THIRTY-SECOND

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1945

LETTER OF TRANSMITTAL

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,
Washington, June 14, 1946.

THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Pursuant to the requirements of Section 10 of the Federal Reserve Act, as amended, I have the honor to submit the Thirty-second Annual Report, prepared by direction of the Board of Governors of the Federal Reserve System, covering operations during the calendar year 1945.

Yours respectfully,

M. S. ECCLES, *Chairman.*

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ANNUAL REPORT OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

In making its thirty-second annual report, as required by law, the Board of Governors of the Federal Reserve System takes the first opportunity afforded, since the end of hostilities, to present to the Congress a general appraisal of the war's effects upon the country's monetary situation, viewed from the standpoint of the responsibilities which Congress has placed upon the System and the System's statutory powers to discharge these responsibilities.

It is the Board's belief that the implicit, predominant purpose of Federal Reserve policy is to contribute, in so far as the limitations of monetary and credit policy permit, to an economic environment favorable to the highest possible degree of sustained production and employment. Traditionally this over-all policy has been followed by easing credit conditions when deflationary factors prevailed and, conversely, by restrictive measures when inflationary forces threatened.

In common with other nations whose energies were devoted primarily to winning the victory, the United States had no choice, under the exigencies of a global war, except to use monetary powers in furtherance of essential war financing and not as an anti-inflationary weapon. There has been a widespread assumption that, with the coming of peace, such statutory powers as the Reserve System possesses should be exerted in the traditional way against the heavy inflationary forces at present confronting the country. The Board believes that such an assumption does not take sufficiently into account either the inherent limitations of the System's existing statutory powers, under present-day conditions, or the inevitable repercussions on the economy generally and on the Government's financing operations in particular of an exercise of such existing powers to the degree necessary to be an effective anti-inflationary influence.

Accordingly, the Board takes this occasion to review Government financing operations of the war years and at present as they have affected the country's banking and credit situation, and to outline, in general terms, some of the alternative measures to which the appropriate committees of the Congress may wish to give detailed consideration at the proper time, in determining by what means monetary and credit responsibilities should be discharged.

MONETARY SITUATION AS A RESULT OF WAR

Between June 30, 1940, on the eve of the defense program, and the end of 1945, the Government raised approximately 380 billion dollars. Of this, 153 billion dollars came from taxes, or about 40 per cent. The remainder, 228 billion, or about 60 per cent, was raised by borrowing, that is, by increasing the public debt. Of the total borrowed, 133 billion, or about 60 per cent of the borrowing, came from selling Government securities to investors other than commercial banks and the Federal Reserve Banks. Approximately 95 billion dollars, or 40 per cent, of the borrowing, was raised by selling Government securities to the commercial banking system.

It is important to any appraisal of monetary and credit conditions, to understand that borrowing from the banking system, whether by Government or by others, creates an equivalent addition to the country's monetary supply. Borrowing from individuals, business concerns, insurance companies, or other sources, except the banking system, represents the investment of existing savings. To the extent that the Government did not finance its war program by taxation, it was obliged to borrow, and to the extent that it did not borrow from nonbank investors, it relied upon the banks and thus created new supplies of money.

As a consequence, the country's money supply, as measured by demand deposits and currency in circulation, more than tripled, increasing from 40 billion dollars in June 1940 to 127 billion at the end of 1945. Time deposits nearly doubled in the same period and now amount to about 50 billion dollars. In addition, the general public (exclusive of banks, Government trust funds, insurance companies, and other financial institutions) has about 100 billion dollars of Government securities, eight times as much as in June of 1940.

From the monetary standpoint, it is necessary to take into account, not only these existing liquid assets, but also the amount of current income flowing from production and employment. All of these items compose an inflationary potential, at a time when the supply of goods and services available for purchase with existing funds and currently produced income is far from adequate to meet current demand, on which is superimposed an unprecedented backlog of demand accumulated in the war years. The extent to which funds available to the public, including business, will compete for the existing supply of goods and services depends upon many factors. It depends, among other things, upon the continuance and effectiveness of price controls, upon credit restraints and other devices for dealing with inflationary effects, and upon public psychology and behavior, which in turn are influenced by expectations as to the trend of prices and the volume of production. Public confidence that the purchasing power of savings and current earnings will be maintained depends primarily on the determination of Congress and of administrative officials to hold inflationary forces in check and to reduce them, wherever possible, until the country's unrivaled capacity to produce has had every opportunity to bring about a reasonable balance between the factors of supply and demand.

