BANKING AND BUSINESS IN WAR

Twenty-eighth Annual Report

of the

FEDERAL RESERVE BANK
OF PHILADELPHIA

1942

Third Federal Reserve District

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FEDERAL RESERVE BANK
OF PHILADELPHIA

July 1, 1943

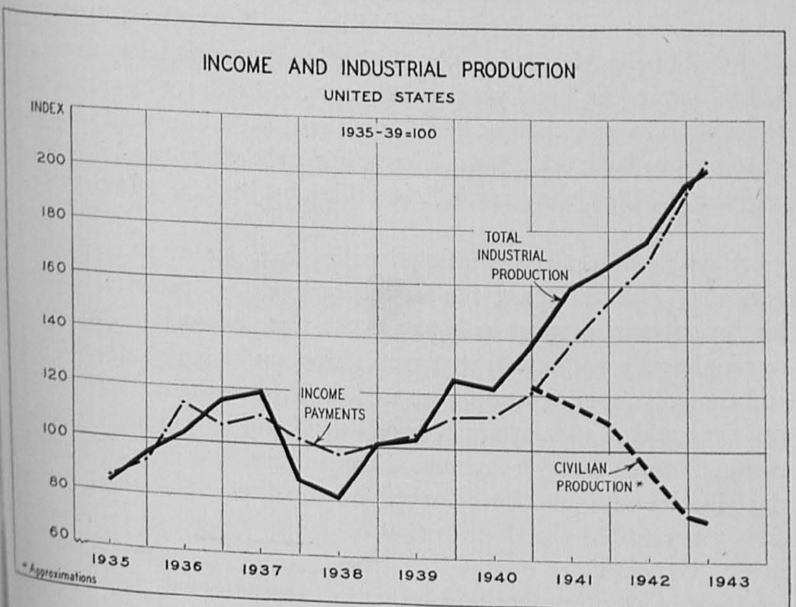
To the Member Banks in the
Third Federal Reserve District:

In recognition of the fact that banking and business in the Third Federal Reserve District, as well as in the country as a whole, has been conditioned almost completely by the requirements of the war, the Twenty-eighth Annual Report of this Bank, presented herewith, is given the title "Banking and Business in War."

ALFRED H. WILLIAMS
President.

General Summary

The highly developed and diversified resources of the Third Federal Reserve District have been completely integrated into the war effort of the nation. Varied industries in this district have converted their well-equipped plants to the ways of war, working day and night to turn out the implements of war and the means of getting them to the fighting fronts. This transformation, particularly since Pearl Harbor, has been swift and thorough, showing the ability of management and labor to meet the great emergency.



The President, on January 6, 1942, set national production goals that startled the world. New facilities were constructed and old facilities were converted to war purposes with incredible speed. As they came into production, output of war materials climbed steadily. On January 7, 1943, the President could report to the Congress that confidence in the ability of the American people to establish records, upon which the production goals had been based, was justified. In 1942 the country produced 4 times as much munitions as in 1941; the output of ordnance was 6¼ times as large, merchant shipping 5 times, aircraft 3½ times, and naval ships 2¾ times that of 1941. These records were being established in production despite an increase in the number serving in the armed forces from a little over 2 million to 7 million. The number of war workers increased over the same period from 6,900,000 to 17,500,000. This tempo of activity has continued in the early months of 1943, with the volume of output and deliveries establishing new high records.

The financial side of the effort is enormous. The authorized war program was increased from $64 billion on November 30, 1941, to $246 billion by the end of April, 1943. War activities, that cost $28 billion in the fiscal year ended June 30, 1942, are expected to be $77 billion in the current fiscal year and $100 billion in the fiscal year ending June 30, 1944. The public debt which was $72 billion on June 30, 1942, may reach $210 billion by June 30, 1944.

A major objective of national policy is to maintain equilibrium between the material and the monetary aspects of the war. The real burden, of course, must be borne as the war progresses. Battles can be fought only with existing planes, ships, tanks, guns, ammunition, and the great variety of other materiél. Production of these articles does not add to the supply of goods available for civilians but payment for them adds to income. Disequilibrium is inevitable unless the distribution of expenditures between the Government and civilians parallels the distribution of goods. Increases in revenues and in Government borrowings from current civilian incomes are methods of securing equilibrium.

In the field of revenues, expanded tax programs and larger incomes resulted in considerable increases in Federal receipts. From about $8 billion in the fiscal year ended June 30, 1941, revenues increased to $13½ billion in the fiscal year 1942 and to an expected $24½ billion in the fiscal year 1943. Various proposals for further increases in taxation were under consideration at the end of the year. Despite these rapid increases in Federal tax revenues, Treasury deficits have grown sharply as war expenditures increased at an enormous rate.

One of the most urgent jobs, therefore, has been and is to secure the greatest possible investment of current incomes in Government securities. The financial requirements, though tremendous, are not out of proportion to the capacity of the people to invest. Government expenditures in large part pass into the pockets or bank accounts of individuals and business concerns. Such income at a time when the amount of goods available for consumers is declining is resulting in accumulations of funds for investment.

In 1942 nonbanking investors added about $24 billion to their holdings of Government securities, and they are in a position to make even larger purchases this year. Such purchases restrain inflation. Even with higher taxes people will have more money to spend at a time when the supply of goods is declining because of the demands of war production. If they try to spend this excess purchasing power, the upward pressure on prices will be serious. If, on the other hand, individuals lend money to the Government, they transfer for the time being that amount of purchasing power from themselves to the Government. Not only does the Government have more money for essential war purposes, but investors have that much less to spend on the restricted volume of civilian goods.

The Federal Reserve Bank of Philadelphia has exerted its efforts to assist the Treasury in selling securities to nonbank investors. And the drive conducted by the War Savings Staff of the Treasury

Department was intensified to obtain the fullest possible participation in the payroll savings plan. Largely as a result of these efforts, the sales of Savings Bonds in 1942 amounted to $530 million in this district, and $9 billion in the country as a whole. In the first four months of 1943 these sales were respectively $231 million and $4½ billion. Despite these excellent results, very large additional amounts had to be borrowed by other methods.

In May the Secretary of the Treasury adopted a plan to coordinate the efforts of the banking and securities industries in the sale of Government securities to others than commercial banks. Under this plan a Victory Fund Committee was established in each Federal Reserve district under the chairmanship of the president of the Federal Reserve Bank to recruit salesmen and to direct their efforts in periodic drives to sell Government securities.

The First War Loan Drive was conducted by the Victory Fund Committee during December. The total amount of Government securities distributed aggregated $12,900 million as compared with an announced goal of $9 billion. The amount of securities sold in this district totaled $545 million. About 60 per cent of the securities sold in the country was purchased by others than commercial banks accepting demand deposits.

For the Second War Loan Drive, the Victory Fund Committee and the War Savings Staff were consolidated into the United States Treasury War Finance Committee in March, 1943. The Secretary of the Treasury became head of the National Committee and the presidents of the twelve Federal Reserve Banks acted as chairmen of the district committees. The national goal was set at $13 billion of which not less than $8 billion was expected to come from individuals, business concerns and institutions. The final result showed that the total placement of securities was $18½ billion. The amount purchased by nonbank investors was $13½ billion or more than the quota originally set for the entire drive. Commercial banks, of course, met their full share of about $5 billion and the volume of subscriptions was so enormous that allotments were among the lowest on record.

The original quota for the Third Federal Reserve District was fixed at $757 million. From nonbank investors not less than $475 million and from commercial banks $282 million were expected. The final results showed that total sales exceeded $982 million or about 129 per cent of the original quota. Others than commercial banks purchased $659 million or about 138 per cent of the assigned quota. Commercial banks acquired $323 million or 115 per cent of expectation on the allotment basis, but on the subscription basis their share was about four times the expected quota.

Relation of the Work of the Bank To the War

The Federal Reserve Bank of Philadelphia as the central bank is of strategic importance in the smooth operation of the complex war economy of the Third Federal Reserve District, which covers 60 counties in Eastern Pennsylvania, Southern New Jersey, and Delaware. The most dramatic part of its work is in connection with new or greatly expanded activities, such as distribution of Government securities or controlling foreign funds, arising directly out of the war. But the importance of the functions of the Bank is revealed not so much in their dramatic character as in the loss that would result to the war effort if they were inefficiently performed.

