than for the United States. Except possibly in Britain, those countries are in an earlier phase of the process than this country, and, though prices of raw materials have eased somewhat and some shortages have been lessened, the main inflationary pressures may be yet to come as the defense program expands. It must be borne in mind that Western Europe's rearmament program differs in one important respect from ours. Owing to the much greater dependence on foreign trade, the needs for defense compete much more sharply for the resources needed to maintain exports, while the high price of imports constitutes a much heavier drain on national income and affects much more seriously the foreign trade position. It has been officially stated in Britain that the adverse terms of trade (rise of import prices relative to export prices) cost Britain as much in 1951 as the entire increase in her military expenditures during that year.

Thus, besides our problems at home we face many uncertainties abroad. One of our greatest problems is how to strike the proper balance

between the domestic and the international parts of our security program. One of the most difficult tasks will be to safeguard against inflation abroad as well as here. In these circumstances it is interesting to observe that the renaissance of monetary policy mentioned earlier as a feature of 1951 was by no means confined to the United States. Britain (and other European countries even earlier) took important steps toward reviving general monetary controls to fight inflation.

National Economic Trends in 1951

In general, 1951 was a year of prosperity. It was a year of progress and adjustment. It was also a year of paradox — increased military and capital goods output brought no shortage of civilian goods (in fact, many surpluses), while consumers had larger incomes but spent less aggressively.

For the nation as a whole, 1951 was one of the most prosperous years — possibly the most prosperous — in the history of this country. The total output of goods and services is estimated at approximately 328 billion dollars, a rise of 45 billion dollars, or 16 per cent over 1950, which was itself a prosperous period. Possibly as much as half of the year-to-year rise reflected price increases, but the other half represented expansion in physical production to a new record, exceeding the previous peak in 1944 at the height of the war effort. The fact that the new record was achieved without widespread overtime work and with several industries undergoing temporary setbacks emphasizes the great expansion in plant and equipment and the improvement in industrial productivity which has occurred since World War II.

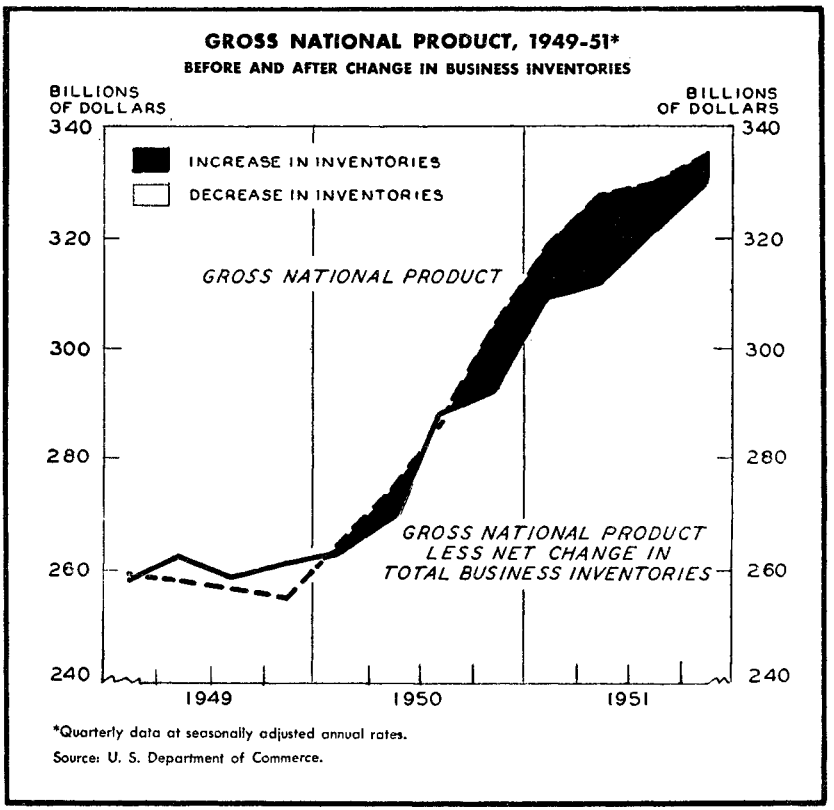
Almost half of the dollar volume of the increase in output between 1950 and 1951 was absorbed by increased government spending, primarily for national defense. Nearly one third of the year-to-year increase in output went into new plant and equipment, business inventories, and investment abroad. The dollar volume of consumers' purchases of goods, services, and new homes increased relatively little from 1950 to 1951.

Personal income rose to a new record amount, estimated at 251 billion dollars compared with 225 billion in 1950. Approximately three tenths of the 1951 increase was absorbed by higher personal taxes. Another one fourth is estimated to have gone into personal saving, bringing such saving to the highest level in over five years. The remaining additional income was more than offset by the higher prices of consumers' goods and services. Thus, despite a 12 per cent increase in personal income, the physical volume of consumer purchases declined slightly. Nevertheless, it is note-

worthy that the nation was able to double its defense expenditures and raise its capital expenditures to new record levels without lowering living standards.

The past year was one of progress in organizing defense production and expanding our productive capacity. By the end of 1951, 63 billion dollars had been obligated for procurement and construction of defense items, compared with 18 billion dollars a year earlier. By the fourth quarter, deliveries of military items and construction had reached a monthly rate of approximately 2 billion dollars, triple the rate at the end of 1950. Deliveries of defense material and construction during 1951 totaled 16 billion dollars.

The main achievement of the defense program in 1951 was not in actual deliveries obtained, however, but in the tremendous task of organizing the nation for defense. Basic decisions had to be made on military goods required and their design, contracts had to be let, tools obtained,



assembly lines set up, materials allocated, and additional productive capacity planned and its construction undertaken.

Many of the same bottlenecks and uncertainties that were encountered in World War II appeared again, notably the shortage of machine tools, the scarcity of most metals, and the reluctance of military authorities to freeze designs. For these and other reasons, some phases of the program lagged behind original schedules, and in some cases schedules were changed to call for a longer build-up and greater emphasis on new designs. Thus, the prospective impact of the defense effort on the economy was lessened in 1951. While some of the major military items are reported to have already reached their scheduled peak production rates, it now appears that the over-all defense production peak will not be reached until 1953.

Considerable progress was made during 1951 in expanding the nation's productive capacity. The initial objective of the present defense effort was the development and expansion of facilities for military production, accompanied or followed by sufficient output of munitions to meet the needs of our expanding armed forces and those of our allies. The aim has not centered on building up a large stockpile of munitions, which might soon become obsolete, but rather on providing additional productive capacity beyond current military and civilian needs in order to permit rapid expansion of munitions output in case of an all-out war. The enlargement of basic industrial capacity has been an essential element of this program. Steel mills added 4 million tons of ingot capacity in 1951, and the aluminum and electric power industries each increased their capacity by 10 per cent. Further expansion is planned in 1952.

Industrial construction was twice as active in 1951 as in 1950, and business expenditures on new plant and equipment reached a record total of 23 billion dollars, one-third above 1950. Temporarily, these expansion programs have cut into the supply of scarce materials available for other uses. As the facilities for production of basic metals and other materials are completed, however, they will begin to add to, rather than diminish, supplies available for the current production of end items.

Nondefense construction began to contract in the latter part of 1951 as the result of controls on materials and credit. Construction of stores, restaurants, and recreational buildings was cut back as materials were allocated to more essential projects. In spite of restrictive credit measures and limited supplies of some materials, however, approximately 1,090,000 new dwelling units were started — more than in any other year except 1950.

Progress was also made in controlling the inflationary forces which

were very strong at the start of the year. The part played by general and selective credit measures in this economic battle is discussed in other sections of this *Report*. Much of the success of the anti-inflationary measures, however, can be attributed to the remarkable productivity of the nation's factories and farms. A significant contribution was also made by consumers who reduced their spending from the high level at the beginning of the year and saved considerably more than in 1950. In addition, a general price and wage freeze was instituted late in January — a step which was deemed necessary at the time to check the wage-price spiral. Gradually, during the year, the freeze was replaced by a series of price regulations, tailored to individual industries, and by formulas for limiting wage and salary increases. The difficulties encountered in adapting the stabilization program to a wide variety of circumstances in different industries have raised questions concerning the possibility of continuing such controls over a prolonged period in the absence of the compulsions of all-out war, which tend to submerge the political and economic pressures generated by strongly organized and powerful groups.

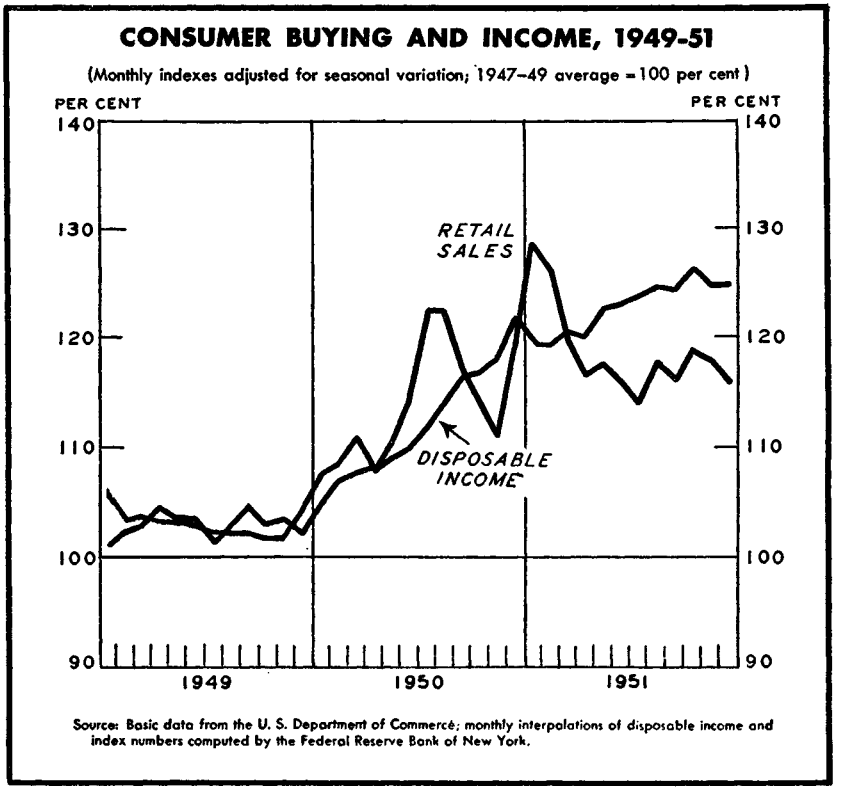
In the latter half of 1951, the overburdened priorities system was replaced by the Controlled Materials Plan, under which available supplies of steel, copper, and aluminum are allocated between defense, defense-supporting, and civilian uses. Additional direct controls were instituted covering inventories and uses of scarce metals and other materials, and the stockpiling program was modified to avoid bidding up the prices of scarce materials, for which it had been competing with the rest of the economy.

Despite the progress achieved in a number of respects, 1951 was also a year of paradox. Production was greatly stimulated by the sharp rise in defense expenditures and by the record-breaking volume of business investment in new capital equipment, yet the over-all level of industrial production was little, if any, higher at the end of 1951 than at the beginning. Some firms had to cut production because competing demands for materials were so great they could not obtain the balanced supplies needed for full-scale operation. At the same time, other firms were reducing output because demand for their products had fallen off and inventories had accumulated. Prices also behaved at variance with expectations at the beginning of the year. Although personal income and the total money supply rose to new highs, the general level of wholesale prices was actually no higher in December than in January.

This softening in wholesale prices in general, and especially in basic materials prices, developed as consumers changed their spending patterns

and business buying was cut back to reduce top-heavy inventories. At the start of 1951, consumers bought heavily in fear of shortages, although accelerated production was filling store shelves and warehouses faster than they could be emptied. Subsequently, consumers tended to hold back, although reduced production of durable goods was in prospect, and retailers' stocks, after building up in the first few months of the year, were drawn down gradually. This shift in consumer behavior from a record rate of spending to a high rate of saving was of utmost importance in relieving inflationary pressures. It supported, and at the same time was stimulated by, the pervasive influence of the various kinds of controls — fiscal, credit, price, wage, and other — which were utilized in the effort to check the inflation of the latter half of 1950.

Retail sales (seasonally adjusted) stabilized during the last three quarters of the year at a level close to 10 per cent below the January 1951 peak, and 1 per cent below the latter half of 1950, despite a steady rise in personal income. The continued gradual rise in the index of consumers'



prices concealed an even greater reduction in the physical volume of retail sales. The decline from the peak was most noticeable in durable goods; total nondurable goods expenditures were sustained by heavier spending on food, chiefly as the result of higher prices.

Retail sales levels, however, have been low only in comparison with the abnormal periods of scare buying and in relation to the level of consumer incomes. Both dollar volume and physical volume of sales have compared favorably with the most prosperous periods prior to the war in Korea. Moreover, the price indexes used to estimate physical volume from dollar sales may not fully reflect the large volume of goods purchased in promotional sales at reduced prices. The response to these special promotions, notably New York City's "price war", indicates that for many items the market widens appreciably when consumers feel that prices are attractive.