It is axiomatic that inflationary dangers exist when the supply of money in the hands of people who seek to spend it greatly exceeds the volume of goods and services available. The more the money supply exceeds the volume of goods, the greater the inflationary pressures will be. There can be no doubt that the country's money supply, several times greater now than ever before, is and will continue for an indefinite time to be much in excess of available goods. Under such conditions, with the heavy drains of war financing no longer existing, public policy calls for vigorous attack on the basic causes of inflationary pressures. This, in turn, requires that the Government stop and reverse, if possible, the process whereby it has created bank credit. It is all the more imperative that the Government reverse this process as the commercial banking system resumes its peacetime function of supplying credit to private sources whose borrowing will itself create additional funds.

The Government has, in fact, been reversing its creation of money by drawing on its surplus cash balance to pay off Government debt, primarily that held by the banks. As long as this use of the Treasury's cash balance continues, the effect will be anti-inflationary and altogether salutary at this time. However, if the policy of paying off Government debt is to continue, as it should until such time as deflationary and not inflationary pressures threaten economic stability, it will be essential to have not only a balanced budget but as great a surplus of receipts over expenditures as is possible without neglecting necessary governmental functions. Accordingly, further general reduction of taxes should be avoided and prudent economy should be effected in governmental operations.

Necessary as it is that Government policy be firmly anti-inflationary at this juncture, the rapid attainment of full and sustained production far overshadows all other economic considerations. As production is disrupted, whether by strikes or other causes, a series of interrelated and dangerous economic consequences inevitably results. On the one hand, supply is diminished relative to demand. On the other hand, demand is increased in so far as the public, anticipating rising prices, strives to purchase whatever can be obtained at whatever prices are asked or tolerated. Black markets, inventory accumulation, speculation, particularly in fields not covered by price controls, such as securities and real estate, are thus fostered. These are the customary symptoms of an inflationary spiral, which can end only in collapse and deflation. When that stage is reached, diminished incomes cause a sharp decline in Government revenues, leading to an unbalanced budget and a deficit which has to be financed chiefly by creation of more bank credit.

It is this chain of causation that has to be prevented, first of all, by full and sustained production and, second, by having the Government discontinue its creation of bank credit and reduce as rapidly as possible its debt. Even under the most favorable auspices, of maintaining high levels of taxation and of careful economy, the process of reducing the redundant money supply will be slow and gradual. It may be offset, not only by creation of bank credit to finance necessary private production, but by creation of bank credit that finances speculation in existing assets, whether commodities, real estate, securities, or Government bonds.

The creation of unnecessary bank credit by the commercial banking system is the particular concern of those charged with monetary responsibilities. It can not be a matter of indifference that at present the country's central banking mechanism lacks appropriate means, that may be needed, to restrain unnecessary creation of bank credit through continued acquisition of Government or other securities by the commercial banks. So long as the Government is able, whether out of its surplus cash balance as at present, or out of a future budgetary surplus, to pay off its debt held by the commercial banking system, a restraining influence is exerted.

Nevertheless this restraint may not suffice because of circumstances which are the heritage of war financing. One of these is the Reserve Board's assurance to the Treasury that the rate of ⅞ per cent on one-year certificates will be maintained, if necessary, through open market operations. This means in practice that the Federal Reserve stands ready to purchase short-term Government securities in the open market in order to prevent short-term interest rates from rising above the level the Government is now paying. This assurance is necessary from the standpoint of the Government's financing operations, and was given because the Board does not favor a higher level of interest rates than the Government is now paying.

This policy makes it possible, however, in the absence of effective restraints, for commercial banks to sell short-term, lower-yield Government securities to the Reserve System and thus acquire reserves which, on the present basis of reserve requirements, can support a sixfold expansion of member bank credit. To the extent that commercial banks use these reserves, either for their own account or in loans to customers, for the purpose of purchasing longer-term, higher-yield Government bonds or other securities, the money supply can thereby be increased on the volition of the banks irrespective of national monetary policy and without control such as exists in other principal countries.

There remain outside of the banks approximately 20 billion dollars of Treasury bonds which are eligible for bank purchase. An additional 34 billion, now ineligible for banks to purchase, will become eligible during the next 15 years. Thus, even though the Federal budget is balanced and Government debt continues to be paid down, there will be some 55 billion dollars of Treasury bonds that could be acquired by the commercial banks, in the absence of effective restraint. Commercial banks hold some 20 billion dollars of certificates and, at least theoretically, could by selling less than half of these certificates to the Reserve System obtain enough reserves, on a six-to-one ratio, to absorb all of this 55 billion dollars of Government bonds. This is wholly aside from what other loans and investments banks could make on the basis of the potential reserves available.