For example, one of the most routine, most mechanical functions of the Bank is that of check clearance. One need only recall the delays, annoyances, inefficiencies, and wastes of check collection in pre-Federal Reserve days to appreciate the value, especially in time of war, of a service that we have come to take for granted. More

Cash Offerings of Treasury Securities

Third Federal Reserve District

(Thousands $)	Date	Commercial banks			Others than commercial banks		
		Subscriptions	Allotments	% of U. S. allotments	Subscriptions	Allotments	% of U. S. allotments
1942							
Special offerings							
Bonds:							
2½% bonds...	May 5	..	..	..	27,275	27,275	3.1%
2½% bonds...	Aug. 3	..	..	..	77,514	77,514	6.3
2½% bonds...	Dec. 1	..	..	..	132,164	132,164	4.7
2¼% bonds...	Feb. 25	185,009	59,319	8.3%	121,362	39,505	5.0
2% bonds...	May 15	114,092	44,561	5.3	22,398	9,054	2.0
2% bonds...	July 15	141,777	77,433	6.4	57,078	31,022	3.5
2% bonds...	Oct. 19	80,850	80,850	7.1	21,083	21,083	2.5
1¾% bonds...	Dec. 1	117,624	104,226	5.2	17,420	17,420	1.6
Notes:							
1½% notes....	Oct. 15	78,345	78,345	5.5	14,793	14,793	2.1
1¼% notes....	Sept. 25	105,844	47,891	4.6	41,642	17,907	3.2
Cert. of indebt.							
⅞% C/I....	Aug. 15	107,126	53,349	4.5	34,993	17,059	4.0
⅞% C/I....	Nov. 2	87,270	49,627	3.6	8,241	8,241	1.2
⅞% C/I....	Dec. 1	128,239	81,557	3.9	48,691	48,691	3.0
0.65% C/I....	Sept. 21	50,848	38,689	3.6	17,307	13,078	3.1
⅝% C/I....	June 25	87,946	45,286	4.0	32,543	16,546	3.6
½% C/I....	Apr. 15	67,317	33,478	3.9	44,482	22,135	3.5
Total special offerings.......		1,352,287	794,611	4.9%	718,986	513,487	3.5%
Continuous offerings							
Bills...........		786,185	400,506	2.7%	..	..	..
Tax notes......		..	..	..	451,893	451,893	7.0%
Savings bonds..		..	..	..	528,554	528,554	5.8
Total continuous offerings.......		786,185	400,506	2.7%	980,447	980,447	6.3%
Grand total, 1942..		**2,138,472**	**1,195,117**	**3.9%**	**1,699,433**	**1,493,934**	**5.0%**
1943; January—April							
Special offerings							
2½% bonds...	Apr. 15	..	..	..	200,734	200,734	5.3%
2% bonds...	Apr. 15	608,123	137,407	6.5%	123,169	123,169	4.4
⅞% C/I....	Feb. 1	194,215	46,954	3.7	25,861	25,861	2.7
⅞% C/I....	Apr. 15	405,572	94,676	4.4	101,727	101,727	3.3
Total special offerings.......		1,207,910	279,037	5.1%	451,491	451,491	4.2%
Continuous offerings							
Bills...........		612,220	427,353	3.4%	..	..	..
Tax notes......		..	..	..	177,048	177,048	5.9%
Savings bonds..		..	..	..	230,973	230,973	5.0
Total continuous offerings.......		612,220	427,353	3.4%	408,021	408,021	5.4%
Grand total, 1943, 4 months.......		**1,820,130**	**706,390**	**3.9%**	**859,512**	**859,512**	**4.7%**

Note: Interdistrict allocations omitted.

than 10 million checks, arising from myriads of business transactions and operations of the Treasury, are cleared each month. Should this central clearing of checks slow down, the tempo of business in war plants employing millions of war workers would be retarded. It would be as though one put sand into the gears of the master clock of a timing system. The department which handles this seemingly unimportant household detail has now been assigned the function of clearing ration checks, because it is recognized as an efficient, labor-saving organization. The equitable and smooth distribution of the diminishing supply of civilian goods depends, among other factors, upon the efficient operation of the Transit Department. This work may lack some of the glamour attributed to direct production of munitions, but it is nonetheless indispensable to the war effort and it cannot be performed efficiently without an adequate force of competent supervisors and clerks.

Another routine function that is indispensable to our economic life, especially in time of war, is the receipt and disbursement of currency and coin. In 1942 this Bank counted 195 million pieces of currency and over 400 million coins, totaling nearly $1 billion. It is important to the war effort that businesses, workers, and the general public have their legitimate demands for currency supplied promptly.

Treasury finance One of the more spectacular activities of the Bank has been the sale of Government securities, especially during the First and Second War Loan drives. As fiscal agent of the United States, this Bank, in common with the other Reserve Banks, concentrated its efforts upon securing for the Government the largest possible amount of funds from current income and from savings. Since not all the funds that had to be borrowed could be secured from these sources, however, banks were urged to utilize their available funds more fully. The effectiveness of these efforts is revealed by the fact that in 1942 placements in this district of all Treasury issues were over 3½ times and those of marketable issues more than 4½ times as great as in 1941.

A wide variety of securities was offered during the year. United States savings bonds—Series E, F, and G—and tax savings notes were continuously on sale. Treasury bills were offered each week in amounts ranging from $150 million in January to $600 million in December and $900 million in May, 1943. In addition, nine bond issues (including one refunding), six issues of certificates of indebtedness, and three note issues (including one refunding) were offered during 1942. A summary of Treasury securities offered for cash subscription in 1942 and early 1943 is shown in the accompanying table.

This district purchased $1.3 billion or 4.3 per cent of all special issues offered during 1942 and subscribed to an additional $700 million. It also purchased $1.4 billion or 4.0 per cent of bills and issues continuously on sale.

The sale of securities obviously is a direct part of the war effort. These operations, however, cannot be fully successful unless they are bolstered by an enormous amount of routine work, especially in connection with the issuance and redemption of Government securities. In 1942 the Fiscal Agency Department of the Bank handled 8 million separate items having a value of almost $4 billion. Most of this total value was represented by securities payable to bearer, with all the integrity and extreme care that this implies. The work calls for accuracy in typing, verification, accounting, and general clerical work and ability to follow strict Treasury regulations. The volume of work fluctuates very greatly, but even peak-loads must be handled with dispatch under pressure. Failure to give prompt and accurate service to buyers of Government securities would be quickly reflected in complaints. In enlarging its facilities to handle the increased volume of work the personnel of the Fiscal Agency Department has been increased from about 25 in December

1940 to 170 a year ago, 284 in December of 1942, and 313, excluding part-time employees, in early May 1943.

Credit policy

Actions in the field of credit were designed to implement the policy announced by the Board of Governors when the United States entered the war in December 1941. Part of the statement issued at that time reads:

> The System is prepared to use its powers to insure that an ample supply of funds is available at all times for financing the war effort and to exert its influence toward maintaining conditions in the United States Government security market that are satisfactory from the standpoint of the Government's requirements.
>
> Continuing the policy which was announced following the outbreak of war in Europe, Federal Reserve Banks stand ready to advance funds on United States Government securities at par to all banks.

Both local policies and participation in national policies by this Bank were directed to the accomplishment of these objectives. In the local sphere the Bank reduced its rates on March 21 and again on October 17.

To facilitate the adjustment of the money market to changing conditions, this Bank, in conformity with directions from the Federal Open Market Committee, has stood ready since April 30, 1942 to purchase all Treasury bills offered to the Bank at a rate of ⅜ of 1 per cent per annum. Since early August, also in conformity with directions from the Committee, the seller of Treasury bills has been granted the option of repurchasing a like amount and maturity of bills at the same rate of discount. As a consequence, Treasury bills held by member banks are virtually as liquid as excess reserves and member banks are enabled to keep their funds fully invested in the war effort. The effect of this action has been to broaden substantially the market for bills in this district as in the country.

On May 15, 1942, the President of this Bank sent a letter to banks, trust companies and others calling attention to the increased attractiveness of bills, both as to yield and liquidity. The Bank was particularly successful in securing additional bids on bills after Circular No. 1068 was issued on July 2, 1942, to show in non-technical terms the method of bidding for Treasury bills. In May 1943 weekly reporting banks in the district held $290 million of bills, as compared to about $20 million a year earlier.

This Bank also participated in open market operations which were largely responsible for an increase in System holdings of Government securities from $2.3 billion in April to $6.2 billion at the end of the year and to a peak of $6.7 billion in the following April; by the end of May 1943 they again approximated $6.2 billion.

On November 20, 1942, Circular No. 1102 was addressed to all banks in this district calling their attention to the advantages of qualifying for war loan deposit accounts. These accounts enable banks to pay the Treasury for securities by deposit on their books to the account of the Government. The number of banks which qualified increased from 299 in October 1942 to 628 in May 1943.

Just as the issuing and redemption section of the Fiscal Agency Department provides a foundation upon which the whole war loan drives must be built, so the Department of Research and Statistics furnishes data on employment, incomes, production, distribution, inventories, prices, banking and credit upon which basic policies are formulated. Summaries and analyses are prepared for the Board of Directors and officers of this Bank and for Governmental agencies including the War Production Board and Office of Price Administration, the Department of Labor, the Treasury Department, and the Board of Governors of the Federal Reserve System. More than 4,500 respondents provide the basic primary information upon which many of these analyses are based.

Consumer credit

Consumer credit control, first undertaken in September 1941, was designed to facilitate the change from a civilian to a war economy, promote a sound credit structure on which post-war consumer demands may be satisfied, and assist in restraining inflationary tendencies by encouraging the liquidation of debt out of current incomes. The scope of Regulation W was broadened on May 6, 1942 to include charge accounts and single-payment loans; and other extensions of consumer credit were further restricted by broadening the list of articles included, shortening maximum maturities generally to twelve months, and increasing required down payments. This increased the number of establishments generally affected by the regulation in this district from approximately 15,000 to 50,000. These measures were among the factors instrumental in reducing consumer credit outstandings from \$9¾ billion in September 1941 to \$5¼ billion at the end of April 1943; the decline included \$3 billion in instalment sale credit and \$1 billion in the instalment loan field.