The high level of sales at the start of 1951 and the prospect of shortages caused heavy ordering at all levels of business, and production schedules were stepped up accordingly. As retail sales dropped back to more normal levels and production was less hampered by limitation of materials than had been expected, stocks began to pile up in many lines. New orders by distributors were cut drastically, and, as manufacturers' order backlogs shrank and their inventories of finished goods piled up, output was reduced. Production of many consumers' durable goods was cut back even more sharply than was required by materials restrictions. The new Federal Reserve index of output of household durable goods dropped 44 per cent between February and July, while passenger car production declined 29 per cent in the same period. Textiles also underwent an inventory recession as processors and apparel manufacturers became heavily stocked with goods. The net effect of this slackening in consumer goods production was to offset the stimulus of expansion in defense and capital goods production.

With stocks high and demand lower in consumer goods lines, the prices of many basic materials leveled off or declined in primary markets. Prospects of a near-record volume of farm marketings helped bring wholesale prices of farm products down from their March peak, but in the fourth quarter prices rose moderately, as demand improved and some crops yielded less than the earlier forecasts indicated. Wholesale food prices stabilized close to an all-time high. Industrial prices, except for most metals, tapered off during the last nine months of 1951. The Bureau of Labor Statistics index of selected basic commodity prices dropped

17 per cent between its February peak and mid-August and recovered only a little by the end of the year. The comprehensive index of wholesale prices had declined 4 per cent from its peak by September; during the last five months of the year, the index moved sidewise within an extremely narrow range, as noted earlier in this *Report*.

Consumers' prices rose gradually throughout the year, although they tended to level off during the summer months. In December, the index of consumers' prices was 4 per cent above January 1951, although wholesale prices decreased 1 per cent in the same period. In the preceding twelve months, however, consumers' prices had lagged considerably behind the general wholesale price rise.

The rise in consumers' prices had periodically brought wage increases to several million workers whose pay rates are linked to the cost of living. In a tight labor market, such increases gradually spread to industries and plants not covered by escalator formulas. During the year the wage stabilization formulas were stretched to allow wage increases not only to offset higher living costs but also for contract provisions based on the increase in productivity, and to allow some additional fringe benefits. In general, the 1951 wage settlements were obtained without major strikes; the amount of time lost through work stoppages in 1951 was the lowest since World War II. An over-all rise of about 16 per cent in total wage and salary payments during 1951 was the combined result of increased employment, the gradual rise in wage rates, and the shift of workers to better-paying defense jobs. The hours of work have been relatively stable and overtime has been minor except in certain lines, such as machine tools.

Two of the most important facts that have been demonstrated by the experience of the past year are the tremendous productive capacity of this country and the variability of consumer spending in relation to consumer income. The nation has demonstrated that it is capable of rapid expansion to meet the needs of both defense and capital goods production on an impressive scale, while still delivering enough goods to meet high levels of consumer demand. At the same time, we have seen how greatly the task of controlling inflationary pressures can be eased when consumers show restraint in their spending and voluntarily increase their savings.

Economic Trends in the Second District

During 1951, employment, income, and sales in the Second Federal Reserve District were at high levels. Nevertheless, business activity in

general fell behind expectations, because the stimulus of the defense program barely offset the cutbacks in production and employment in many consumer goods lines. The Second District did not show gains as great as some major defense areas, but neither were the problems of conversion or inventory adjustment as great as in some other parts of the country. At the end of 1951, large backlogs of defense orders, extensive programs of plant construction and expansion, and signs of revival in consumer goods lines promised continued high levels of business during the months ahead.

The income of the Second District was higher in 1951 than ever before. Tentative estimates made at this bank indicate that income payments of all types in this District totaled approximately 39 billion dollars, a gain of roughly 10 per cent over the previous record set in 1950. Wage earners, farmers, businessmen, and investors shared in the increase. The over-all percentage gain was not quite so great in this District as in the country as a whole, however, because farm income, which rose substantially, contributes relatively less to total income in this District than in most others, while the reduced production of consumer goods was fully reflected in Second District incomes.

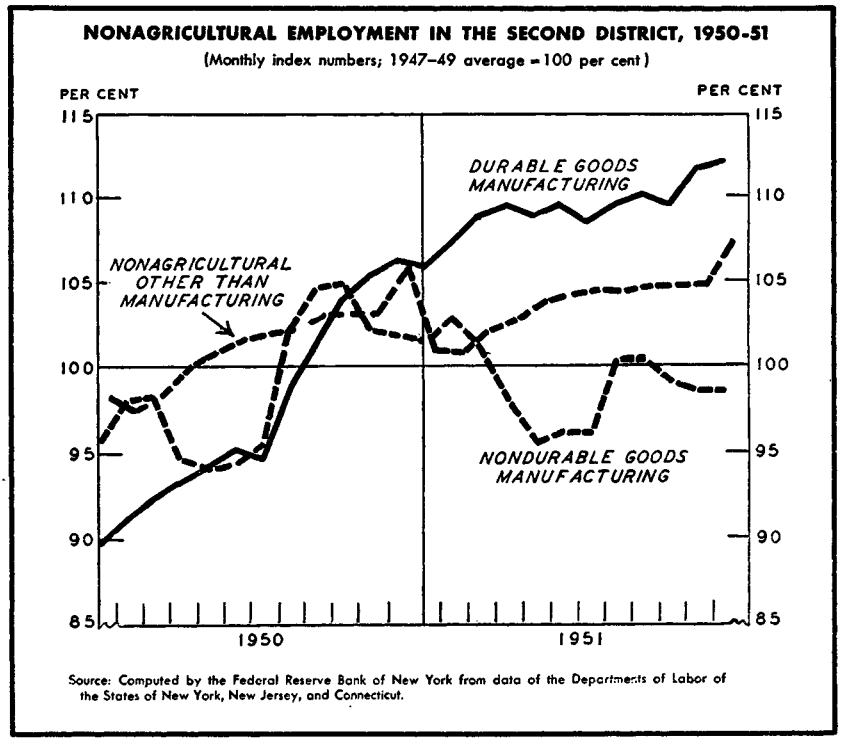
At the start of 1951, only a relatively modest amount of defense contracts had been placed in this District; the volume of actual military production was even smaller. By the end of December, however, the Second District had received approximately 10 billion dollars in Government procurement and construction contracts, or about 23 per cent of the national total. Some plants were actually in mass production; in others, the job of tooling up or expanding facilities was well under way. In this region, producers of aircraft, engines, instruments, and electronic equipment received the greatest direct stimulus. Basic steel and aluminum production was at virtual capacity. Large contracts for chemicals, photographic equipment, and tanks also were awarded in this District, but military orders for textiles, apparel, and leather goods were only a partial offset to the cutbacks in production of similar goods for nonmilitary demand.

Consumer goods industries, heavily concentrated in this District, got off to an auspicious start during the buying spree in the opening months of 1951. It was widely expected that durable goods would become relatively scarce as 1951 progressed, and that increased buying of nondurable goods would result. Stimulated by the heavy buying of the first weeks of 1951, manufacturers and distributors placed large orders and

stocked up for an expanded demand which never materialized. Heavy buying in anticipation of shortages and price increases occurred in particular in the textile industry. When sales began to fall off in the spring, textile converters and processors tried to unload part of their excess inventories on the spot market, and prices dropped sharply.

Throughout the remainder of the year, heavy inventories and an uncertain price situation plagued the textile and apparel industries, which are so important to this area's economy. The leather goods, fur, and carpet industries had much the same experience. As a result, there was curtailment of production in the soft goods industries throughout the District accompanied by layoffs and part-time employment.

Consumer durable goods, too, were not immune to overstocking and reduced consumer interest. Television receiver production slumped sharply and recovered only partially toward the end of the year, while stocks of household appliances rose substantially. Workers in the automobile assembly plants of this District were laid off when materials



restrictions cut production. Manufacturing employment in the Second District for the year as a whole averaged about 6 per cent higher than in 1950, but at the end of the year, the number of factory workers employed was still somewhat below the peak reached in February 1951.

Construction activity in the Second District was generally but not uniformly lower than in 1950. The dollar volume of residential construction contract awards in the Second District was 14 per cent below the 1950 record, a greater decline than in the United States as a whole. Physical volume, however, as indicated by number of dwelling units or floor space, dropped about one fourth in this District. The decline was attributable to reduced availability of mortgage credit arising from general credit measures, restrictions on real estate credit under Regulation X and allied regulations, sporadic materials shortages, and — in some areas — saturation of local markets.

Nonresidential construction contracts in this District remained about unchanged from 1950 to 1951, against an increase of 23 per cent in the rest of the country. A large part of this divergent movement is traceable to the sizable contracts for atomic energy plants and industrial facilities awarded in other parts of the nation during 1951. Industrial building in the Second District rose by nearly half in 1951, and institutional construction was also higher. Commercial building and public works and utilities construction, however, were lower than in 1950, largely because of the restrictions placed on the use of strategic materials.

The over-all volume of retail trade in this District during 1951 appeared to have been maintained close to 1950 levels. Department store sales in the Second District were about 5 per cent greater during 1951, a slightly better showing than that of the rest of the country. Large inventories of slow-moving goods piled up in the stores during the spring, and sharp reductions in new orders and extensive promotions were necessary to adjust inventory positions. The most notable promotional effort during 1951 was the "price war" among leading New York City department stores in early June, in which previously price-fixed items figured prominently. By the end of the year, most stores in this area had brought their stocks down into a more nearly normal relationship to current levels of consumer demand.

Gross income from farm marketings in the Second District was nearly one-fifth greater than in 1950 because of higher prices. Rising costs, however, absorbed much of the gain. Milk prices averaged 14 per cent higher, while the volume of milk received at New York State dairy plants

was only slightly lower than the 1950 record. Costs of dairy farming have, however, risen to the highest levels yet recorded; an index compiled by Cornell University shows a rise of 11 per cent in New York State dairy farming costs from 1950 to 1951. Poultry farmers marketed a slightly greater quantity of eggs than in 1950 at markedly higher prices. The value of field crops harvested in New York State in 1951 was about 8 per cent greater than in 1950, and truck crops were 23 per cent higher, but the value of fruit harvested was about one-fifth lower. Although a much smaller acreage of potatoes was planted this year, and the yield per acre was also smaller, higher prices resulted in an over-all crop value which was greater than in 1950.

Federal Reserve Credit Policy

The Return to Flexibility

In March of 1951 the Federal Reserve System, acting in accord with the Treasury, made a decisive break away from the pattern of support for Government security prices that had limited the effectiveness of policies of credit restraint during the postwar period. This was the culmination of a series of steps, beginning in 1946, which had brought about a gradual unfreezing of the wartime pattern of supported prices and interest rates on Government securities. By restoring flexibility to the market for Government securities, as the large wartime public debt became better digested, the Federal Reserve System has been able to regain a real measure of initiative in controlling the volume of member bank reserves and in inducing member banks to borrow to obtain needed reserves. So long as rigid support for Government securities had continued, the initiative for reserve creation rested almost wholly with holders of Government securities who chose to sell. In the face of intensifying demands for credit in the private sector of the economy, this meant that sellers of Government securities to the Federal Reserve could obtain funds practically without limit for use in satisfying other borrowing demands. The resulting monetization of the Government debt also provided new bank reserves, which served as a base for a further possible multiple-credit expansion.

The conflict between the System's responsibility for maintaining receptive and orderly markets for Treasury security offerings, on the one hand, and the System's responsibility for limiting the release of its own credit (to check undue inflationary credit expansion within the economy), on the

other, will continue to pose difficult problems. This past year will stand in the record, however, as the beginning of a new phase in the attempt to reconcile these conflicting objectives. The return to flexibility in Federal Reserve System operations in the market for Government securities, long term as well as short term, dominated the course of credit policy over the year, and had widespread repercussions in the banking and investment fields generally.

In the preceding postwar years, the long-term sector of the Government securities market had been supported whenever it was under pressure, while some limited degree of flexibility was gradually reintroduced throughout the shorter range. The Federal Reserve System had achieved some measure of success in reabsorbing through its sales and redemptions in one sector of the market the reserve funds released through its purchases in another sector, but had been unable to offset fully the additions to bank reserves from gold inflows and other factors. The mounting pressure of credit demand in the months following the outbreak of hostilities in Korea had made it impossible by the latter part of 1950 to retain even this modest measure of control over bank reserves so long as any sector of the Government security market was given firm support.

The most serious selling problem which the System was forced to meet was in long-term bonds, and it became necessary for the System to be able to back away from these sales. But there were serious obstacles to such a course. Investors in Government securities had become conditioned over the past decade to markets for Treasury obligations which were maintained at prices of par or higher. While maintenance of par prices on securities issued at the lowest ebb of cheap money presented an anomaly in a period of intense credit demand, there was some reason for concern over the shock to the market, and the consequences that would ensue, if the prices of the longer-term Government securities were to fall below par as the System drew back from further offerings. Consequently, the transition to freer markets had to be made cautiously. On March 4, the Secretary of the Treasury and the Chairman of the Board of Governors, and of the Federal Open Market Committee, of the Federal Reserve System released for publication the following announcement:

> The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt.

Simultaneously, the Treasury announced that it would offer holders of the two longest outstanding restricted bonds (2½ per cent bonds of June and December 1967-72) an opportunity to convert at par into a new offering of nonmarketable bonds at a higher yield (2¾ per cent bonds of April 1975-80). While nonmarketable, these bonds could be converted at the holders' option into five-year marketable notes carrying a coupon of 1½ per cent. By providing this new type of security for holders of the largest block of outstanding marketable bonds, the Treasury cushioned the initial impact of the new policy upon the market. In addition, for a transition period continuing over the next six weeks, the System Open Market Account and some of the Treasury investment accounts made substantial market purchases of these and other outstanding bonds at declining prices in order to ease the adjustment in the market to the changed policy. By April 12, the initial price adjustments were completed and the market subsequently "bottomed out". Purchases of Government bonds for the Federal Open Market Account tapered off, and on balance no significant purchases of bonds were made by the System Account throughout the last half of 1951.