It is this possible further monetization of the public debt which may need to be subjected to more definite restraint, if monetary policy is to be effective and, indeed, if the commercial banks themselves are not to induce a further lowering of the interest rate structure. This in turn would reduce the earnings of banks from sources other than their Government bond portfolios. Furthermore, such continued, uncontrolled monetization of the debt and the consequent decline in interest rates would further accentuate speculative inflationary forces in all capital assets. Constant downward pressure on interest rates arising not from the accumulation of savings but from the creation of unnecessary bank credit is not desirable under inflationary conditions.

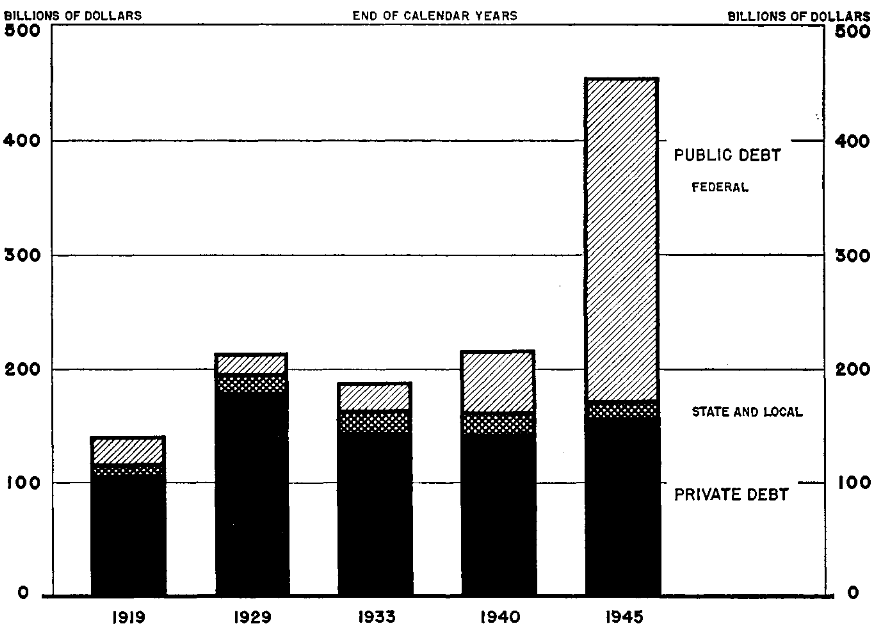
Excessive competition for and the consequent bidding up of market prices of outstanding longer-term Government securities makes for private speculative profits but not for a saving to the Government. Continued declines in the rate structure bear most adversely upon the many millions of the country's savers, upon insurance companies, savings banks, endowments, trust funds, and pensions, Instead of a further monetization of the debt by the commercial banking system, public policy at this time would be well served if the banks were to sell some of their longer-term holdings to nonbank investors and if bank holdings of the debt were more concentrated in short-term securities which bear low rates of interest. Bank earnings in general reached a higher level in 1945 than at any previous time as a result of profits and earnings from Government securities. While the peak of receipts from this source has probably been reached, it would be preferable if bank earnings were derived increasingly from private lending and other operations in response to necessary community requirements, and if less reliance were placed upon earnings from Government securities.

There can be no assurance that the process of shifting from the shorter- to the longer-term Government securities will be discontinued unless the shorter-term rates should rise to the point where the shifting would no longer be profitable—and this would be undesirable because it would increase the cost to the Government of carrying the public debt. Unless some adequate restraint could be exercised as to the amount and kind of Government securities that commercial banks may hold in relation to their demand deposits, the issuance of additional long-term securities to the market could result in a continued monetization of the debt, even though the securities were made ineligible for bank purchase. For there would be nothing to prevent the sale of existing eligible securities to the banks and the use of the proceeds to purchase the new issues. Even though the funds thus obtained by the Government were used to pay off short-term maturing debt held largely by the banks, there would be nothing to prevent the banks from replacing, through market purchases, enough of the eligible securities to equal the amount paid off. Under such circumstances, nothing would be gained towards reducing the money supply.