The Board of Governors also issued a joint announcement with other Federal bank supervisory agencies indicating the procedure to be followed by their respective organizations to encourage the reduction of individual debt by amortization of bank loans.

Foreign funds

Another special assignment directly related to the war is the administration over the control of foreign funds for the United States Treasury. This is one of the most important instruments employed by this country in the field of economic warfare. All transactions in which designated foreign countries and their nationals have any interest are subject to regulation and scrutiny. This impairs the ability of the enemy powers to finance propaganda, sabotage, and similar subversive activities. Since the establishment of foreign funds control, \$7 billion of funds in this country belonging to enemy and enemy-occupied countries and their nationals has been prevented from falling into the possession of the enemy countries.

Operations for RFC This Bank also acts as fiscal agent for the Reconstruction Finance Corporation in its special war programs which cover the accumulation of strategic war materials such as aviation gasoline, tung oil, alcohol, silk, nylon, and automobile tires. As fiscal agent, the Bank performs the accounting and disbursement functions in all these activities. It carries out similar functions with respect to the settlement and financing of defense housing and war plant construction and war damage insurance.

Regulation V Another war time activity of the Bank is to represent the War Department, the Navy Department, and the Maritime Commission in the guarantee of certain loans for war production purposes. This activity is conducted under Executive Order No. 9112 and Regulation V issued to implement it by the Board of Governors of the Federal Reserve System in April 1942. The purpose of these guarantees is to assure the production of war materials by enabling prime and sub-contractors to finance their requirements, even if these should exceed the amounts to which they ordinarily would be entitled on the basis of their credit standings.

In the performance of their functions as agents of the Government departments, the Reserve Banks make careful investigation of each application and submit recommendations. Through April 1943, this Bank received 250 applications for guarantees on loans aggregating $177 million. Some were for small amounts, but they were given the same careful consideration as those involving larger sums. An indication of the close relationship of this activity to the war effort and of the desire to process applications quickly is the fact that an Army officer is detailed as a liaison, has an office in the Bank, and is in daily conference with officers of the Credit Department.

Volume of operations Some indications of the absolute amount and of the increase in the volume of work performed at the Bank are shown in the accompanying table.

Volume of work Federal Reserve Bank of Philadelphia	Pieces or transactions handled (000's omitted)		Dollar amounts (000,000's omitted)	
	1941	1942	1941	1942
Discounts and advances	1	1	$ 15	$ 29
Currency counted	185,500	195,492	799	932
Coins counted	365,350	419,613	32	37
Ordinary checks	109,124	109,701	33,882	38,748
Checks handled in packages by automobile run service	18,567	17,801	..	..
U. S. Government checks	5,439	10,236	1,446	3,520
Work relief checks	2,797	1,250	91	52
Collection items:				
Coupons of U. S. Government and agencies	1,077	1,129	47	57
All other (notes, drafts and coupons)	318	271	232	202
Transfers of funds	55	59	4,366	5,470
Issues, redemptions and exchanges by fiscal agency department:				
U. S. Government direct obligations	881*	7,654*	1,023*	3,751*
All other	13	32	100	108

*Includes savings bonds sold through other issuing agents.

With greatly increased issues of Treasury securities, the volume of all types of securities held in custody for member banks increased from $753 million to $1,192 million during 1942. The number of savings bonds held increased from 19,000 to 59,000.

The increased work of the operation departments placed a heavier burden upon the service departments, particularly personnel. Securing and maintaining a staff competent and able to handle this work was among the most difficult problems faced by the Bank.

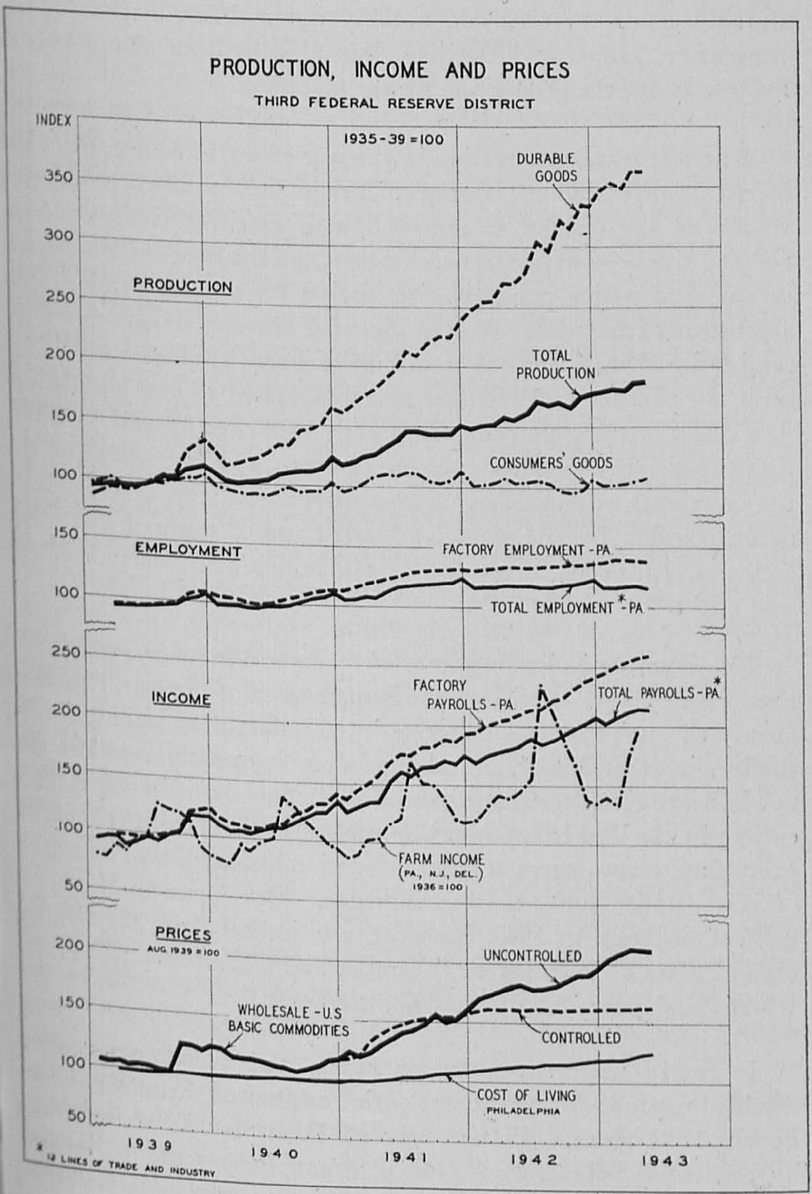
The number of employees was increased from about 900 on December 31, 1941, to about 1,300, including part-time employees, in May 1943. This expansion, large as it is, fails to reflect adequately the increased work of the Personnel Department. To accomplish the net addition of 327 to the staff in the year ended May 1943, it was necessary to employ 951 persons, as 87 additional employees joined the armed forces of the country and 537 left the service of the Bank for other reasons, many of them to secure the higher compensation offered by the civilian services of the Government, by war industries, and other activities.

Business Conditions

The stimulus of war produced a tremendous rise of business activity in the Third Federal Reserve District during 1942 and early 1943. At the same time it sharpened critically the problems of inflation, manpower, and civilian standards of living.

Production for war expanded rapidly; the value of major war contracts placed in the Third Federal Reserve District nearly tripled during 1942. Although this growth was considerable, the district's share of these war contracts up to early 1943 was about 6 per cent as compared with 8 per cent to the end of 1941. In the initial stages of the war effort this district, as a highly developed industrial area, was relied upon for immediate production of war materials. In time, however, new plants were constructed and conversions were completed in other areas, reducing the Third District's share of the total.

Industrial production at the end of 1942 was 71 per cent and in April 1943 was 80 per cent above the level prevailing at the beginning of the war in 1939. Most of the expansion occurred in the production of durable goods, which experienced a growth of 41 per cent last year and in the spring of 1943 was 270 per cent greater than in August 1939. The fact that the production of so-called consumers' goods by 1942 had returned to about 1939 levels is at once indicative of the district's production for war and the extent to which civilian consumers were necessarily forced to sacrifice for that end, as an increasingly greater proportion of consumers' goods previously available for civilian use was being diverted to the military and lend-lease. These sacrifices took the form of more widespread rationing of scarce and essential commodities. Sugar, automobile tires and tubes, coffee, gasoline, and fuel oil fell under ration controls during 1942, and it was becoming obvious that even greater restrictions would have to be exercised. Early in 1943 the rationing of foodstuffs and shoes was begun. Production of certain


PRODUCTION, INCOME AND PRICES
THIRD FEDERAL RESERVE DISTRICT
INDEX
1935-39 = 100
350
300
250
200
150
100
PRODUCTION
DURABLE GOODS
TOTAL PRODUCTION
CONSUMERS' GOODS
EMPLOYMENT
FACTORY EMPLOYMENT - PA.
TOTAL EMPLOYMENT * - PA.
INCOME
FACTORY PAYROLLS - PA.
TOTAL PAYROLLS - PA.*
FARM INCOME (PA., N.J., DEL.) 1936 = 100
50
PRICES
AUG. 1939 = 100
UNCONTROLLED
WHOLESALE - U.S BASIC COMMODITIES
CONTROLLED
COST OF LIVING PHILADELPHIA
1939
1940
1941
1942
1943
* 12 LINES OF TRADE AND INDUSTRY

durable goods for civilians, notably automobiles, mechanical refrigerators, radios and the like, had already been abandoned to make way for the production of war materials.