The record of credit developments and of credit policy over the year must be read against this background.

Bank Reserves and the Money Supply

The figures in the accompanying table give some indication of the major changes in bank credit and the money supply for the year as a

FACTORS INFLUENCING CHANGES IN DEMAND DEPOSITS FOR ALL BANKS IN THE UNITED STATES

(In millions of dollars, (+) or (—) reflects effect on volume of demand deposits*)

Year	Treasury net cash income or outgo	Bank loans†	Bank holdings of other securities	Nonbank holdings of U. S. securities	Gold and foreign accounts	Bank capital accounts	Currency outside banks	Time and savings deposits	Other	Total change in demand deposits‡
1948	−8,076	+ 5,318	+ 699	+1,100	+1,240	− 531	+397	−1,109	− 639	−1,601
1949	+1,287	+ 1,263	+1,199	−2,500	+ 58	− 609	+664	−1,096	− 36	+ 230
1950	− 486	+10,762	+2,120	−3,300	−1,850	− 749	+ 17	− 631	+ 639	+6,522
1951	−1,304	+ 7,334	+1,059	+1,800	+ 358	− 783	−902	−1,953	+ 219	+5,828
1st half	*−6,839*	*+ 3,455*	*+ 435*	*+1,300*	*− 925*	*− 399*	*−878*	*− 701*	*+ 740*	*−3,312*
*2nd half*p	*+5,535*	*+ 3,879*	*+ 624*	*+ 500*	*+1,283*	*− 384*	*−524*	*−1,252*	*− 521*	*+9,140*

p Preliminary as of December 26, 1951.

* For example, the increase of 1,953 million dollars in time and savings deposits in 1951 has the effect of lowering demand deposits by that amount and thus is shown here with a minus sign.

† Excludes interbank loans.

‡ Excludes interbank deposits, Government deposits, and items in process of collection.

Sources: Treasury net cash income or outgo and nonbank Government security holdings derived from *Treasury Bulletin;* all other data, Board of Governors of the Federal Reserve System.

whole. As in the preceding year, the Treasury was more than able to finance Government expenditures out of current income. But there was extensive private deficit spending financed by expanded bank credit, also as in the preceding year, and a reduction in nonbank holdings of Government securities. Approximately 85 per cent of the reduction in nonbank security holdings in 1951 represented redemptions of Savings bonds and Savings notes, the remainder being represented by market sales and redemptions of maturing marketable issues. The reversal of the outflow of funds on foreign account after the midyear added further to the domestic money supply. At the same time, however, there was a reduction in the rate of money turnover, which partly offset the pressure on prices of the indicated increase in the money supply. Of much greater importance was the fact that the annual rate of personal saving out of income in the latter part of 1951 was nearly double the rate for 1950, and savings and time deposits of individuals grew at an impressive rate over the year as a whole.

Developments in the First Quarter of the Year

Changes in the factors shown in the table did not develop evenly over the year, mainly because of the decisive change in credit policy that began in March and became more fully effective in April and thereafter. January through March were the months of most rapid increase in the factors making for credit inflation. This period influences disproportionately the annual totals and obscures the degree of stability that was achieved during the balance of the year. Over the nine months from the outbreak of hostilities in Korea in June 1950 through March 1951, total bank loans increased by almost 11 billion dollars, residential mortgage credit expanded by about 6.0 billion, and consumer credit by 1.7 billion dollars. Despite the fact that credit outstanding is normally stable or declining in the early part of the year, 2.6 billion dollars of the bank loan expansion in 1951 occurred in the first quarter, along with an increase of more than 1.5 billion dollars in residential mortgage credit. Partly as the result of the reimposition of Regulation W in September 1950, consumer credit outstanding fell by some 700 million dollars in this three-month period. Reflecting in part the rate of private deficit spending in the first quarter of 1951, consumer prices in this period increased another 3.2 per cent and wholesale prices went up by 5.0 per cent.

There were, of course, some developments tending to restrain credit creation during the early months of last year. The Board of Governors of the Federal Reserve System raised reserve requirements for all member

banks in three steps during January and early February. This action brought reserve requirements on deposits to the statutory limit for all save central reserve city banks and added 1.9 billion dollars to the total of member bank required reserves. Also in January, the Board of Governors announced that margin requirements on loans to carry securities were to be raised from 50 to 75 per cent; this action was intended to retard the expansion of this type of credit that had occurred in the last quarter of 1950. The substantial excess of Treasury receipts over outgo, which amounted to 6.9 billion dollars in the first quarter of 1951, was of great significance in combating inflationary pressures by reducing the volume of cash funds available for private spending. Other restraining factors were the restrictions on real estate and consumer credit that had been invoked by the Board of Governors in the last half of 1950, and the continuing drain of bank reserves resulting from large payments to foreign accounts on international transactions.

These limiting forces, which were at work during the first quarter of the year, were not equal to the expansionary forces they encountered. Anticipatory buying by consumers and business caused inflationary pressures to build up through January and early February. The impact of the 1.9 billion dollar increase in reserve requirements was weakened by the fact that the Federal Reserve System supplied 1.1 billion dollars of reserves to the banks through security purchases at supported prices between January 3 and February 7, as well as 0.6 billion dollars in discounts and advances, to help ease the adjustment problems of some member banks. (Subsequent security purchases by the System enabled member banks to repay their borrowings.) The reserves made available to the banking system from all sources were adequate to meet the higher reserve requirements and, in addition, to support a substantial expansion of business and real estate loans. The largest share of this new credit was for nondefense uses, primarily for carrying increased business inventories. Large institutional investors entered 1951 with heavy mortgage and security commitments, and to meet these commitments they also sold Government securities, mainly those of longer term. The Federal Reserve System, because of its support program, was the residual purchaser of a major portion of the securities thus thrown on the market during January and February.

The month of March appears to have been the turning point. Consumer scare buying had slackened perceptibly as, with the passage of time, the much publicized shortages of goods failed to materialize. Businesses responded by adopting more conservative inventory policies. Large

Treasury receipts after the March 15 tax date contributed to a slowing of the inflationary process. And in March the Board of Governors of the Federal Reserve System, under the authority of the Defense Production Act of 1950, launched a Voluntary Credit Restraint Program intended to encourage banks and other financing institutions to conduct their credit operations so as to limit the use of credit for nonessential purposes, while providing adequate credit to meet defense and other essential needs. The success of the Program depended upon the degree of cooperation received from lenders, as well as from borrowers. Governor Oliver S. Powell, the chairman of the National Voluntary Credit Restraint Committee, offered the following evaluation of the program after it had been operating for several months:

> . . . the purpose of credit policy in general, and of the Voluntary Credit Restraint Program in particular, has not been to prevent the use of private credit. The objectives of credit measures are rather to attempt to stop the use of credit for speculative purposes, to channel credit into defense and defense-supporting activities, to reduce the credit made available for postponable and less essential civilian purposes, and to engender a more cautious and careful lending policy on the part of lending officers. The Voluntary Credit Restraint Program is making an important contribution to the attainment of these objectives.

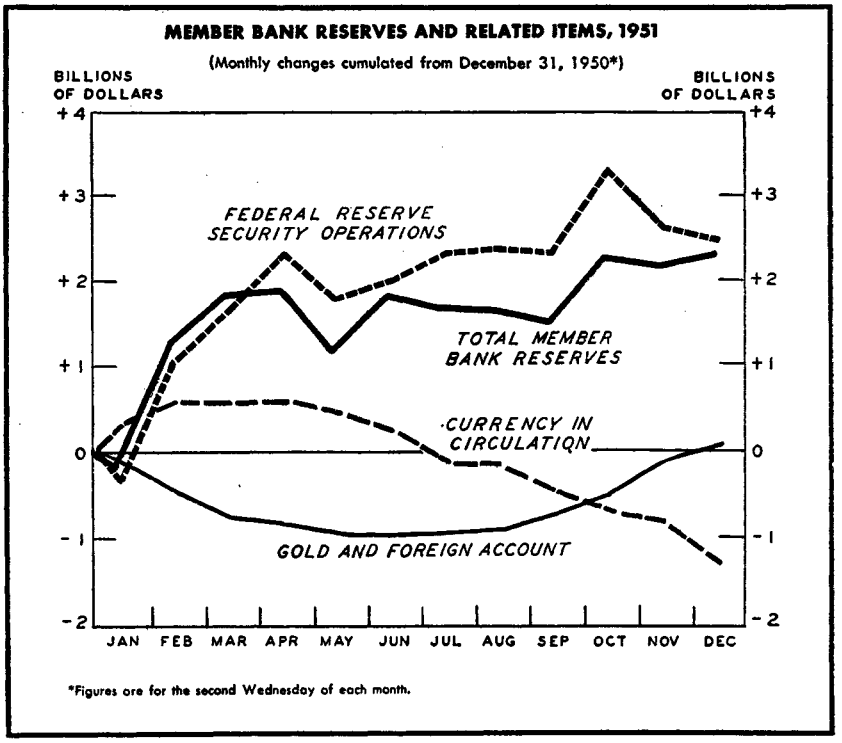
The most important step in the effort to check credit inflation was the accord with the Treasury announced on March 4, as already indicated above. In cushioning the initial impact of the withdrawal of fixed support, the Treasury offered a new 24 to 29-year 2¾ per cent nonmarketable investment bond in exchange for the 2½ per cent restricted Treasury bonds of June and December 1967-72 (which had been subject to the most aggressive selling at the pre-accord support levels). By April 6, when the Treasury books closed on the offering, 13.6 billion dollars of the 19.7 billion originally outstanding in these two issues had been exchanged. Roughly 5.6 billion dollars of the exchanges were made by the Federal Reserve and Treasury investment accounts; the remaining 8 billion came from other investors. Of the 5.6 billion which the System and Treasury accounts converted, 1.6 billion had been acquired in the month following announcement of the accord, as the Treasury and the Federal Reserve System acted jointly to ease the readjustment in the market. Despite this relatively substantial release of funds to the market during the initial transition period, most of the related increase in member bank reserves had been reabsorbed by the end of May — partly through offsetting sales and redemptions of other securities by the Federal Open Market Account,

and partly through the restrictive influence of other money market factors.

The Second Quarter

In the second quarter of 1951, the influence of several factors tended to inhibit further credit expansion. Total Federal Reserve credit remained practically unchanged from the beginning of April through the end of June in sharp contrast to its rapid growth over the preceding year. Treasury cash operating income and outgo was approximately in balance and neither private incomes nor bank credit received any net stimulation from this source. The domestic banking system continued to lose funds, though at a reduced rate, to foreign accounts, exerting a deflationary influence on American markets. The outflow of gold to the rest of the world and rising foreign balances on deposit at the Reserve Banks brought the total outflow of banking funds from the market to some 3.4 billion dollars between September 1949 and June 1951, when the reversal of the movement set in.

In April, an additional source of pressure on bank reserves was



exerted when the volume of currency in circulation began an expansion that continued almost without interruption through the remainder of the year. This factor, along with other factors influencing the level of bank reserves, is illustrated in the chart on page 28. It is difficult to ascribe reasons for the more than 2.1 billion dollar increase in currency circulation in the last nine months of 1951. Part of it was seasonal, and part may be accounted for by the rising dollar volume of business transactions, part by the job-shifting and uncertainty characteristic of an economy in a period of conversion, and part by a reaccumulation of cash holdings that had been depleted by the consumer spending waves in the summer of 1950 and early 1951. It also has been suggested that it may have been indicative, to some extent, of a growth of "black market" and tax evasion transactions.

Commercial bank loan credit showed a decided tendency to level off in the second quarter of 1951 following the rapid expansion over the first three months. Total loans of all commercial banks increased by roughly 400 million dollars between March 28 and June 30, 1951, compared with an increase of more than 2 billion dollars in the first quarter of the year and an increase of 1.3 billion in the second quarter of 1950. Detailed data for member banks suggest that most of the increase that did occur in this quarter was accounted for by loans on real estate and loans to Government security dealers during the June refunding period. The volume of business loans was virtually the same at the end of the quarter as it had been at the beginning, with increases for defense and defense-supporting activities offsetting the seasonal contraction in many areas of nondefense borrowing. The Voluntary Credit Restraint Program which began during the second quarter may, as a result of the publicity surrounding its inauguration, have had an important impact on lending decisions, thereby contributing to the noticeable tightening of credit availability. The underpinning of the changed attitudes of lending institutions lay in the fact that member bank reserve balances, in sharp contrast with the immediately preceding period, remained substantially unchanged through the second quarter, consequently limiting the volume of funds available for bank credit extension.

The Last Half of the Year

Monetary and credit conditions in the last half of 1951, as Federal Reserve policies of restraint increased in effectiveness, ranged from moderate to extreme tightness. At no time were bank funds in what was

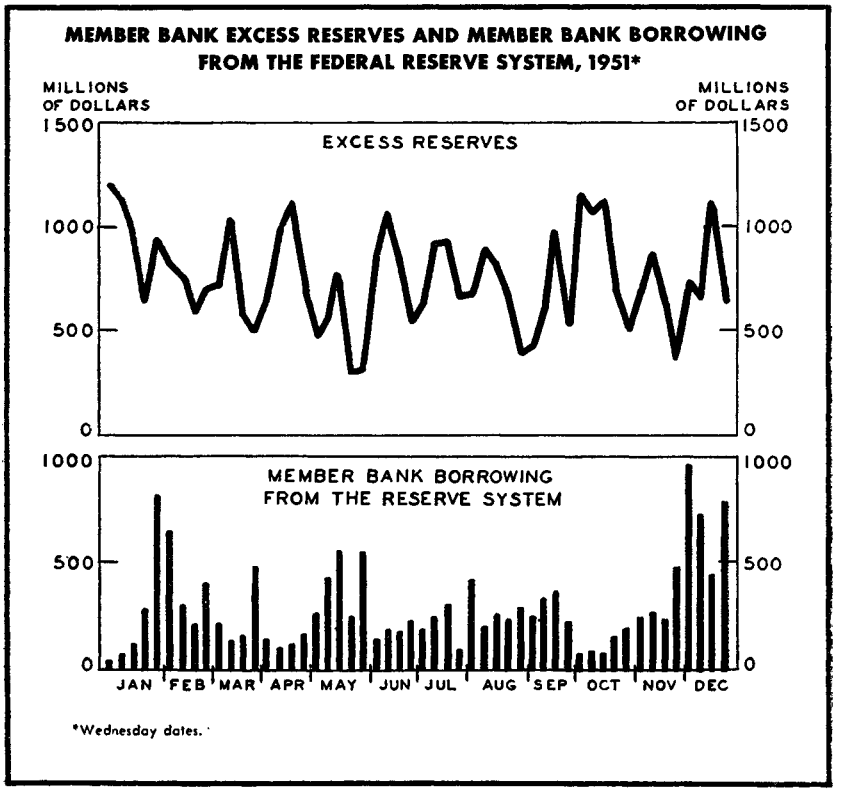
considered excessive supply for more than short periods, and borrowing from the Federal Reserve Banks was used more and more frequently to meet reserve requirements during periods of stringency. It was indicative of the tight reserve situation over the last six months of 1951 that the rate on Federal funds in the New York money market, aside from a brief period in October (when the System took action to facilitate Treasury financing), seldom fell below 1 per cent. Frequently it remained for protracted periods at levels just short of the 1¾ per cent Federal Reserve discount rate. The New York money market was especially sensitive to changes in the general availability of funds as out-of-town banks adjusted their reserve positions by increasing or drawing down their balances with the New York City banks. Following a pattern that had prevailed in the first half of the year, New York City banks in the last half of 1951 lost funds steadily through a transfer of balances out of New York, but these losses were largely offset by an inflow of funds on foreign account and occasional Federal Reserve security operations. Treasury operations also supplied funds to the New York market in this period.

Treasury cash deficits and redemptions of other Treasury issues in the last half of calendar 1951 were financed through the use of part of the Treasury balances accumulated in the banks during the first half of the year, through the sale of 2.0 billion dollars in 91-day Treasury bills in excess of maturing issues, and through the sale of 2.5 billion dollars of new tax anticipation bills to mature at the March and June 1952 tax dates. Net of redemptions, marketable Treasury debt increased by 3.3 billion dollars between the end of June and the end of December 1951, while Federal Reserve and commercial bank holdings of Government securities increased by 4.1 billion dollars. Holdings of Government securities by nonfinancial corporations tended to increase as they invested funds set aside to meet the higher tax payments scheduled for March and June 1952, while holdings of insurance companies, savings banks, and other investors declined. The expansion of bank holdings of Government securities was partly temporary, since a substantial part of the increase represented purchases made late in the year which, in the case of the Reserve Banks, were more than reversed by large sales and redemptions in January 1952, and which, in the case of the commercial banks, largely represented tax anticipation bills absorbed against book credit subject to subsequent redistribution to corporations.

The steady loss of banking funds through increased currency circula-

tion absorbed a large part of the new reserves obtained from other sources, so that total member bank reserve balances increased only moderately in the last half of the year. Excess reserves remained practically unchanged, apart from the usual intramonth variations, because the net reserves acquired were utilized in supporting the expansion of demand deposits which grew out of Treasury deficits and the usual seasonal bank loan expansion. The principal sources of reserve funds during this period were gold and foreign account transactions and the Federal Reserve credit released through member bank borrowing and some net purchases of Government securities. However, no single source of funds was readily and continuously available to provide the reserve foundation for the type of unrestrained credit expansion that had taken place in 1950 and early 1951.

With access to Federal Reserve credit through the security market severely limited, member bank recourse to borrowing from the System to adjust reserve positions assumed greater importance than at any time



since the early 1930's. A high degree of inverse correlation between bank borrowing and levels of bank excess reserves developed (as illustrated in the preceding chart). Federal Reserve credit released through discounts and advances to member banks is much less likely to constitute a permanent base for credit expansion than funds released through security purchases. Since borrowings represent contractual obligations of the member banks, a bank which is in debt is less inclined to increase loans and will be likely to use funds at its disposal to retire indebtedness before seeking new loans or investments. An important development of 1951 was the restoration of this instrument of credit policy to a place of greater significance.

Another interesting and somewhat disturbing feature of 1951 was the wide fluctuation in Federal Reserve float (credits to member bank reserve accounts by the Reserve Banks for checks not yet actually collected). An all-time high of more than 2 billion dollars was reached in December. The instability and generally higher level of float in 1951 was traceable, at least in part, to the increased volume of collection items and to the shortening of the System's availability schedule in January to a maximum of two days. This shortening of the time interval between the receipt of checks for collection and the crediting of member bank reserve accounts tended to magnify the influence on float of any unusual increases in check usage or delays in transportation. Any delay in physical collection would, of course, increase the number of checks for which the System had already given credit (under the deferred availability schedule) without having actually completed collection.

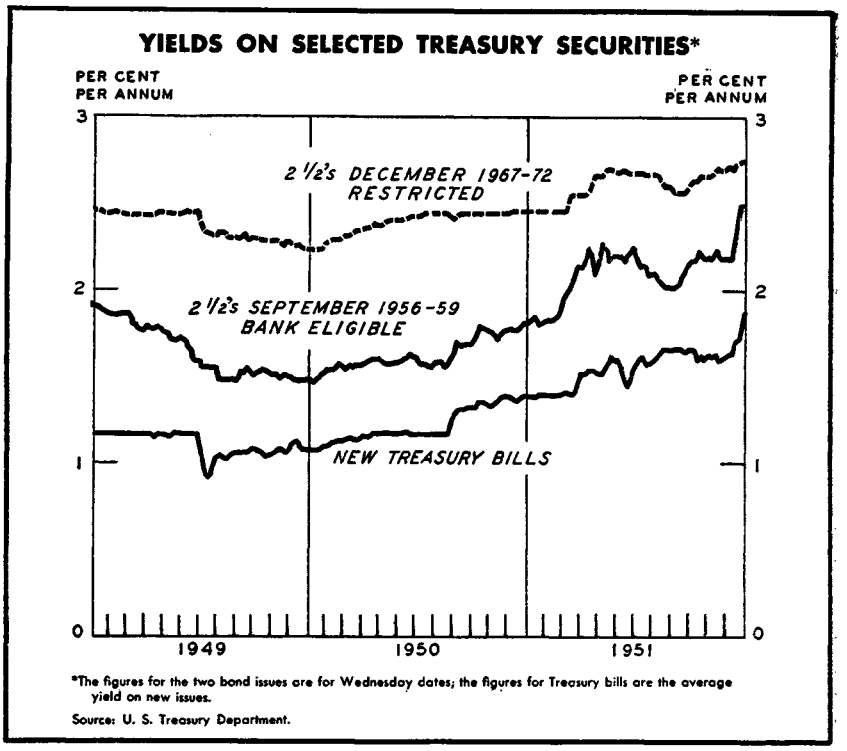
Making use of its new freedom for discretionary open market action, the Federal Reserve System, although it played, on balance, a largely neutral role in the Government securities market during the last half of the calendar year, was nevertheless able when necessary to take the initiative in that market. While not supporting the market at any given level, the System recognized a responsibility for orderly market conditions and, upon occasion, took action to prevent relatively small offerings or purchases from having a disproportionate effect on prices in a thin market. In some periods of money market stringency, temporary relief was provided to Government security dealers, to aid them in carrying portfolios, through repurchase agreements arranged by the Federal Reserve Bank of New York, a procedure somewhat analogous to borrowing by member banks at the Federal Reserve Banks. The Federal Reserve System also accepted responsibility during periods of Treasury financing operations for main-

taining market conditions which would facilitate such operations. Some assurance of relative price stability in related segments of the market is ordinarily essential while the Treasury's subscription books are open in order to minimize the possibility of an unsuccessful operation, even when the terms of the offering are attractive.

Such Federal Reserve assistance to Treasury refunding operations was undertaken around the June-July and October refunding dates. The condition of the market at the time of these refundings and the volume or nature of the offerings required relatively heavy stabilization purchases. Offsetting sales in the market following these Treasury operations did, however, reabsorb a major portion of the funds released. Thus, despite stabilizing purchases, System Account security holdings increased by less than 200 million dollars between April 6 (when the Treasury's books closed on its bond conversion) and the beginning of December. A further increase of 560 million dollars occurred late in December to relieve an extreme year-end shortage of money market funds. All of the funds released in December, and more, were subsequently recovered by sales and redemptions of Government securities in January 1952. By the end of January, the volume of System security holdings was again approximately at the level of mid-1951. During the last half of 1951, moreover, the market had displayed an ability to function smoothly without more or less continuous Federal Reserve participation.

Changes in Interest Yields

The general credit tightness prevailing from May through the remainder of the year was reflected from time to time in rising interest rates. New York City bank rates on prime commercial loans, which at the beginning of 1951 were at 2¼ per cent, were raised in three steps to 3 per cent at the end of the year, the highest rate for loans of this type since 1934. Most other bank and market rates, in New York City and over the country, moved somewhat in relation to the prime commercial loan rates. Movements in the pattern of rates on Treasury securities over 1951 and the two preceding years are shown in the chart on the next page. Short-term rates moved to new, higher levels during the spring and summer months and, for the year as a whole, fluctuated in response to developments of ease or tightness in the money market. Yields on intermediate and longer-term securities rose rather steadily over the year, except for a period of ease during the summer. At the end of the year the longest-term Victory bonds sold to yield 2¾ per cent. A



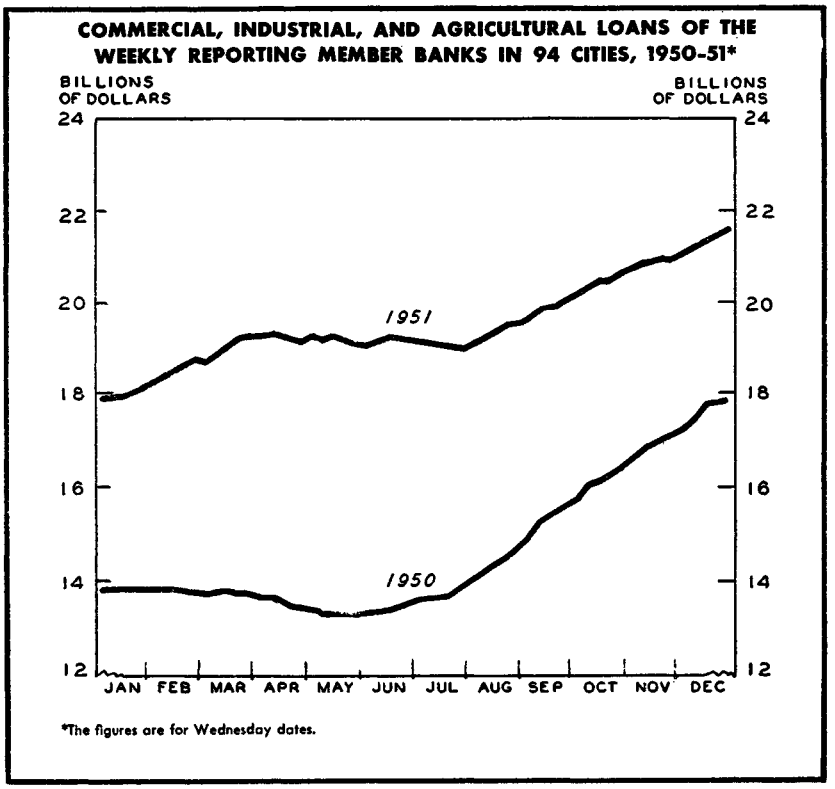
corollary of the rising yields was a settling below par of prices of most taxable Government bonds, both bank eligible and restricted.

The effect of higher yield patterns was to make many investors less willing to dispose of Government securities and, after prices became fairly well stabilized at the new levels, some investors more willing to purchase them. The prospect of absorbing a capital loss when selling below par created a rather general reluctance to liquidate. Large investors, in particular, were aware that their sales might further depress prices and were consequently deterred from attempting to sell large amounts, as they had done previously when Federal Reserve support protected them. Also, a general desire of lenders to cooperate with the Voluntary Credit Restraint Program may have tended to lower the need for funds for private lending, thus reducing the amount of disinvestment in Government securities.