The role of transportation in the war effort, of course, has been of vital importance. Complementing well-rounded productive resources, the district is equipped with excellent facilities—both rail and truck—for land transportation, and the Port of Philadelphia serves as a major point of distribution for overseas and coastal shipments of materials. Record-breaking amounts of raw materials, semi-finished and finished goods have been handled with extraordinary efficiency. Passenger travel has risen to new high points as a result of troop movements, greatly expanded operations which drew upon labor supplies over broad areas, and restrictions on the use of private automobiles. Accomplishment of this task has been made possible by the well-coordinated use of railroad and other facilities, and constitutes one of the major achievements of the war effort.

Employment in leading lines of trade and industry, which has risen about 30 per cent since the inauguration of the war, remained steady through 1942, as increases in manufacturing were offset by declines in other lines. The stability of employment during 1942 did not indicate complete absorption of available labor. In fact classifications by the War Manpower Commission at the end of 1942 of areas according to the degree of labor utilization indicated that no section of this district suffered from shortage. Development of a more critical situation in 1943, however, was indicated in May by the classification of Wilmington, Trenton, and Chambersburg as areas where the shortage of labor had become acute.

Increased wage rates, longer hours, and overtime payments doubled payrolls during the war period and raised them by one-fifth during 1942 alone. In the case of Pennsylvania factories the increase of 8 per cent in average hours during the 16 months ended April 1943 acted in part to raise average weekly wages

26 per cent as against 16 per cent in average hourly wages. The resulting expansion of incomes sent the dollar volume of retail sales to new high levels, many purchases being anticipatory buying of scarce items which depleted stocks in some lines of consumers' goods.

The problem of the inflationary gap has become ever more acute as a result of the interaction of production and income. The amount of consumers' goods available for civilians has been cut considerably; increased income has meant increased purchasing power and potential demand for that smaller amount of goods. The cost of living, as the indicator of the success of inflationary pressure, has risen 27 per cent in Philadelphia from the beginning of the war to April 1943, although price control measures immobilized to some extent the pressure on prices.

Early in 1942, Congress passed the Price Control bill authorizing the establishment of maximum prices on most commodities. But no provision was made for wage stabilization, and special exceptions were made for agricultural products below 110 per cent of parity. Maximum price regulations were put into effect in May. But prices, mainly those of foods and farm products, continued to rise and by September, the cost of living in Philadelphia had gone up 2 per cent since the inauguration of controls. At that time the President called for Congressional action which would authorize him to stabilize the cost of living and wages. Additional legislation was passed early in October.

The Office of Economic Stabilization was subsequently established to "formulate and develop a comprehensive national economic policy relating to the control of civilian purchasing power, prices, rents, wages, salaries, profits, rationing, subsidies, and all related matters." Although the rise in the cost of living has been restricted to 27 per cent, in cases where controls have not been exercised prices have increased much more sharply. It became increasingly evident during 1942 that existing price controls alone would not succeed in holding down inflation. Means were being considered whereby civilian purchasing power could be drained off; income tax rates were raised to new high levels and exemptions were lowered so that many millions of persons were added to the tax rolls. Concurrently, greater efforts were made to encourage repayment of debts and voluntary saving of surplus funds through investment in Government securities.

Importance of the Third Federal Reserve District in the national economy	Third Federal Reserve District	United States	Per cent of United States
Land area—square miles —1940	37,023	2,977,128	1.2%
Population — total Apr. 1, 1940	7,777,910	131,669,275	5.9
Rural—farm	704,189	30,216,188	2.3
Labor force—Apr. 1, 1940	3,233,317	52,840,762	6.1
Manufacturing—1939			
Wage earners	706,998	7,887,242	9.0
Value added by manufacture	$1,994,378,258	$24,710,564,735	8.1
Mining			
Bituminous coal—1939:			
Wage earners	25,523	369,156	6.9
Value of production	$41,838,770	$727,357,537	5.8
Pennsylvania anthracite—1939:			
Wage earners	82,822	82,822	100.0
Value of production	$189,647,913	$189,647,913	100.0
Retail trade—1939			
Employees	281,105	4,600,817	6.1
Sales	$2,559,170,000	$42,039,138,000	6.1
Wholesale trade—1939			
Employees	78,014	1,562,121	5.0
Sales	$2,576,188,000	$55,265,640,000	4.7
Agriculture			
Value of farm products —1939	$230,194,000	$7,813,645,000	2.9
Income payments 3 states—1942	$13,557,000,000	$114,039,000,000	11.9
Cash farm income* 3 states—1942	$595,908,000	$16,138,319,000	3.7

*Including Government payments.

Banking and Credit Conditions

Member Banks

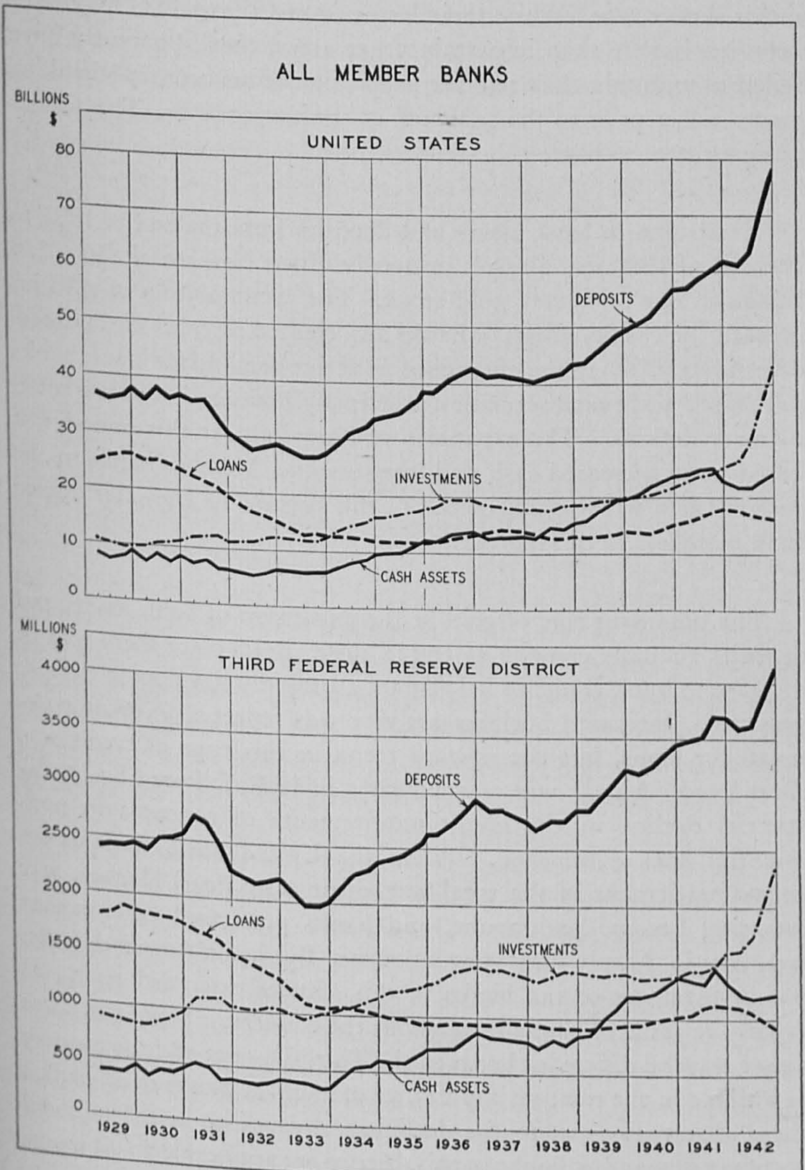
Banks are playing a vital role in the war effort. To help curb inflationary tendencies, they have actively assisted in siphoning off the steadily expanding volume of buying power by selling Government securities to individuals, business concerns, and institutional investors. Their officers, directors, and key men have aggressively assisted in the marketing of Government issues, particularly during the First and Second War Loan drives. Individual bankers have served as chairmen, members, and solicitors of regional and local committees. During the drives a great many banks organized their own teams to canvass important prospects in their own communities, and this method of personal approach proved to be very successful. Banks also have bought heavily of the issues made available to them.

Practically all commercial and savings banks assumed the responsibilities of acting as authorized agents for War Savings bonds. Many have provided booths or other facilities with full-time staffs to sell bonds to the public and a great many have inaugurated payroll allotment or savings plans. Bankers wrote letters and made calls on their customers to urge the purchase of Government securities, and in their private capacities demonstrated the sincerity of their appeal by purchasing securities themselves.

Banks have participated in the war effort in many other ways. They have extended credit to establishments engaged in war and other essential activities and have restricted credit to nonessential activities. They cooperated with the Treasury in the control of foreign funds. They worked closely with the Office of Price Administration in devising and implementing the ration banking plan which began operation on a national basis on January 27, 1943. Under this plan they provide facilities and accounting knowledge in handling deposits and exchanges by check. By reason of this arrangement the Office of Price Administration is able to ascertain the exact amount of coupons outstanding at any time and an efficient method of disposing of the billions of ration coupons is provided.