The Expansion of Private Credit

An important result of the general tightness in the money market, of

the Voluntary Credit Restraint Program, and of the lessening consumer buying interest was a slowing down of the rate of bank loan expansion in the last half of 1951 to more or less normal, seasonal proportions. A comparison with 1950 for the commercial, industrial, and agricultural loans of weekly reporting member banks is shown in the chart below. After increasing at an average monthly rate of 4.52 per cent in the six months from July through December 1950, these loans increased at an average rate of 1.82 per cent in the corresponding months of 1951. This is hardly more than the customary seasonal rate of expansion for the last half of the year, and available data indicate that the greatest part of the moderate total loan increase was for financing the marketing and processing of crops and for defense and defense-related purposes. Credit for defense purposes played an insignificant role in the 1950 loan expansion. Real estate credit increased throughout 1951, though at a diminishing rate, while consumer credit remained relatively constant and security loans declined.



While the operation of the System's instruments for selective credit control played an important part in limiting real estate and consumer credit, the broad impact of the change in System open market operations was probably of even greater importance. Not only banks, but all groups of lending institutions, found it necessary to confine their aggregate volume of new loans and investments largely within the limits of funds arising through their current operations. It was no longer possible to undertake commitments in excess of regularly arising investable funds with the assurance that additional funds would always be obtainable on call, merely by selling Government securities at supported prices. The effect of the new restraint upon all classes of lenders was a decisive factor in curtailing real estate credit, and (as the next section of this *Report* indicates) in limiting the availability of nonbank funds for other classes of borrowers, from April through the remainder of 1951.

Corporate Financing and the Capital Markets

The capital markets were greatly affected during the past year by the various monetary and other measures taken to combat inflationary tendencies and to guide investable funds toward the defense program. Demands for long-term capital continued large during the year and tended to exceed the volume of available savings, as in 1950. The excess of demand was again financed through an expansion of bank credit, but the latter diminished sharply after the Treasury-System accord.

The corporate bond market was under considerable pressure at times during the year. After the withdrawal by the Federal Reserve System of its rigid support of Treasury securities, liquidation of Treasury bonds by financial institutions became more difficult and diminished markedly in volume. As a result of the change in market conditions and the large volume of commitments made previously, those institutions had less money available for current investment. Issuers and underwriters experienced a temporary, sharp drop in demand for new securities offered in the public market. Some of the "impact" effect of the shift in Federal Reserve open market policy wore off with time, but new securities could be sold only at higher yields, and over the year an increase of ¼ to ⅖ of 1 per cent occurred in the cost of long-term money.

In spite of record-breaking corporate outlays for improvements and additions to plant and equipment in 1951 (22 out of a total of 23 billion dollars for corporate and unincorporated business) and for additions

to inventories (9 billion), the corporate demand for new funds fell slightly in comparison with 1950. Although business capital expenditures and inventory accumulation, respectively, were 5 billion and 1 billion dollars larger than in 1950, the greater needs for funds for these purposes were more than offset by a decline in the use of new funds to finance credit sales and for the accumulation of liquid assets. The expansion of customer receivables and holdings of cash and Government securities was 6 and 2 billion dollars, respectively, smaller than in 1950.

Business corporations had to raise more from external sources than in 1950 (57 per cent against 50 per cent), since corporate profits after taxes dropped sharply, while aggregate dividend payments showed a small increase. Retained earnings, therefore, fell from 13 billion dollars in 1950 to 8 billion in 1951. Depreciation allowances, however, provided 8½ billion dollars toward meeting corporate needs for funds, fully one billion dollars more than in 1950. Heavier depreciation charges in 1951 reflected the effects of accelerated amortization of defense facilities and the fact that depreciation charges are increasingly based on plant and equipment acquired by corporations at the higher postwar costs.

Additional funds obtained from external sources, including borrowings from banks and credit extended by suppliers and the increase in tax accruals (funds accumulated in 1951 for payment in 1952), amounted to about 22 billion dollars, approximately 2 billion dollars larger than in 1950. Of this total, it is estimated that the higher tax accruals alone provided 8 billion dollars. Inasmuch as cash and Government security holdings set aside to meet such liabilities rose only 3 billion, the funds made available through an increase in tax accruals were apparently used largely for other working capital — to finance inventories and credit to customers — suggesting decreased liquidity in corporate financial positions. The resulting strain is likely to show itself in individual situations as corporations confront the first two quarterly tax payment dates in 1952 (March 15 and June 15), when 35 per cent of corporate tax liabilities for 1951 (a total of 70 per cent) will become payable under the so-called Mills plan adopted by the Congress in 1950.

A substantial increase in new corporate security issues was equal to the entire 2 billion dollar increase in external financing. Gross security issues (before corporation cash redemptions of maturing or called securities) for new capital purposes reached more than 7.2 billion dollars, an increase over the previous year's total of almost 50 per cent. Refunding of securities fell sharply as interest rates rose. Over two thirds of the dollar

amount of all corporate security offerings were bonds. Aggregate sales of almost 2 billion dollars of preferred and common stocks (exclusive of investment company issues) were, however, the largest since 1929. A large part of the gain in stock offerings came in common stock, sales of which increased 40 per cent during the year to a total of over 1.1 billion dollars, the highest since 1930.

Total offerings of new long-term "municipal" securities (excluding refunding issues) fell 400 million dollars during the year, reflecting a decline of almost 600 million dollars in veterans' bonus issues. To finance an extraordinarily large volume of construction for schools, institutions, and other public buildings and facilities (aggregating a record total of 6 billion dollars), however, State and local governments borrowed 200 million more than in 1950. Included in the 3.2 billion dollars borrowed for such purposes was more than 330 million dollars of local public housing authority bonds guaranteed by the Public Housing Administration.

Although difficulties in placing new municipal issues also were encountered during the period of bond market unsettlement following the decline of Treasury bond prices, demand for new municipal issues was well maintained during most of the year, as the higher Federal corporate and personal income taxes imposed by the Revenue Act of 1951 made the tax exemption feature of State and local government obligations more valuable. Yields on "municipal" issues rose moderately over the year, however, along with the increase in Treasury and corporate bond yields.

Residential construction and home mortgage financing were well sustained and showed only small declines from the 1950 record. To a considerable extent, these results reflected the large carry-over of mortgages arranged for prior to the effective date of the more restrictive credit terms required by Regulation X of the Board of Governors and of the related regulations of the Federal Housing and Veterans' Administrations. Substantial year-to-year declines beginning in June 1951 in monthly data for both home building and mortgage recordings indicated, however, that this backlog was being worked off rather rapidly.

After the "unpegging" of Treasury bond prices, the supply of new money for Government-guaranteed and insured mortgages became tight. Rates charged on conventional mortgage loans rose, and the general increase in interest rates and bond yields made the 4 and 4¼ per cent returns on Veterans' Administration and Federal Housing Administration mortgages less attractive to investors than alternative outlets for funds. Prices bid for VA and FHA mortgages were reduced by many institutional

investors, with VA mortgages selling at a discount and FHA mortgages falling to par.

The bull market in common stocks continued into 1951, but the upward movement of prices, which began in the middle of 1949, was slower and more irregular. The advance in quotations carried Standard & Poor's index of 416 issues on September 12, 1951 to 188.6 (1935-39=100), the highest point since 1930. This advance represented a 70 per cent gain from June 15, 1949. Prices thereafter receded and then made a partial recovery in the remaining months of 1951, and near the end of the year the index stood at 182.4, a net gain of 20 points for the year.

Margin requirements on loans for purchasing and carrying securities were increased from 50 to 75 per cent in January, while interest rates on collateral loans were raised in the spring and toward the close of the year. The volume of customers' debit balances showed little change over the year, however, since the volume of stock market credit in recent years has been small in relation to the value of shares traded.

The restrictive open market policy may also have indirectly influenced investors' and speculators' valuations of share prices by helping to reduce the vigor of inflationary forces, which had constituted one of the most important stimulants to stock prices.

International Financial and Economic Developments

The Changing Dollar Problem

The balance of international payments of the United States experienced a spectacular shift during 1951. In the early months of the year foreign countries continued to accumulate gold and dollar assets at an extremely rapid pace. In the second half of 1951, following a marked reduction in the rate of accumulation during the second quarter, foreign countries as a whole experienced a heavy loss of gold and dollars (taken together) as a result of their transactions with the United States.

The sharp reversal of the gold and dollar drain from the United States was mainly the result of a substantial increase in our export surplus of goods and services. This country's surplus on merchandise account jumped sharply between the first and second quarters of the year, almost entirely because of larger exports, rising from 197 million dollars to 958 million; it continued to increase during the rest of the year, reaching a total of 1,444 million dollars in the fourth quarter. Rising international monetary reserves and higher levels of dollar earnings had apparently led most foreign governments to relax their exchange and import controls —

a step which permitted foreign importers to increase purchases in the United States in anticipation of future price increases and shortages of manufactured goods. The beginning of rearmament programs in Western Europe also contributed to the rise in our exports.

During the second half of the year the growth in our export surplus was, in part, the result of a decline in merchandise imports. This decline was primarily a consequence of the price recession in world commodity markets during the first half of the year and of our increasing utilization of inventories built up after the middle of 1950. However, it also reflected the influence of certain anti-inflationary policies, particularly price controls and credit restraints, as well as the decision to curtail purchases of rubber and tin for the strategic stockpile.

Primarily because of an increase in income on foreign investments, the over-all rise in the United States balance on goods and services was greater than indicated by the merchandise figures alone; our export surplus of goods and services amounted to 3,224 million dollars in the second half of the year, as contrasted with 1,805 million in the first half. Despite a substantial increase in military aid, moreover, the average quarterly rate of Government grants and net loan disbursements to foreign countries during the last nine months of 1951 was only 163 million dollars greater than in the nine months immediately following the invasion of Korea. As a result, the share of total exports that was Government financed declined noticeably, and toward the end of the first half of the year our export surplus of goods and services for the first time since 1949 began to exceed United States grants and loans to foreign countries.

This dramatic change in the relation between our export surplus and total net Government financing of foreign transactions, in conjunction with a smaller outflow of United States private capital in the second half of the year, was reflected in an equally spectacular reversal of the gold drain. In the first half of 1951, foreign countries as a group acquired 937 million dollars' worth of gold from the United States Treasury, but during the second half they sold 1,005 million. By contrast, the dollar holdings of foreign countries increased throughout the year. Foreign gold and dollar assets taken together rose by about 440 million dollars as a result of transactions with the United States over the year as a whole. This rise was not shared by all countries, and by the end of the year the gold and dollar assets of the sterling area pool and of some ERP countries were falling rapidly.

Inflationary Developments Around the World

In the first nine months after the outbreak of hostilities in Korea, that is from July 1950 through March 1951, the general increase in demand caused a great rise in world commodity prices. Higher prices for primary commodity exports, while increasing the producing countries' foreign exchange earnings, aggravated at the same time any inflationary tendencies already present in those countries. In most industrial countries of Western Europe, there was a marked increase in import costs as world commodity prices rose. Even more important, however, was the persistent pressure for higher consumption standards and the continued high level of investment, including inventory accumulation. Enlarged buying of domestic and imported goods was possible largely because consumers, manufacturers, and traders drew on cash assets and reserves and obtained additional credit. Increased rearmament expenditures, on the other hand, began only gradually to be translated into effective demand. It was the scramble for inventories and continuation of capital development programs, rather than the actual absorption of additional resources in the rearmament effort, which, despite the continued rise in agricultural and industrial production, led to a resurgence of strong and general inflationary pressures.

Although world primary commodity prices, after a steep climb following the outbreak in Korea, began to fall in April 1951, wholesale prices in the latter part of the year generally either remained stationary or continued to rise in most countries. Retail prices moved generally upward, and wages followed. In many countries, especially in Western Europe, these price movements seemed to indicate that internal factors — particularly wage and farm price rises and monetary expansion — were more powerful forces of inflation than increased import costs. As compared with the pre-Korea levels, wholesale and retail prices at the 1951 year end were higher in most foreign countries than in the United States; the rise in retail price levels during 1951 was less in the United States than in any other major country. To the extent that costs responded to rising prices but remained rigid with falling prices (and this varied greatly among the different countries) serious distortions developed in international price and cost relationships.

Although there was a considerable rise in European prices generally, export prices lagged behind import prices. In some European countries this deterioration in the terms of trade was particularly serious in the

first half of the year and was not entirely made good by the year end, thus adding considerably to their balance-of-payments difficulties. In certain of these countries, the difficulties were further aggravated by other factors. In France, for example, a sudden decline of confidence in monetary stability led in the fall of 1951 to speculation in gold, foreign exchange, and commodities, which was reminiscent of the early postwar years. In the United Kingdom, with the reappearance of a large deficit in Britain's over-all balance of payments, the dollar gap increased. Britain's position as the banker of the sterling area was considerably affected by a decline in the volume of exports from the overseas sterling area to the dollar area, by the fall in the prices of raw materials such as rubber, wool, and tin exported from the overseas sterling area, by an increase in expenditures on imports from the dollar area by the sterling area generally, and by the loss of Iranian oil. The area's dollar drain since midsummer 1951 was also partly attributed to an acceleration of import payments and a slowing down in the repatriation of export proceeds. Nevertheless, at the year end the United Kingdom made the first scheduled payment of interest and principal on the United States and Canadian loans obtained in 1946. This payment, together with Britain's adverse balance of payments, brought the loss of British gold and dollar reserves to a total of 934 million dollars in the fourth quarter of 1951. At the end of the year, British monetary reserves were 1,532 million below the peak reached at the end of June 1951, and were 995 million above the low point in mid-September 1949.

Monetary Policy Abroad

Faced with increased demands on their economic resources and with renewed inflationary pressures, several Western European countries resorted to restrictive monetary measures during 1951 for the first time since the war, while others strengthened existing monetary restraints. In these countries, lending to business for the purpose of financing the greatly enlarged purchases of materials had been increasing, and in some countries consumer credit also appeared to have been rising noticeably. The bank credit expansion was thus closely associated with the increase in inventory accumulation, the growth in consumer buying, and an aggravation of balance-of-payment deficits resulting from larger imports. Monetary restriction of a general character was thus particularly indicated. A somewhat similar situation developed in Canada, and it also tightened monetary restraints. In the primary-producing countries, including most

of the overseas sterling area countries, monetary controls played a distinctly lesser role.

During 1951, central bank discount rates were raised in several Western European countries, and also in India and Japan. The rise, toward the end of the year, in the United Kingdom was the first in 19 years, except for a very temporary increase at the beginning of the Second World War. Since in many countries commercial banks had to rely more heavily upon the rediscounting facilities of the central bank, the discount rate rises became a fairly effective policy instrument. In the United Kingdom, the monetary authorities, besides raising the discount rate, abandoned the ½ per cent market rate for Treasury bills, which had been pegged at that level since 1945; this rate subsequently rose to almost 1 per cent. Long-term interest rates also rose markedly in most of the Western European countries, as well as in Canada, Australia, and India.

Other restrictions were also placed on the availability of money. Particularly severe measures were taken in Germany; in the Netherlands, quantitative credit control replaced the previous selective screening of loans; in France, the existing credit controls were tightened with new ceilings imposed on the volume of rediscounts; and in the United Kingdom, a considerable portion of the outstanding Treasury bills was funded in November 1951 and commercial bank liquidity was thus reduced. In Canada, the chartered banks agreed to refrain from making loans for capital purposes and to restrict their loans for other purposes.

The year's developments in the field of credit control abroad, together with the earlier experience of countries such as Belgium, France, Italy, and Sweden, indicate a growing awareness that effective monetary restraint, designed to combat inflationary pressures, requires general or quantitative credit restriction and interest rate flexibility. Selective or qualitative credit controls did not work effectively alone; they could become effective only within a framework of restraint imposed by measures of general quantitative credit control. With the measures adopted by the United Kingdom in November 1951, the monetary policies of Western European countries showed greater similarity than at any time in the postwar period.

While the conditions of inflation that induced the resort to generally restrictive monetary policies were broadly similar, the post-Korea balance-of-payment difficulties came to a head at different times in the individual countries of Western Europe. This fact, as well as differences in the speed and resoluteness with which countermeasures were taken, exerted

a very considerable strain on the European Payments Union. Some of the creditor countries were confronted with a difficult problem in attempting to devise a policy helpful to the debtor countries without endangering their own internal monetary stability, and without introducing vexatious controls that might decrease the existing degree of convertibility of their currencies.

While increasing reliance was being placed by the Western European countries on monetary measures to limit inflation during the year, some of them also reduced their nonmilitary government expenditures. In the Netherlands, for example, consumption subsidies were cut without allowing wages to move upward to compensate fully for the rise in the cost of living. Taxes were increased in several countries, although by no means sufficiently to finance entirely the additional defense expenditures. Some raw-material-producing countries of Northern Europe and Asia sought to limit the expansion of producers' money incomes by export duties and other taxes, the proceeds being either transferred to the government or set aside as compulsory savings. In a few countries, particularly the United Kingdom and France, import and exchange controls were strengthened. On the whole, however, foreign countries appeared reluctant to return to comprehensive direct controls. There seemed to be a wide measure of agreement that under prevailing circumstances extensive recourse to direct controls, unless taken in conjunction with monetary and fiscal restraints, would generate suppressed inflation and increase the hazards for effective national economic policies in the future as well as create new balance-of-payments difficulties.

The present inescapable necessity of reconciling both internal monetary stability and reasonable external balance with the requirements of defense raises difficult political, economic, and social problems for Western Europe. The competing claims on economic resources of personal consumption, government, private investment, and exports cannot all be met at once, even though agricultural and industrial production are far in excess of the early postwar years. Nor can the primary-producing countries which are now in process of rapid development easily reconcile the exigencies of intensive investment with the desire for swift improvement in standards of living. The further increase in output that may be reasonably expected in both the industrialized and the primary-producing countries will constitute an important offset to the pressure of excessive aggregate demand. Yet, even if output should continue to increase at the rates realized in recent years, there will nevertheless remain a serious

problem of keeping aggregate demand within the limits of available supply. Developments during 1951 suggest that most countries will depend, perhaps in increasing degree, upon monetary controls as an essential part of their programs for meeting this problem.

The Mutual Security Program

In our foreign economic policy, the strengthening of the defenses of the free world, in particular those of Western Europe, has emerged as the major immediate objective, and our foreign assistance programs were increasingly adapted to this purpose during the past year. The major step in this direction occurred early last fall when Congress adopted the Mutual Security Act of 1951, which coordinates, under a Director for Mutual Security, the various aspects of our foreign aid — economic, military, and technical — hitherto administered separately under the European Recovery Program, the Mutual Defense Assistance Program, and the Point Four program.

The appropriations under the Act for the fiscal year 1951-52, amounting to 5.8 billion dollars for military aid and 1.4 billion for economic and technical aid (a difficult distinction), reflect the shift in emphasis from economic to military assistance that has characterized our foreign aid since Korea. In 1951, however, economic aid, representing disbursements from previous appropriations, still predominated because of the greater time lag involved for military shipments. Furthermore, as the year drew to a close, the worsening economic conditions of the major rearming countries increased the need for economic aid. As a result, it is not only fairly certain that current economic aid appropriations will be fully utilized, but also that such additional dollar funds will be drawn upon as can be made available, in one form or another, for economic assistance to these countries.

The difference between the new program and earlier foreign aid undertakings is one of scope and direction. This change is exemplified by the provision terminating the Economic Cooperation Administration and creating in its stead a successor organization, the Mutual Security Agency, which assumes ECA's functions through June 30, 1952, when the powers given to ECA will formally lapse.

While the Mutual Security Program is designed in the main to support the rearmament now under way in Western Europe, to which area approximately 80 per cent of the appropriated funds are allotted, the Near East and Africa, Asia and the Pacific, and the American Republics have been

granted funds for both military aid and economic and technical assistance, the latter to deal, in the words of Secretary of State Acheson, "with some of the fundamental problems of weakness where weapons alone are no defense". The nearly world-wide character of the program is further emphasized by certain other provisions, such as the permission to transfer a designated portion of either the military aid or the economic aid funds from one area to any other, and by the extension to all areas benefiting from the new legislation of the ECA's investment guaranty program, previously limited to Marshall Plan countries and their dependencies.

The activities of the Export-Import Bank during 1951 did not equal the previous year's volume. New authorizations reached only 244 million dollars as against 566 million in 1950, the largest single credit being a 50 million dollar cotton loan to Western Germany. A major development was the increase from 3.5 billion to 4.5 billion dollars in the Bank's lending authority, approved by Congress in September.

The International Financial Institutions

The International Monetary Fund engaged in very few new exchange transactions in 1951. Under a new schedule of charges the cost of the short-term use of the Fund's resources was reduced for some transactions to a level no higher than the cost of the sale and purchase of gold; on longer-term transactions, the cost was increased in line with the almost universal rise in interest rates. Simultaneously, the Fund made a considerable reduction in the period for which it will hold a member's currency before obligatory consultations begin on plans for reducing the Fund's holdings. In a new statement of gold policy, the Fund declared that it had been found impracticable to require all member countries to apply uniform controls over nonmonetary gold movements. Accordingly, while the Fund urged the members to support its established gold policy, it left to them, subject to the limitations imposed by the Articles of Agreement, the practical operating measures to ensure that gold, to the maximum extent practicable, should be held in official reserves rather than go into private hoards.

The International Bank for Reconstruction and Development extended a considerable volume of credit last year. Loans were authorized to ten countries in an aggregate amount of 193 million dollars. Disbursements in 1951 amounted to 129 million dollars, as against 75 million in 1950. For the first time since 1947, new bonds were sold in the United States. The first public offerings were also made in the

United Kingdom and Switzerland, although on two previous occasions the Bank had effected private sales of its bonds in the Swiss market. For the first time the Bank last year also sold bonds out of its loan portfolio to private investors without its guarantee.

Developments in the New York Foreign Exchange Market

The volume of trading on the New York foreign exchange market fluctuated considerably in 1951, but on the whole continued relatively large. The principal currencies traded were the pound sterling, the Canadian dollar, and the Swiss franc, with the sterling turnover being by far the most important.

The pound sterling, both spot and forward delivery, continued in demand in New York until July. The spot rate remained at or close to the Bank of England's then current spot buying price for U. S. dollars of $2.80⅛, while forward deliveries of sterling were at a premium over spot delivery; three-month futures were quoted at a premium as wide as 1⅛ cents in June. By early August, however, the demand for the pound had fallen off considerably and offers of spot pounds pushed the rate down to the Bank of England's lower support level of $2.79⅞. The decline in the demand for the pound was attributed primarily to the curtailment of large purchases and falling prices of raw materials from the sterling area. Subsequently, the pressure on sterling became stronger.

On December 17 the Bank of England announced that the spread between its buying and selling rates for U. S. dollars was being widened from ¼ of a cent to 4 cents (which is within the 1 per cent differential from parity permitted by the Articles of Agreement of the International Monetary Fund). At the same time, the Bank of England announced that it had withdrawn all official quotations for forward exchange and further that henceforth authorized British banks could trade freely, under conditions prescribed by the Bank, with each other and with the New York market at or between the official spot rates, as well as in the forward market. Subsequently, the Bank of England permitted the interchange of American account and Canadian account sterling, thus widening the scope of transactions among Canadian centers, London, and New York. The New York spot rate for sterling closed the year at $2.78⅛, while three-month deliveries were quoted at a discount of 1⅝ cents.

The Canadian dollar rate fluctuated considerably during the year, reaching 0.93\frac{3}{16}$ in June, the lowest point since its unpegging in 1950.

Activity in the New York market, however, was not substantial, as the exchange resulting from trade transactions had to be handled in Canada until December 14, when the Canadian Government freed the Canadian dollar from all control. As the year ended there were signs of an increased volume of Canadian dollar transactions in New York, with the rate reaching a high of $0.98¾ on December 31. Quotations reached par with the U. S. dollar during January trading in 1952.

Volume and Trend of the Bank's Operations

Domestic Operations

The steady progress of the Government's rearmament program, the resulting rise in the over-all output of goods and services, and the higher levels of commodity prices, all contributed to a further expansion in the physical volume of the bank's operations during 1951.

Member banks made greater use of this bank's discount facilities, especially after the Treasury-Federal Reserve System accord of last March. As Reserve Bank credit through the securities market became less freely available, there were many more occasions for the member banks to use the Reserve Bank borrowing facilities to meet temporary shortages of reserves.

All segments of the economy required a heavier volume of funds to handle the enlarged output at higher prices and, as the accompanying table shows, currency received and counted at the bank attained a new high in 1951. An opposite development for coin is shown by the operational statistics (the number of pieces received and counted declined 18 per cent, while the dollar volume decreased 7 per cent) as more coin, particularly pennies, remained continuously in circulation and did not flow back to the Reserve Bank. Users of coin, aware of the Treasury's temporary inability to meet the growing demand, tended to retain their supply, and this bank's work of counting and wrapping declined even though there was no lack of demand. In fact, during a large part of the year member bank orders for coin were filled only in part. In order to distribute the available supply equitably, coin shipments were limited to a portion of the amounts used in previous periods.

During the war and postwar period, the aggregate volume of checks handled by the bank has risen steadily to new peaks. The volume of Government checks has fluctuated with the volume and composition of Treasury expenditures, while non-Government checks, the most important

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

(Including Buffalo Branch)

*Number of pieces handled**	*1951*	*1950*
Discounts and advances	3,118	2,114
Currency received and counted	1,054,382,000	996,792,000
Coin received and counted	1,382,011,000	1,690,248,000
Gold bars and bags of gold coin handled	259,000	202,000
Checks handled:		
United States Government checks	51,168,000	45,781,000
All other	411,951,000	376,872,000
Collection items handled:		
United States Government coupons paid	4,895,000	5,524,000
All other	6,393,000	5,857,000
Disbursements as fiscal agent for Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	12,000	22,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Savings bonds	23,709,000	24,736,000
All other United States obligations	3,132,000	2,975,000
Obligations of the International Bank for Reconstruction and Development	259,000	147,000
Safekeeping of securities:		
Pieces received and delivered	4,592,000	4,382,000
Coupons detached	1,905,000	1,729,000
Transfers of funds†	294,000	260,000
Incoming and outgoing mail:		
Registered	392,000	400,000
Ordinary	11,044,000	10,169,000
Amounts handled		
Discounts and advances	$ 13,521,593,000	$ 7,652,847,000
Currency received and counted	6,769,646,000	6,341,436,000
Coin received and counted	126,156,000	136,243,000
Gold bars and bags of gold coin handled	3,581,392,000	2,806,212,000
Checks handled:		
United States Government checks	19,074,453,000	13,554,172,000
All other	267,749,478,000	242,480,374,000
Collection items handled:		
United States Government coupons paid	1,161,784,000	1,351,395,000
All other	1,034,657,000	908,009,000
Disbursements as fiscal agent for Reconstruction Finance Corporation, its subsidiaries, and Commodity Credit Corporation	291,390,000	264,044,000
Issues, redemptions, and exchanges by fiscal agency departments:		
United States Savings bonds	2,113,806,000	2,546,155,000
All other United States obligations	271,679,053,000	259,223,494,000
Obligations of the International Bank for Reconstruction and Development	366,076,000	205,707,000
Safekeeping of securities:		
Pieces received and delivered (par value)	349,940,698,000	407,441,510,000
Transfers of funds†	219,197,584,000	167,665,297,000

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

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

component of the total volume, has risen persistently. The number of processed U. S. Government checks increased 12 per cent during 1951 to a total of 51 million pieces, while their value rose 41 per cent to 19 billion dollars. The number of non-Government checks handled in 1951 increased 9 per cent, and their value (268 billion dollars) was 10 per cent greater. Last year's volume of 412 million non-Government checks was almost double that processed by the bank a decade ago.