Banking trends Any appraisal of banking conditions in this district during the past year must take into account the part played by the area in the major banking developments of the country in the past decade. The outstanding characteristic is that member banks in this district, though influenced by the same factors that affected banks throughout the country, have grown at a

Member banks (Dollar figures in millions)	Dec. 31, 1942	Per cent change from December 31			
		1941	1940	1933	1929
Third Fed. Res. District					
Resources:					
Loans	$ 925	—17	— 9	— 13	— 50
Investments	2,363	+48	+71	+132	+185
Cash assets	1,217	− 9	−12	+248	+159
Real estate assets	124	−10	−19	− 22	− 24
Other	18	−14	−18		
Total	$4,647	+10	+17	+ 78	+ 39
Liabilities and capital accounts:					
Deposits	$4,145	+12	+20	+106	+ 68
Other liabilities	21	− 5	− 5	− 84	− 91
Capital accounts	481	....	....	+ 2	− 26
Total	$4,647	+10	+17	+ 78	+ 39
United States					
Resources:					
Loans	$16,088	−11	+ 5	+ 25	− 38
Investments	43,175	+69	+98	+249	+341
Cash assets	24,281	+ 5	+ 1	+271	+162
Real estate assets	1,132	− 5	−10	− 33	− 62
Other	241	−15	−23		
Total	$84,917	+25	+36	+151	+ 74
Liabilities and capital accounts:					
Deposits	$78,277	+27	+39	+188	+106
Other liabilities	539	+ 4	+ 2	−69	− 87
Capital accounts	6,101	+ 4	+ 7	+ 23	− 9
Total	$84,917	+25	+36	+151	+ 74


ALL MEMBER BANKS
BILLIONS $
UNITED STATES
80
70
60
50
40
30
20
10
0
DEPOSITS
LOANS
INVESTMENTS
CASH ASSETS
MILLIONS $
THIRD FEDERAL RESERVE DISTRICT
4000
3500
3000
2500
2000
1500
1000
500
0
DEPOSITS
LOANS
INVESTMENTS
CASH ASSETS
1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942

much slower rate. While their losses from 1929 to 1933 may have been less severe than in certain other areas, they apparently have failed to maintain their relative proportion of the country's banking assets either prior to the outbreak of the war or since. The accompanying data indicate this trend.

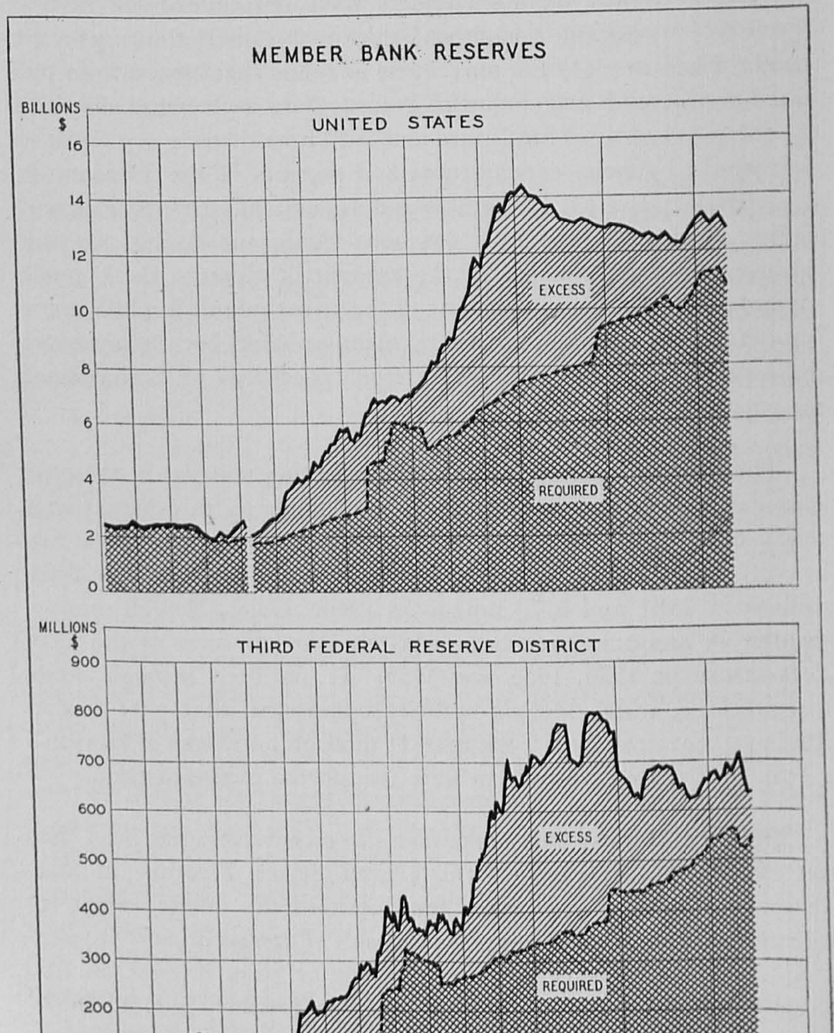
Expansion in bank assets and deposits from the end of 1933 to the end of 1940 was a result primarily of the increase of about $18 billion in our monetary gold stock. The accumulation of gold increased the cash holdings of banks and created reserves far in excess of requirements. In the absence of an active demand for loans, banks purchased additional securities, principally Treasury issues marketed to meet deficits. The expansion of deposits over this period was based upon increased cash and investments. Member banks in the country as a whole participated in this process to a greater degree than members in this district.

The dominant role of gold in the expansion of bank assets and deposits virtually came to an end in 1940. In its place there was an increase in bank credit to help finance a rapidly developing defense program. Increased business activity was reflected in greater demand for loans, but the upward trend in this type of credit was short-lived. A peak was reached early in 1942, followed by a substantial decline as the credit requirements of concerns in nonessential lines diminished. When the United States became an active participant in the total war effort after Pearl Harbor, war financing became paramount, and banks purchased Government securities in sharply increasing amounts. But again neither deposits nor investments of the banks in this district expanded nearly as rapidly as those of banks throughout the country. Since there was no substantial difference between the Third District and the country as a whole in the relative importance of member banks to all banks, these observations as to the declining importance in the national economy of member banks in this district are applicable to all banks in the district.

Reserves Three factors virtually have determined the reserve position of member banks in this district during recent years. They are: (1) the movement of funds that results from private commercial and financial transactions with other districts; (2) the movement of funds into and out of the district as a result of differences between expenditures and receipts of the Treasury in this district; and (3) changes in the amount of currency in circulation. Other factors have not been significant during the past decade, although changes in the amount of Reserve Bank credit extended locally were important in the twenties and would become important again should individual member banks borrow to restore deficiencies in reserves resulting from purchases of Government securities.

The most important single factor affecting reserves in the past four years has been the constant gain of funds by this district as a result of private transactions with other districts. In 1942 the net inward movement amounted to $876 million as compared with $484 million in 1941 and $170 million in 1940. Gains, though usually smaller in amount, have been registered for all years of the past decade except 1934, 1935 and 1938. It has been through these transactions, which include security operations, that part of the funds put into the New York market through purchases of Governments by the Reserve System were transferred to this district.

The second most important factor in recent years has been the net result of operations of the United States Treasury in this district. The Treasury takes funds out of the market when it collects taxes or receives payment for sales of new securities. It puts funds into the market when it redeems or pays interest on its obligations and pays its bills. In 1942 the Treasury secured $659 million more than it spent in this district. The corresponding figure for 1941 was $368 million. In earlier years of the past decade net gains or losses through Treasury operations were smaller, but, except for 1933 and 1937, the Treasury spent more in the district than it withdrew.


MEMBER BANK RESERVES
BILLIONS $
UNITED STATES
16
14
12
10
8
6
4
2
0
EXCESS
REQUIRED
MILLIONS $
THIRD FEDERAL RESERVE DISTRICT
900
800
700
600
500
400
300
200
100
0
EXCESS
REQUIRED
'29 '30 '31 '32 '33 '34 '35 '36 '37 '38 '39 '40 1941 1942 1943

The increased demand for currency has absorbed reserves persistently since 1934. Although the annual amount was comparatively small in earlier years, it has expanded for the past six years until it reached $168 million in 1941 and $280 million in 1942.

The magnitude of each of these three forces in the past two years was unprecedented, but the effects on reserves of two of them—losses from Treasury operations and increases in currency—were offset largely by the effect of the third—gains from private interdistrict transactions. The net effect of all three and of the minor factors was a small decrease in member bank reserves both in 1941 and 1942. A complete picture of factors affecting member bank reserves in this district for the past three years is given in the accompanying table.

Changes in member bank reserves and related items Third Federal Reserve District (Millions of dollars)	1940	1941	1942
Sources of funds:			
Reserve Bank credit extended in district	+ 0	− 7	+ 39
Interdistrict commercial transfers	+170	+484	+876
Mint gold purchases, net	+ 4	+ 3	+ 2
Treasury operations	+ 19	−368	−659
Total	+193	+112	+258
Uses of funds:			
Currency demand	+ 75	+168	+280
Member bank reserve deposits	+113	− 42	− 10
"Other deposits" at Reserve Bank	+ 5	− 14	− 8
Other Federal Reserve accounts	− 0	− 0	− 4
Total	+193	+112	+258

For the banking system as a whole, the only major influence that tended to reduce reserves in 1942 was the increase in money in circulation, which represented cash withdrawn from banks but not deposited in others. The effect of this factor was offset by funds released to the market by purchases of securities by the Federal Reserve System.