In 1951, the bank's collection function was widened by the assumption of duties formerly handled by the Postal authorities, namely, the clearance of postal money orders that are now issued collectible through any Federal Reserve Bank. As of July 1, 1951 a new Money Order Division of the Government Check Department was organized to handle these operations. The new money orders are in punchcard form and are processed by means of electrically operated proof machines specifically designed and manufactured for the purpose. Between July 1 and December 31, the Division's staff of about 100 people processed approximately 26 million money orders aggregating 366 million dollars.

The aggregate volume of work involved in the fiscal agency functions performed by the bank changed very little during the past year. The falling off in sales of Savings bonds, particularly the larger denominations, was reflected in declines of 4 per cent and 17 per cent, respectively, in the physical quantity and value of the items processed. On the other hand, refunding operations involving other types of Treasury obligations were on a moderately larger scale in 1951. Both the number and the value of such securities issued, redeemed, or exchanged by the bank increased 5 per cent. In addition, the work performed on a fiscal agency basis for the International Bank for Reconstruction and Development expanded sharply. There was an increase in new issues and a sizable volume of exchanges of permanent bonds for the temporary serial issues of the previous year. The number of disbursements made as fiscal agent for the RFC, its subsidiaries, and the Commodity Credit Corporation continued to decline, but the dollar volume rose slightly.

Among the collection items, a continuing decline in the number of U. S. Government coupons handled was partially offset by a further rise in all other types of collection items. The volume of Government coupons has decreased for the past five years as the Treasury has been refunding a large portion of maturing coupon issues into noncoupon issues. On the other hand, "All other collection items" (principally acceptances, notes, drafts, and coupons credited upon collection rather than imme-

diately or in accordance with a time schedule) have risen for the past two years to the 1951 peak of 6,400,000 items, in large part because of expansion in the volume of municipal coupons collected.

The bank's safekeeping facilities were utilized more fully as measured by the receipt and delivery of securities and by the number of coupons detached. Wire and mail transfers of funds reflected the high level of economic activity and reached record highs, the number of transfers increasing 13 per cent and the dollar volume 31 per cent in 1951, as compared with 1950.

The total number of employees on the staff (exclusive of officers) at New York and at the Buffalo Branch increased from 3,565 on December 31, 1950 to 3,983 on December 31, 1951. Most departments of the bank required additional employees to handle the heavier volume of work in 1951 (and to offset decreased productivity resulting from higher turnover and "green" help), but the bulk of the additional personnel, which consisted mostly of women, was assigned to the Check Department and the new Money Order Division of the Government Check Department.

Foreign and International Operations

The total amount of earmarked gold, dollar deposits, U. S. Government securities, and other miscellaneous assets held at the Federal Reserve Bank of New York for foreign account reached an all-time high of 7.5 billion dollars in March, exceeding the previous peak (September 1945) by 560 million dollars, and remained at about this level through July. This represented the continuation of a rise which had been in evidence since the latter part of 1947, when such assets amounted to only 3.3 billion dollars. During the last half of 1951, however, there was a steady decline and by the end of the year the assets held for foreign account were nearly 1.5 billion dollars below the peak and 1.2 billion below the level of a year earlier.

The net decline in total holdings for foreign account during 1951 consisted of a decrease of 685 million dollars in gold held under earmark, 369 million in dollar deposits, and 188 million in U. S. Government securities, offset only slightly by a rise of 20 million in miscellaneous dollar assets.

Gold and dollar assets held for the International Bank and International Monetary Fund showed a slight rise, but the combined assets in both foreign and international accounts decreased 1 billion dollars net over the twelve-month period.

During the year, this bank, as principal, opened new accounts for the Union Bank of Burma, the Central Bank of Ceylon, the National Bank of Iraq, and for Statni Banka Ceskoslovenska, the central bank of Czechoslovakia and successor to Narodni Banka Ceskoslovenska, whose account with us was closed simultaneously. The account which Bank Polski had maintained was closed during the year.

Loans on gold to foreign central banks, which had reached a peak of nearly 260 million dollars in 1948, were of minor importance in 1951. Arrangements were in effect providing for advances to two central banks up to an aggregate of 15 million dollars outstanding at any one time. Advances totaling 11 million were actually made under one arrangement, while the other was not used. The bank's policy on gold loans remained unchanged.

The Federal Reserve Bank of New York, as fiscal agent of the United States, continued to act for the Treasury Department in the administration of regulations pertaining to assets and financial transactions in which nationals of Communist China and North Korea have an interest. Last year this bank received and processed somewhat over 7,500 applications. The bank also continued to operate the United States Stabilization Fund pursuant to authorization and instructions from the Treasury Department.

Financial Statements

Statement of Condition

Total assets of this bank increased 834 million dollars during 1951, and at the year end totaled 13,276 million dollars — a higher level than in any previous year except 1948. The past year's increase in total assets was occasioned principally by a moderate expansion in gold certificate reserves and in the portfolio of U. S. Government securities.

Gold certificate reserves expanded 283 million dollars, as contrasted with a reduction of 716 million dollars during 1950. This sharp reversal reflected (1) a turnaround from the previous year's heavy gold export drain to a moderate inflow during 1951, and (2) the continuance, on a smaller scale, of the preceding year's favorable balance for the New York District in the regional clearing operations through the Interdistrict Settlement Fund. The domestic clearing operations continued to involve heavy transfers of Treasury funds to New York from other sections of the country in connection with public debt operations, as well as payments by other Reserve Banks for their share of Government securities pur-

chased in the New York market by the System Open Market Account. Together, these reserve gains and other relatively minor sources of reserves exceeded large transfers of funds to other Federal Reserve Districts for private business account.

Discounts and advances at the year end were reduced to the nominal total of 2.6 million dollars. This reflects the usual "window-dressing" operations of the member banks and conceals a 77 per cent increase in the use of the bank's discount facilities for the year as a whole, with member bank borrowing averaging higher than for any year since 1945. Holdings of U. S. Government securities increased 625 million dollars during 1951, including this bank's share of the net purchases made by the System Open Market Account, together with a moderate volume of purchases made directly by the bank from dealers under sales-contract agreements. Holdings of Treasury bills were reduced 76 million dollars, as net market

ASSETS OF THE FEDERAL RESERVE BANK OF NEW YORK

(In thousands of dollars)

Assets	*Dec. 31, 1951*	*Dec. 31, 1950*
Gold certificates	6,788,866	6,532,687
Redemption fund for Federal Reserve notes	78,065	50,912
Total gold certificate reserves	6,866,931	6,583,599
Other cash	69,693	47,615
Discounts and advances	2,595	61,960
Industrial loans	23	27
U. S. Government securities:		
Bills	265,677	342,060
Certificates	2,914,088	544,082
Notes	1,133,490	2,920,763
Bonds	1,195,230	1,076,903
Total U. S. Government securities	5,508,485	4,883,808
Total loans and securities	5,511,103	4,945,795
Due from foreign banks	9*	8*
Federal Reserve notes of other banks	22,622	23,337
Uncollected cash items	769,587	806,762
Bank premises	7,464	7,657
Other assets	28,933	27,838
Total assets	13,276,342	12,442,611
* After deducting participation of other Federal Reserve Banks amounting to	19	16

purchases were more than counterbalanced by net cash redemptions. The balance-sheet changes in each of the other types of Government securities were dominated by the Treasury's refunding operations, in which a large volume of certificates of indebtedness was acquired in exchange for Treasury bonds and notes. Initially, net market purchases of all these types of obligations were made, but the aggregate increase of 701 million dollars consisted principally of Treasury bonds and notes.

Circulation of Federal Reserve notes of this bank increased 245 million dollars, or 4.6 per cent, in 1951, reversing the declines of the preceding three years. This expansion compares with a rise of 6.3 per cent for the country as a whole.

LIABILITIES OF THE FEDERAL RESERVE BANK OF NEW YORK

(In thousands of dollars)

Liabilities	*Dec. 31, 1951*	*Dec. 31, 1950*
Federal Reserve notes	5,588,434	5,342,940
Deposits:		
Member bank—reserve accounts	6,368,672	5,665,077
U. S. Treasurer—general account	202,462	115,722
Foreign	165,651*	286,467*
Other	220,194	256,008
Total deposits	6,956,979	6,323,274
Deferred availability cash items	461,363	518,346
Other liabilities	4,642	1,733
Total liabilities	13,011,418	12,186,293
Capital accounts:		
Capital paid in	75,472	73,383
Surplus (Section 7)	159,743	153,289
Surplus (Section 13b)	7,319	7,319
Other capital accounts	22,390	22,327
Total capital accounts	264,924	256,318
Total liabilities and capital accounts	13,276,342	12,442,611
Contingent liability on acceptances purchased for foreign correspondents	6,095†	6,580†
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	*54.7%*	*56.4%*
* After deducting participation of other Federal Reserve Banks amounting to	360,707	608,962
† After deducting participation of other Federal Reserve Banks amounting to	14,818	14,850

The member bank reserve account increased 704 million dollars in 1951, more than doubling the 1950 rise. The bulk of the increase occurred to meet the higher reserve requirements that became effective in January and February 1951. The expansion of member bank loans and the accompanying expansion of deposits — which caused required reserves of member banks to rise substantially in 1950 — continued at a slower pace, and augmented the member banks' need for additional reserves.

The general account of the United States Treasurer at this bank was 87 million dollars higher than a year earlier. Deposits of foreign central banks declined 369 million dollars, as foreign countries drew upon their balances to meet their pressing need for dollars. The New York Reserve Bank's share of these accounts (in which all Reserve Banks participated), together with certain foreign accounts which this bank holds as fiscal agent of the United States, decreased by 121 million dollars. "Other deposits" decreased 36 million dollars, principally because of a reduction in the accounts carried for certain nonmember institutions.

Capital accounts in the aggregate increased 8.6 million dollars during the year. Approximately 6.5 million dollars of net earnings was added to the regular surplus (Section 7). "Capital paid in", reflecting payments for additional shares by member banks which increased their own capitalization (either by the reinvestment of earnings or by the sale of new capital stock), rose by 2.1 million dollars.

The percentage growth in gold certificate reserves failed by a narrow margin to keep pace with the increase in deposit and note liabilities, and, consequently, the reserve ratio of this bank declined slightly from 56.4 per cent at the end of 1950 to 54.7 per cent at the end of 1951.

Earnings and Expenses

Gross earnings of the Federal Reserve Bank of New York increased 25.4 million dollars in 1951 to a record amount of 90.0 million dollars. Of the year's increase, 24.0 million dollars, or 94 per cent, resulted from a rise in income from U. S. Government securities, and this in turn reflected both a larger average volume of holdings and higher average yields. Income from discounts and advances increased from 0.7 million in 1950 to 1.7 million in 1951, principally because of the substantial increase in the volume of member bank borrowing. However, the slightly higher discount rate in effect throughout the year was also a contributory influence. The income received from sales-contract agreements with dealers involving temporary purchases of Government securities by the

Reserve Bank showed a relatively sizable increase to $700,000 as the volume of such accommodations increased.

Net expenses increased 2.9 million dollars to a total of 20.6 million dollars. The greatest part of the increase was occasioned by larger outlays for salaries and wages, although the increased cost of supplying Federal Reserve currency was sizable and most other costs also increased. As earnings rose much more than expenses, net earnings before additions and deductions increased 22.5 million dollars to a record level of 69.4 million dollars.

Among the additions to or deductions from net earnings, the principal change was a modest loss in 1951 on security sales whereas in 1950 a net

STATEMENT OF INCOME AND EXPENSES
FOR THE CALENDAR YEARS 1951 AND 1950
(In thousands of dollars)

	1951	*1950*
Earnings	90,019	64,666
Expenses*	20,599	17,703
Net earnings before additions and deductions	69,420	46,963
Additions to net earnings:		
Profit on U. S. Government securities sold (net)	—	8,880
All other	21	6
Total additions	21	8,886
Deductions from net earnings:		
Loss on U. S. Government securities sold (net)	371	—
Reserves for contingencies	65	55
All other	2	5
Total deductions	438	60
Net earnings	69,003	55,789
Distribution of net earnings:		
Dividends paid	4,465	4,382
Paid United States Treasury (Interest on Federal Reserve notes)	58,084	46,267
Transferred to surplus (Section 7)	6,454	5,140
Surplus (Section 7) beginning of year	153,289	148,149
Addition as above	6,454	5,140
Surplus (Section 7) end of year	159,743	153,289

* After deducting reimbursement for certain fiscal agency and other expenses.

profit was made. This loss was sustained after the Treasury-Reserve System accord of last March and reflected a decline in the market value of some of the securities sold during the year.