The period under review clarified for many bankers the effect that the interdistrict flow of money exerts upon investments and reserves. At first many banks were prone to assume that a purchase of securities would lead to a corresponding drain upon their reserves. Such a drain, of course, would occur if a single bank in a banking system increased its earning assets more rapidly than other banks. While the single bank may lose reserves, the banking system as a whole usually does not, because reserves lost by one bank are gained by other banks. When most banks are expanding at the same time, the tendency to lose reserves as a result of security purchases is offset by the tendency to gain reserves from purchases by other banks. Some individual banks experience net gains and others net losses, depending upon various factors. Under conditions of expanding Government Security issues those that experience persistent increases in excess reserves as a result of this process are not bearing their share of responsibility for war finance, since they gain at the expense of those banks that purchase an adequate amount of Government securities.

Banks also found that in wartime the tendency to lose reserves as a result of payment for new Treasury securities was offset in large part by deposits arising from payments by the Treasury to other customers of the bank. As banks became familiar with this process, they kept their reserves more fully employed. Partly in consequence, excess reserves have declined substantially over the past year. Nevertheless, reserves have continued in considerable volume in this district. This is in addition to the balances maintained with correspondent institutions, which are particularly heavy in the case of the country banks. Banks also have access to the Federal Reserve should they need reserves as a result of purchases of Government securities based upon an expectation of a return flow of funds which fails to materialize. The temporary strain upon reserve positions imposed by heavy purchases of Governments by banks and their customers was eased considerably in April 1943, when the Federal Reserve Act was amended to eliminate reserve requirements against war loan deposits; this in effect deferred the need for reserves from the time securities were bought to the time the Treasury spent the funds.

Changes in the reserve position of member banks in this district are indicated by the following table.

Member bank reserves Third Federal Reserve District (Dollar figures in millions)	Actually held	Required	Excess	Ratio of excess to required
Philadelphia banks:				
1941: Jan. 1—15	$514	$232	$282	122%
1942: Jan. 1—15	449	294	155	53
1943: Jan. 1—15	418	358	60	17
May 16—31	387	350	37	11
Country banks:				
1941: Jan. 1—15	202	103	98	95
1942: Jan. 1—15	224	145	79	55
1943: Jan. 1—15	256	184	72	39
May 16—31	246	181	65	36
All members:				
1941: Jan. 1—15	716	335	380	113
1942: Jan. 1—15	673	439	234	53
1943: Jan. 1—15	674	542	132	24
May 16—31	633	531	102	19

In the period May 16—31, 1943, balances due from other banks averaged $96 million at the member banks in Philadelphia and $198 million at the country member banks. These amounts were equal respectively to 27 and 109 per cent of required reserves of these institutions.

Investments

The impact of the first World War upon banks resulted principally in sharply expanded loans, mostly to war industries and to customers to finance purchases of Government securities. In the present war, bank credit is being extended in large measure through direct bank purchases of Treasury securities.

To the extent that the Treasury's needs have not been met by funds from others, commercial banks have bought securities for their own accounts. Assured of access to the Federal Reserve Banks for maintaining adequate reserves, they have invested available funds to an increasing extent. Member banks in this district increased their investment in Government securities by over $800 million or 78 per cent in the year. These securities comprised about 80 per cent of member bank investments and 56 per cent of all earning assets on December 31, 1942. Well over half of the Governments purchased during the year were the short term bills, certificates and notes, and most of the bonds acquired matured in 5 to 10 years. Holdings of Governments were increased sharply further in the early months of 1943, particularly as a result of the Second War Loan Drive in April.

The increase in Government securities during 1942 was accompanied by a further decrease of $46 million to $522 million in holdings of other securities. Of the decrease, $16 million was in state and municipal government obligations and the remainder in corporate and miscellaneous securities. Holdings of non-Federal government securities have been reduced 17 per cent since the outbreak of the war in Europe. Most of the reduction has been at country banks.

Loans and discounts The administration of a loan policy adapted to war conditions has become increasingly complex. It is difficult in particular cases to reconcile the several objectives of bank policies which are to extend credit where justified, earn profits, and protect depositors. As a matter of policy, no possible contribution to the war effort should be impeded because of lack of credit; and at the same time bank credit should not be used to compete with the war effort. Credit risks are more difficult to evaluate because of the many new factors that affect the standing of individual borrowers.

In conformity with the general policy of extending credit to activities related to the war and of reducing credit extended to nonessential activities, loans of member banks declined $193 million or 17 per cent during the year, and dropped further early in 1943.

Many of the initial demands to finance war industries had been met and increasing restrictions upon the civilian economy and trade reduced operations and credit requirements in those lines. In contrast with the preceding year, when 80 per cent of the increase of $98 million in loans was at member banks in Philadelphia, less than half of the decline during 1942 was at Philadelphia member banks. Fundamental changes in the purposes for which loans are granted were revealed in an analysis made in the spring of 1942, when loans wholly or partly to finance war industry accounted for 44 per cent of the new loans made to industry and commerce. The proportion, of course, has increased since that time.

Deposits

Deposits continued to expand at an accelerated rate in 1942. The gain, though concentrated mainly with individuals and business concerns, was the result of purchases of Government securities in amounts more than sufficient to compensate for decreases in other assets. Bank purchases of Government securities led to increases in private deposits. Although many banks pay for new issues with credits to War Loan Deposit accounts, the Treasury soon disburses the funds to individuals and corporations that again deposit such funds in their banks. Total deposits at member banks in this district increased $440 million or 12 per cent during 1942 to $4,145 million, and would have been somewhat larger if it had not been for the exclusion of reciprocal bank balances in current reports. Expansion in deposits at all member banks in the United States in the same period amounted to 27 per cent. Additional gains were reported in 1943, aggregate deposits of members in the Third Federal Reserve District showing a further rise to $4,572 million in the last half of May.

Capital funds

The ratio of capital accounts to deposits at the end of 1942 was one-half as great as at the end of 1933. In the interval deposits have more than doubled with little increase in capital funds. The simple capital ratio, however, does not reflect accurately the amount of deposit protection. A more significant factor is the quality of assets, as in the final analysis the solvency of a bank depends upon the intrinsic value of its assets whether viewed from the standpoint of marketability or shiftability. At the close of 1942, cash assets were equal to 29 per cent of deposits and United States Government obligations to an additional 45 per cent. The combined ratio of 74 per cent compares with 65 per cent in 1941 and about 28 per cent in the years 1927 to 1929. Other assets, in which risks are inherent, have declined considerably since the twenties.

Earnings and expenses

Relative stability since 1933 in earnings of member banks both in the Third Federal Reserve District and in the country as a whole is in sharp contrast to the growth in assets and deposits. Earnings, assets, and deposits reached peaks in 1929; thereafter all three suffered severe shrinkages until 1933. But, whereas assets and deposits recovered in amounts indicated previously, current and net current earnings have shown far smaller gains from their 1933 levels. Net profits, though much more erratic from year to year because of shifting amounts of charge-offs, recoveries, and profits on security sales, have generally been considerably below the levels of the late twenties.

Net profits of member banks in this district, aggregating $18 million in 1942, were nearly one-half again as great as in the preceding year. Analysis of the figures of individual banks, however, shows that for the most part profits were smaller than in 1941. Excluding a few instances that clearly were not typical, averages of individual ratios show that net profits declined from 2.9 to 1.6 per cent on the basis of capital accounts, and from 12.5 to 7.2 per cent in relation to total earnings.

Aggregate income from investments in 1942 exceeded the amount earned on loans. Although the yield is less on securities, averaging 2.7 per cent as compared with 5.2 per cent on loans last year, total income from them is certain to form an increasing

Member banks Third Federal Reserve District	1942 (Millions $)	Per cent change from			
		1941	1940	1933	1929
Current earnings:					
On loans	$41.9	− 8	− 3	− 20	−61
On investments	44.0	+ 9	+ 7	+ 11	− 3
Trust department	9.7	− 5	− 2	+ 49	+28
Service charges on deposits	3.2	+11	+18	+372	
Other	8.9	− 5	+ 0	+ 43	−15
Total	$107.7	− 1	+ 2	+ 2	−37
Current expenses:					
Salaries and wages	$30.2	+ 5	+ 9	+ 26	− 2
Interest on deposits	10.6	−19	−26	− 65	−80
Taxes	10.4	+ 2	+28	+148	+22
Other	20.6	0	+ 5	+ 25	−17
Total	$71.8	− 1	+ 3	− 4	−39
Net current earnings	**$35.9**	**+ 1**	**− 0**	**+ 17**	**−33**
Recoveries and profits on sales	$14.6	−29	−29	+ 87	+45
Losses and depreciation	32.5	−26	−19	− 47	+94
Net profits	**$18.0**	**+48**	**+ 8**	*	**−61**
Cash dividends declared	15.9	− 8	− 9	+ 1	−52

* Net loss in 1933.

proportion of total current earnings, at least for the duration of the war, by reason of increased investments in Government securities.

Money and Capital Markets

The dominant influence on interest rates in 1942 was action by the Federal Reserve System to attain the objectives announced on the day after the Japanese attack on Pearl Harbor: maintenance of stability in the Government security market and assurance of adequate reserve funds to banks. These objectives were not interpreted to mean that prices or yields on Government securities would be fixed or that excess reserves would be maintained at a rigid level. As the year progressed the amount of excess reserves was reduced. Yields on short term securities, which had fallen to extremely low levels because of the plethora of funds in

Plus US Savings
Consumer Credit

previous years, rose somewhat early in the year but stabilized after the establishment at the Reserve Banks of the 3/8 per cent buying rate on Treasury bills. Fluctuations in yields on non-Governmental securities were small and the spread between yields on high and lower grade securities narrowed slightly.

Although complete data on the amount of long term capital requirements are not available, major changes are reflected in the proceeds of new long term security offerings.

New security offerings by type of issuer (In millions of dollars)	1940	1941	1942
U. S. Government direct and guaranteed*	2,517	8,987	27,742
State and municipal	1,238	956	518
Industrial corporations	992	848	509
Public utility corporations	1,203	1,357	448
Railroads	324	366	48
All other	290	164	8
Total	**6,564**	**12,678**	**29,273**

* Excludes U. S. Government "Special Series" issues, interagency sales, and Treasury bills, certificates of indebtedness, and tax series notes.

Source: Securities and Exchange Commission.

The demand of the United States Government alone for long term capital in 1942 was greater than the total demand of all issuers in the preceding three years. Reduction in the volume of new offerings of non-Governmental issues was particularly marked after our entry into the war. On the other hand, the net corporate demand for new money, as contrasted with money to refund outstanding securities, comprised a much larger portion of offerings than in any other recent year. About 45 per cent of corporate issues sold for cash in 1942 was for new money as compared with 33 per cent in 1941 and only 15 per cent in 1939. Nearly 60 per cent of the new money was for plant and the balance for working capital.

Estimates of the volume of savings by individuals, a factor of present and even greater future importance, are shown in the accompanying table.

Savings by individuals (Billions of dollars)	1940	1941	1942
Gross savings	16.1	25.0	38.9
Liquid savings	4.3	10.5	29.6
Gross savings by type:			
Currency and bank deposits	3.0	5.6	11.7
Insurance and pension reserves	2.9	3.8	4.8
Securities	.1	2.5	10.4
(U. S. Government—included in line above)	.7	3.2	10.2
Durable consumers' goods	9.3	11.4	7.6
Other	.9	1.6	4.4

Source: Securities and Exchange Commission.

Gross savings more than doubled between 1940 and 1942 and liquid savings increased by more than five times. The large increase in savings arising from increased national income payments demonstrated the availability of funds to finance the war with a minimum of inflation.

Rates on commercial and industrial loans made by seven Philadelphia banks (000's omitted in $ amounts)	Dec. 1–15, 1940	Dec. 1–15, 1941	June 1–15, 1942	Dec. 1–15, 1942
½ per cent	$0	$0	$10	$0
1 per cent	254	1,247	7	813
Between 1 and 1½ per cent	600	730	0	500
1½ per cent	8,960	5,748	5,960	3,460
Between 1½ and 2 per cent	200	874	100	1,250
2 per cent	2,306	1,942	2,358	1,865
Between 2 and 3 per cent	1,028	2,611	2,100	7,832
3 per cent	4,290	4,266	6,879	6,255
Between 3 and 4 per cent	1,032	2,563	2,549	2,821
4 per cent	3,514	3,723	2,787	2,640
Between 4 and 5 per cent	800	1,882	1,207	1,814
5 per cent	2,052	1,475	1,687	2,058
Between 5 and 6 per cent	124	139	346	538
6 per cent	792	956	653	721
Total dollar amount	**$25,952**	**$28,156**	**$26,643**	**$32,567**
Total number of loans	**1,195**	**1,336**	**1,029**	**894**
Average rate based on dollar volume	2.8%	2.9%	3.0%	3.0%

Rate Schedule of Federal Reserve Bank of Philadelphia

In Effect May 31, 1943

	Per cent per annum
Rediscounts for and advances to member banks:	
(a) Advances secured by direct or fully guaranteed obligations of the United States which have one year or less to run to call or maturity. (Pars. 8 and 13 of Section 13).....	½
(b) Advances secured by direct or fully guaranteed obligations of the United States which have more than one year to run to call or to maturity. (Pars. 8 and 13 of Section 13)	1
(c) Other advances and discounts under sections 13 and 13a..	1
(d) Advances under Section 10(b)........................	1½
Advances to nonmember banks:	
Advances secured by direct obligations of the United States. (Last par. of Section 13)......................	1
Advances to individuals, partnerships and corporations other than banks:	
Advances secured by direct obligations of the United States. (Last par. of Section 13)......................	2
Industrial advances and commitments under Section 13b:	
Advances direct to industrial or commercial organizations, including advances made in participation with other financing institutions...........................	2½ to 5
Advances to financing institutions:	
(a) On the portion for which financing institution is obligated..................................	Same rate as borrower is charged but not to exceed 1% above prevailing discount rate.
(b) On the remaining portion.....................	Same rate as borrower is charged.
Advances taken over from financing institutions under commitments..................................	Same rate as borrower is charged on portion for which Federal Reserve Bank assumes risk.
Commitments to make advances:	
(a) Direct to industrial or commercial organizations...	10 to 25% of loan rate with minimum of ½%.
(b) To financing institutions.....................	10 to 25% of rate charged borrower with minimum of ½%; no commitment given on a loan on which borrower is charged more than 5%.

Rates on commercial bank loans in 1942 were about the same as those which have prevailed for the past few years. Reports for both June and December from large Philadelphia banks indicated an average rate of 3 per cent, as compared with 2.9 per cent in 1941. Of the dollar volume of commercial loans extended in December, 1942, nearly half was at rates below 3 per cent and a relatively small amount at rates in excess of 4 per cent.

The principal changes in interest and discount rates charged by the Federal Reserve Bank of Philadelphia during 1942 were a reduction on March 21 from 1½ to 1 per cent on discounts and advances to banks under Section 13 and a reduction of ½ per cent on October 17 on notes of member banks secured by United States Government obligations having one year or less to run to call or maturity; on advances to individuals, partnerships, or corporations other than banks under the last paragraph of Section 13; and on advances to members under Section 10b. Since April 30, 1942 the Bank has stood ready to purchase all Treasury bills offered at a rate of ⅜ of 1 per cent, and since August has granted the seller of such Treasury bills the option of repurchasing a like amount and maturity of bills at the same rate.

Federal Reserve Bank

Reserve Bank credit

The largest change that occurred in the assets of the Bank since the beginning of 1942 has been in holdings of United States Government securities, most of which represent participation in the System Open Market Account. Holdings increased from $178 million to $458 million in early January 1943. Investments of this Bank in the first five months of 1943 generally were somewhat less than this, save for one day in March, when the System held a special one-day Treasury certificate to promote stable conditions in the market during the period of heavy tax collections.

Statement of Condition

Federal Reserve Bank of Philadelphia (000's omitted in dollar figures)	December 31		May 31, 1943
	1941	1942	
RESOURCES			
Gold certificates on hand and due from U. S. Treasury	$1,224,286	$1,147,114	$1,253,447
Redemption fund—Federal Reserve notes	892	5,666	6,087
Other cash	19,344	21,190	21,291
Total reserves	**$1,244,522**	**$1,173,970**	**$1,280,825**
Bills discounted:			
Secured by U. S. Government obligations*	624	2,140	2,160
Other bills discounted	50	240	0
Total bills discounted	**$674**	**$2,380**	**$2,160**
Bills bought in open market	0	0	0
Industrial advances	3,468	4,710	4,760
United States Government securities	177,982	440,168	387,516
Total bills and securities	**$182,124**	**$447,258**	**$394,436**
Due from foreign banks	5	5	5
Federal Reserve notes of other F. R. banks	2,700	2,541	1,936
Uncollected items	84,370	114,047	87,216
Bank premises	4,866	4,755	4,696
All other resources	4,061	6,925	5,654
Total resources	**$1,522,648**	**$1,749,501**	**$1,774,768**
LIABILITIES			
Federal Reserve notes in circulation	**$575,036**	**$848,682**	**$954,630**
Deposits:			
Member bank reserve account	661,703	651,566	623,278
United States Treasurer—general account	73,577	52,643	1,252
Foreign	74,057	67,100	79,165
Other deposits	12,392	4,672	8,759
Total deposits	**$821,729**	**$775,981**	**$712,454**
Deferred availability items	90,557	89,503	68,679
Other liabilities	839	524	1,206
Total liabilities	**$1,488,161**	**$1,714,691**	**$1,736,969**
CAPITAL ACCOUNTS			
Capital paid in	$11,923	$11,747	$11,679
Surplus—Section 7	15,171	15,670	15,670
Surplus—Section 13b	4,393	4,393	4,393
Other capital accounts	3,000	3,000	6,057
Total liabilities and capital accounts	**$1,522,648**	**$1,749,501**	**$1,774,768**
Ratio of total reserves to deposit and Federal Reserve note liabilities combined	89.1%	72.3%	76.8%
Commitments to make industrial advances	$2,617	$1,346	$2,047

* Includes bills secured by obligations fully guaranteed by U. S. Government.