Net earnings after all adjustments but before dividends totaled 69.0 million dollars, or 13.2 million dollars more than in 1950. The usual statutory dividend of 6 per cent, amounting to 4.5 million dollars, was paid to the member banks. Of the remaining net earnings, 58.1 million dollars, or 90 per cent, 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, 6.5 million dollars, or 10 per cent of net earnings after dividends, was transferred to the bank's regular (Section 7) surplus account.

Changes in Membership

On December 31, 1951, a total of 737 banks in this District were members of the Federal Reserve System, compared with 751 at the

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, 1951			December 31, 1950		
	Members	Non-members	Per cent members	Members	Non-members	Per cent members
National banks	510	0	100	516	0	100
State banks and trust companies	227	111	67	235	112	68
Total	737	111	87	751	112	87

CHANGES IN FEDERAL RESERVE MEMBERSHIP IN SECOND DISTRICT DURING 1951

Total membership beginning of year	751
Increases:	
State banks and trust companies admitted	2
New national bank	1
Decreases:	
Member banks combined with other members	11
Member banks combined with nonmembers	2
Withdrawals from membership	4
Total membership end of year	737

beginning of the year. During the year, 13 member banks merged with other banks and four State banks withdrew from membership. Two State banks were admitted to membership and one new national bank was chartered. The 737 member banks constitute 87 per cent of all national banks, State banks, and trust companies in the District, and hold 96 per cent of the total assets of all such institutions.

During the three years, 1949, 1950, and 1951, eight State member banks withdrew from membership because in each case the bank wanted to establish a branch outside the city, town, or village in which it was located, and did not have the $500,000 minimum capital stock required under Federal law for the establishment of an out-of-town branch, although each of these banks could meet the more moderate capital requirements under State law for establishment of out-of-town branches. Three of these withdrawals took place in 1949, one in 1950, and four in 1951. For the same reason, one national bank converted into a State member bank in 1950 and another on January 1, 1952. The Federal Reserve System has recommended to Congress legislation to remedy this situation, but no action has been taken.

Changes in Directors and Officers

Changes in Directors

In May 1951, member banks in Group 1 elected Clarence Francis, Chairman of the Board, General Foods Corporation, New York, N. Y., as a Class B director for the unexpired term ending December 31, 1952, to fill the vacancy caused by the death of Lewis H. Brown.

The Board of Governors of the Federal Reserve System redesignated Robert T. Stevens, Chairman of the Board, J. P. Stevens & Co., Inc., New York, N. Y., as Chairman of the Board and Federal Reserve Agent for the year 1952, and reappointed William I. Myers, Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y., as a Class C director for a term of three years beginning January 1, 1952, reappointing him as Deputy Chairman for the year 1952.

In November 1951, F. Palmer Armstrong, President, The Keyport Banking Company, Keyport, N. J., was elected by member banks in Group 3 as a Class A director for a term of three years, beginning January 1, 1952, to succeed Roger B. Prescott, President, The Keeseville National Bank, Keeseville, N. Y., whose term expired December 31, 1951. At the same time, Jay E. Crane, Vice President, Standard Oil Company (New Jersey), New York, N. Y., was reelected by member banks in Group 3 as a Class B director for a term of three years beginning January 1, 1952.

The Board of Governors of the Federal Reserve System appointed Clayton G. White, dairy farmer of Stow, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1952. Mr. White succeeded Carl G. Wooster, President, Wooster Fruit Farms, Inc., Union Hill, N. Y., whose term expired December 31, 1951.

The board of directors of the bank appointed Lewis G. Harriman, President, Manufacturers and Traders Trust Company, Buffalo, N. Y., a director of the Buffalo Branch for a term of three years beginning January 1, 1952. Mr. Harriman succeeded George G. Kleindinst, President, Liberty Bank of Buffalo, Buffalo, N. Y., whose term expired December 31, 1951. The board of directors also designated Edgar F. Wendt, President, Buffalo Forge Company, Buffalo, N. Y., as Chairman of the Board of Directors of the Buffalo Branch for the year 1952.

Changes in Officers

O. Ernest Moore, Manager of the Research Department, was granted a leave of absence for a period of about one year, effective April 1, 1951,

to act as a United Nations financial adviser to the Government of Haiti.

Robert V. Rosa, formerly Chief of the Monetary Research Division, Research Department, was appointed Acting Manager and assigned to that department, effective April 1, 1951. On January 4, 1952, Mr. Rosa was appointed a Manager, his assignment to the Research Department being continued.

Thomas O. Waage, formerly Director of Public Information, was appointed a Manager and assigned to the newly established Public Information Department, Secretary's Office, effective April 1, 1951.

Harding Cowan, Assistant Counsel, was appointed Acting Assistant Secretary, effective June 15, 1951, in addition to his duties as Assistant Counsel.

Kenneth E. Small, formerly Chief of the Check Division, Check Department, was appointed a Manager and assigned to the Personnel Department, effective July 11, 1951.

Paul R. Fitchen, Manager of the Cash Department, was granted a leave of absence for a period of about one year, effective July 25, 1951, to act as financial adviser to the Union Bank of Burma.

Donald J. Cameron, formerly Acting Assistant Manager of the Buffalo Branch, was appointed an Assistant Vice President at the head office, effective September 24, 1951.

Clifton R. Gordon and Alfred L. Pitts, formerly Attorneys in the Legal Department, were appointed Assistant Counsel, effective January 4, 1952.

Member of Federal Advisory Council

On January 3, 1952, the board of directors of this bank selected N. Baxter Jackson, Chairman of the Board of Directors of the Chemical Bank & Trust Company, New York, N. Y., to serve for another year as the member of the Federal Advisory Council from the Second Federal Reserve District.

Directors and Officers, January 5, 1952

Class	Group	Directors	Term expires Dec. 31
A	1	JOHN C. TRAPHAGEN Chairman of the Board, Bank of New York and Fifth Avenue Bank, New York, N. Y.	1952
A	2	BURR P. CLEVELAND President, First National Bank of Cortland, Cortland, N. Y.	1953
A	3	F. PALMER ARMSTRONG President, The Keyport Banking Company, Keyport, N. J.	1954
B	1	CLARENCE FRANCIS Chairman of the Board, General Foods Corporation, New York, N. Y.	1952
B	2	MARION B. FOLSOM Treasurer and Director, Eastman Kodak Company, Rochester, N. Y.	1953
B	3	JAY E. CRANE Vice President, Standard Oil Company (New Jersey), New York, N. Y.	1954
C		ROBERT T. STEVENS, *Chairman, and Federal Reserve Agent* Chairman of the Board, J. P. Stevens & Co., Inc., New York, N. Y.	1953
C		WILLIAM I. MYERS, *Deputy Chairman* Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1954
C		*ROBERT P. PATTERSON Patterson, Belknap & Webb, New York, N. Y.	1952

Directors — Buffalo Branch	Term expires Dec. 31
EDGAR F. WENDT, *Chairman* President, Buffalo Forge Company, Buffalo, N. Y.	1952
GEORGE F. BATES Vice President, The Marine Trust Company of Western New York, Niagara Falls, N. Y.	1952
BERNARD E. FINUCANE President, Security Trust Company of Rochester, Rochester, N. Y.	1952
C. ELMER OLSON President, The First National Bank of Falconer, Falconer, N. Y.	1953
ROBERT C. TAIT President, Stromberg-Carlson Company, Rochester, N. Y.	1953
LEWIS G. HARRIMAN President, Manufacturers and Traders Trust Company, Buffalo, N. Y.	1954
CLAYTON G. WHITE Dairy farmer, Stow, N. Y.	1954

MEMBER OF FEDERAL ADVISORY COUNCIL

N. BAXTER JACKSON,
Chairman of the Board of Directors, Chemical Bank & Trust Company, New York, N. Y.

---

* Mr. Patterson died January 22, 1952.

OFFICERS*

ALLAN SPROUL, *President*
LESLIE R. ROUNDS, *First Vice President*
HAROLD A. BILBY, *Vice President*
HERBERT H. KIMBALL, *Vice President*
L. WERNER KNOKE, *Vice President*
WALTER S. LOGAN, *Vice President and General Counsel*
ARTHUR PHELAN, *Vice President*
JOHN H. WILLIAMS, *Economic Adviser*
HAROLD V. ROELSE, *Vice President*
ROBERT G. ROUSE, *Vice President*
WILLIAM F. TREIBER, *Vice President*
VALENTINE WILLIS, *Vice President*
REGINALD B. WILTSE, *Vice President*

TODD G. TIEBOUT, *Assistant General Counsel*
RUFUS J. TRIMBLE, *Assistant General Counsel*

DONALD J. CAMERON, *Assistant Vice President*
JAMES J. CARROLL, *Assistant Vice President*
HOWARD D. CROSSE, *Assistant Vice President*
FELIX T. DAVIS, *Assistant Vice President*
NORMAN P. DAVIS, *Assistant Vice President*
MARCUS A. HARRIS, *Assistant Vice President*
SILAS A. MILLER, *Assistant Vice President*
HORACE L. SANFORD, *Assistant Vice President*
OTTO W. TENEYCK, *Assistant Vice President*
CHARLES N. VAN HOUTEN, *Assistant Vice President*
JOHN H. WURTS, *Assistant Vice President*

WILLIAM F. ABRAHAMS, *Manager, Security Custody Department*
HARRY M. BOYD, *Manager, Cash Custody Department*
WESLEY W. BURT, *Manager, Savings Bond Department*
JOHN J. CLARKE, *Secretary, and Assistant Counsel*
HARDING COWAN, *Assistant Counsel, and Acting Assistant Secretary*
PAUL R. FITCHEN, *Manager (On leave of absence)*
CLIFTON R. GORDON, *Assistant Counsel*
EDWARD G. GUY, *Assistant Counsel, and Assistant Secretary*
WILLIAM A. HEINL, *Manager, Safekeeping Department*
PETER P. LANG, *Manager, Collection Department*
ANGUS A. MACINNES, JR., *Manager, Check Department*
SPENCER S. MARSH, JR., *Manager, Securities Department*
MICHAEL J. MCLAUGHLIN, *Manager, Government Check Department*
O. ERNEST MOORE, *Manager (On leave of absence)*
HERBERT A. MUETHER, *Manager, Building Operating Department*
ARTHUR H. NOA, *Manager, Service Department*
GUSTAV OSTERHUS, *Manager, Bank Examinations Department*
FRANKLIN E. PETERSON, *Manager, Cash Department*
ALFRED L. PITTS, *Assistant Counsel*
ROBERT V. ROSA, *Manager, Research Department*
WALTER H. ROZELL, JR., *Manager, Foreign Department*
RALPH W. SCHEFFER, *Manager, Real Estate and Consumer Credit Department*
KENNETH E. SMALL, *Manager, Personnel Department*
THOMAS O. WAAGE, *Manager, Public Information Department*
A. CHESTER WALTON, *Manager, Bank Relations Department*
WALTER C. WARNER, *Manager, Credit Department, and Manager, Discount Department*
ROY E. WENDELL, *Manager, Government Bond Department*
HAROLD M. WESSEL, *Manager, Accounting Department, and Manager, Planning Department*

CURTIS R. BOWMAN, *General Auditor*

---

* See footnote on the following page.

Officers — Buffalo Branch*

Insley B. Smith,
General Manager

George J. Doll,
Cashier

M. Monroe Myers,
Assistant Cashier

Gerald H. Greene,
Assistant Cashier

Industrial Advisory Committee

William H. Pouch, *Chairman,*

President, Concrete Steel Company,
New York, N. Y.

Arthur G. Nelson, *Vice Chairman,*
Chairman of the Board,
A. G. Nelson Paper Company, Inc.,
New York, N. Y.

Edward J. Noble,
Chairman of the Board,
American Broadcasting Company, Inc.,
New York, N. Y.

Real Estate Credit Advisory Committee

Arthur Phelan, *Chairman,*

Vice President, Federal Reserve Bank of New York,
New York, N. Y.

Harry Held,
Vice President,
Bowery Savings Bank,
New York, N. Y.

George C. Johnson,
President and Trustee,
The Dime Savings Bank of Brooklyn,
Brooklyn, N. Y.

Milford A. Vieser,
Vice President,
Mutual Benefit Life Insurance Company,
Newark, N. J.

---

* The following changes occurred after January 5, 1952 and have not been reflected in the List of Directors and Officers as of that date:

Mr. Rounds, who had been with the bank since 1917, and had been its First Vice President since 1941, resigned effective February 29, 1952, after reaching retirement age.

Mr. Treiber, Vice President, was appointed First Vice President, effective March 1, 1952, for the unexpired portion of the five-year term, ending February 29, 1956.

Mr. Smith, General Manager of the Buffalo Branch, was appointed a Vice President, effective March 1, 1952, continuing as the officer in charge of the Branch.

Mr. Wurts, Assistant Vice President, was appointed a Vice President, effective March 1, 1952.

Mr. Cowan's appointment as Acting Assistant Secretary was terminated effective March 1, 1952.