While purchases of the System Open Market Account have been made for the most part in the New York market, the funds made available flow to this district and to other sections of the country through the settlement of balances arising from commercial transactions. In recent months a larger proportion of the transactions in Governments has been taking place in the several Federal Reserve Districts, as banks adjusted reserve positions by sales of Treasury bills to the Reserve Banks. At the end of May 1943, bills held under the repurchase option accounted for $34 million of the $388 million of Governments held by this Bank. The highest point reached in direct borrowings of member banks during 1942 was only $2 million, held at the end of the year, and the maximum in the first five months of 1943 was less than $5 million.

Industrial loans Industrial advances of this Bank outstanding under Section 13b increased from $3.5 million at the beginning of 1942 to $5.5 million in the summer. Toward the close of May 1943 the volume was $4.8 million. This was a larger amount than was reported by any of the other Reserve Banks and more than one-third of the total for the System. Inquiries have fallen off sharply and the number of new applications for loans has dropped considerably. Of the applications reviewed in 1942, more than three-fourths both in number and in dollars were approved; proportions were even higher in the five months following. Rejections were based principally upon deficiencies in management, unsatisfactory condition of applicant or poor prospects. A summary of industrial loans since the Reserve Banks were first authorized to make them in June 1934 is presented in the accompanying table.

From June 1934 through 1942 the Bank earned $1,639,000 on industrial loans and commitments. Of this amount, $463,000 or 28 per cent has been paid to the Treasurer of the United States, accounting for 37 per cent of payments to the Treasurer by all

Applications for industrial loans Federal Reserve Bank of Philadelphia	1942	Jan.–May 1943	June 30, 1934-May 31, 1943
Number;			
Approved	54	12	335
Rejected	9	1	457
Withdrawn	6	1	67
Under consideration	1	1	1
Total number	70	15	860
Amount;			
Approved	$4,519,689	$3,270,871	$54,388,099
Rejected	333,800	30,000	17,126,350
Withdrawn	971,200	35,000	3,491,700
Under consideration	150,000	60,000	60,000
Total amount	**$5,974,689**	**$3,395,871**	**$75,066,149**

Reserve Banks. Transfers to surplus were $391,000 or 24 per cent of gross, and the remainder—$785,000—covered expenses, charge-offs, and reserves.

Earnings and expenses

Total earnings of the Bank increased from $3.3 million in 1941 to $4.2 million in 1942, largely as a result of increased holdings of United States Government securities. Operating expenses and Federal Reserve note costs, however, also increased, and net additions to earnings were less than in 1941, with the result that earnings available for distribution increased from $822,000 to $1,239,000. Dividends to member banks required $708,000, and $499,000 was transferred to surplus.

In more than 28 years of operation, this Bank has had gross earnings of $114 million and net earnings of $57 million. After dividends, franchise taxes paid in the earlier years, and certain miscellaneous payments, there remained $31 million for addition to the regular surplus of the Bank. The fact that this surplus, accumulated under Section 7 of the Act, amounted to only about $15½ million at the close of 1942 reflected chiefly the charge-off of $14½ million paid for stock of the Federal Deposit Insurance Corporation in 1934.

Profit and loss account Federal Reserve Bank of Philadelphia (000's omitted)	1941	1942
Earnings from:		
United States Government securities	$3,179	$3,947
Other sources	165	227
Total earnings	**$3,344**	**$4,174**
Expenses:		
Operating expenses*	$2,283	$2,455
Cost of Federal Reserve currency	184	334
Assessment for expenses of Board of Governors	179	167
Total net expenses	**$2,646**	**$2,956**
Current net earnings	**$698**	**$1,218**
Additions to current net earnings:		
Profits on sales of U. S. Government securities	$110	$277
Transfers of reserves in excess of requirements	2	150
Other additions	14	8
	$127	$435
Deductions from current net earnings	3	414
Net additions to current net earnings	**$124**	**$21**
Net earnings available for distribution	**$822**	**$1,239**
Distribution of net earnings:		
Paid to Treasury of United States, Sec. 13b	$81	$32
Dividends paid to member banks	713	708
Transferred to surplus (Sec. 13b)	0	0
Transferred to surplus (Sec. 7)	27	499

* After deducting reimbursements received for certain fiscal agency and other expenses.

Membership The number of member banks in the Third Federal Reserve District at the close of 1942 was 652, as against 659 a year earlier. On the other hand, assets of these banks expanded 10 per cent to $4.6 billion. One State bank was admitted to membership during the year, while two members were absorbed by nonmembers and six by other members.

Of the 901 banks in the Third District at the end of the year, 247 or approximately 27 per cent were nonmembers. Assets of the nonmembers increased 7 per cent in 1942 to over $1½ billion, or one-quarter of the total for all banks.

The absorption of five national banks in possession of fiduciary powers, succession of a bank with full powers by another bank, and the extension of limited powers to one bank reduced the total number with such powers to 241. Of this number, 188 were in Pennsylvania, 44 in New Jersey, and 9 in Delaware.

Banks in Philadelphia Federal Reserve District December 31, 1942 (Dollar figures in millions)	Pennsylvania*	New Jersey*	Delaware†	Total
Number of banks				
Total	745	106	50	901
Member banks	547	87	18	652
Nonmember State banks & trust companies	192‡	17	30	239
Mutual savings banks	6	2	2	10
Proportions of total:				
Member banks	73.5%	82.1%	36.0%	72.5%
Nonmember State banks & trust companies	25.7%	16.0%	60.0%	26.4%
Mutual savings banks	.8%	1.9%	4.0%	1.1%
Total assets				
Total	$5,286.6	$538.5	$398.1	$6,223.2
Member banks	3,975.9	417.0	253.8	4,646.7
Nonmember State banks & trust companies	681.8	106.7	87.5	876.0
Mutual savings banks	628.9	14.8	56.8	700.5
Proportions of total:				
Member banks	75.2%	77.4%	63.8%	74.6%
Nonmember State banks & trust companies	12.9%	19.8%	21.9%	14.1%
Mutual savings banks	11.9%	2.8%	14.3%	11.3%

* Portion of the State in Philadelphia Federal Reserve District.
† Includes 6 nonmember branch banks.
‡ Includes 12 private banks.

Directors and officers

The only change in the Board of Directors of the Bank was a resignation effective September 11, 1942, of Winfield W. Riefler, who had served as Class C director since July 1, 1941, to accept an appointment as Special Assistant to the American Ambassador in London, with the rank of Minister. C. Canby Balderston, Dean of the Wharton School of Finance and Commerce of the University of Pennsylvania and Professor of Industry at that institution, was appointed on April 9, 1943, by the Board of Governors to fill the vacancy caused by the resignation of Mr. Riefler.

Thomas B. McCabe was reappointed by the Board of Governors as a Class C director for the three-year term beginning January 1, 1943, and was redesignated Chairman of the Board. Warren F. Whittier was redesignated Deputy Chairman. At the regular election in the fall of 1942 George W. Reily was reelected as a Class A director by member banks of Group 2, and Ward D. Kerlin was reelected as a Class B director by member banks of Group 3.

William Fulton Kurtz, President of the Pennsylvania Company for Insurances on Lives and Granting Annuities, was reappointed by the Board of Directors as the member of the Federal Advisory Council from the Third Federal Reserve District.

The only change in the official staff of the Bank was the resignation effective June 30, 1942, of Arthur E. Post, who had been Secretary and Assistant Federal Reserve Agent for many years. William G. McCreedy, in addition to his duties as Assistant Vice President, was appointed Secretary.

Directors

as of May 31, 1943

	Group	*Term expires December 31*
Class A:		
Howard A. Loeb Chairman, Tradesmens National Bank and Trust Company, Philadelphia, Pennsylvania.	1	1944
George W. Reily President, Harrisburg National Bank, Harrisburg, Pennsylvania.	2	1945
John B. Henning President, Wyoming National Bank, Tunkhannock, Pennsylvania.	3	1943
Class B:		
C. Frederick C. Stout President, John R. Evans and Company, Camden, New Jersey.	1	1943
Harry L. Cannon President, H. P. Cannon & Son, Inc., Bridgeville, Delaware.	2	1944
Ward D. Kerlin Secretary and Treasurer, Camden Forge Company, Camden, New Jersey.	3	1945
Class C:		
Thomas B. McCabe, Chairman and Federal Reserve Agent President, Scott Paper Company, Chester, Pennsylvania.		1945
Warren F. Whittier, Deputy Chairman Lonicera Farms, Douglassville, Pennsylvania.		1943
C. Canby Balderston Dean and Professor of Industry, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pennsylvania.		1944

Officers

as of May 31, 1943

ALFRED H. WILLIAMS, *President*

FRANK J. DRINNEN,
First Vice President

C. A. McILHENNY,
Vice President and Cashier

W. J. DAVIS,
Vice President

ERNEST C. HILL,
Vice President

C. A. SIENKIEWICZ
Vice President

WILLIAM G. McCREEDY,
Assistant Vice President and Secretary

L. E. DONALDSON,
Assistant Vice President

PHILIP F. COLEMAN,
Assistant Vice President

JAMES M. TOY,
Assistant Cashier

PHILIP M. POORMAN,
Auditor