If the Federal debt occupied the relatively subordinate place in the economy that it held even up to 1940, the problems of debt management would be far simpler and the question of increasing the cost of carrying the debt would manifestly be of less significance. However, the Federal public debt at the end of 1945 had reached 280 billion dollars, or nearly six times what it was five years before. Whereas it was equal to about one-fourth of the entire debt of the country in 1940, by the end of 1945 it was nearly two-thirds, as is shown on the chart on page 6. Interest on the Federal public debt amounted to less than a billion dollars for the fiscal year 1939. It rose to 3.6 billion dollars for the fiscal year 1945, and according to budget estimates it will be 4.8 billion for the fiscal year 1946 and 5 billion for the fiscal year 1947. As a result of this fivefold increase, it has become the largest single item in the budget aside from expenditures for national defense, and exceeds by 800 million dollars estimated expenditures for veterans' pensions and benefits for the fiscal year 1947. In view of the large amount of short-term debt that will need to be refunded in the next few years, each full percentage point of increase in the level of interest rates would add up to a billion dollars a year to the nation's tax bill.

Proposals, therefore, for increasing interest rates, as an anti-inflationary influence, raise more formidable questions affecting the Federal budget, the levels of taxation, and the amounts paid on the debt to the banking system than was the case only a few years ago. In all principal nations the trend of rates paid by the Government has been downward rather than upward, notwithstanding the presence of comparable, war-created inflationary pressures. In other countries, Governments have been better able to exercise effective control over the amounts of Government securities purchased by banks and over the rates paid to banks for this financing.

TOTAL PUBLIC AND PRIVATE DEBT



Such comparisons would perhaps be unwarranted were it not for the fact that proposals have been publicly put forth in the United States suggesting that further debt monetization might be prevented through voluntary agreements on the part of the commercial banks of this country such as are entered into in some other countries. Such a solution for the problem would be far preferable to statutory regulations if it offered a reasonably assured prospect of success. The differences between the situation in the United States and in other countries arise because there are more than 14,000 commercial banks in the United States, operating under highly competitive conditions, and with three Federal and forty-eight State bank supervisory agencies. In England and Canada, the countries usually cited in connection with voluntary agreements, competitive and other conditions are entirely dissimilar. Each of these countries has but one bank supervisory authority. There are but ten chartered banks in Canada, while in England about a dozen banks do most of the banking business. It is a relatively simple matter to bring about voluntary agreements among so few banks and to obtain equitable observance, but in view of the different situation prevailing in the United States it would be impossible to enter into or to enforce similar agreements.

Another proposal, which has been more frequently advocated, is that the Reserve System discontinue its policy of maintaining the ⅞ per cent rate on Treasury certificates, and that open market operations be directed only towards maintaining the rate of 2½ per cent on the longest term bonds. This suggestion contemplates that the short-term rate would rise to a point close enough to the long-term rate to discourage commercial banks from selling short-term securities to the Reserve System and purchasing the long-term securities in the market. It is contended that an increase in the short-term rate from ⅞ to as high as 1¼ per cent would increase the cost of carrying the public debt by an estimated 200 million dollars and that this would be a small price to pay in combating inflationary dangers. However, there is no assurance that this much of an increase in the short-term rate would stop further debt monetization and even less reason to suppose that it would be of value in combating inflationary dangers which have arisen from two primary causes, neither of which would be corrected by higher rates. One cause is the volume of money already created, which can not be rapidly reduced. The other, and by far the most important basic cause, is the insufficiency of production as yet in relation to the existing money supply.

A major consequence in attempting to deal with the problem of debt monetization by increasing the general level of interest rates would be a fall in the market values of outstanding Government securities. These price declines would create difficult market problems for the Treasury in refunding its maturing and called securities. If the price declines were sharp they could have highly unfavorable repercussions on the functioning of financial institutions and if carried far enough might even weaken public confidence in such institutions.

The Board, therefore, does not believe that the problem could be met by voluntary agreement among 14,000 commercial banks or that it could be dealt with effectively by increased interest rates unless they were so high as to be a deterrent to necessary production, apart from the serious consequences to the Government security market.

If traditional interest rate policy or voluntary agreements are not appropriate or feasible, then what alternatives remain for preventing further debt monetization? Various alternatives have been suggested, some of which the Board considers too restrictive or otherwise impractical. Among the proposals which the Board believes worthy of consideration by the appropriate committees of the Congress are the measures outlined in general terms below.

One measure would be to empower the Board of Governors to place a maximum on the amounts of long-term marketable securities, both public and private, that any commercial bank may hold against its net demand deposits. This measure would serve to restrict the banks' demands for long-term Government securities and to strengthen their demands for short-term securities. It would not restrict the banks' ability to make loans or to purchase long-term securities against savings deposits. It would reduce, however, the existing inducement to sell short-term securities to the Reserve System, thus creating additional reserves, in order to purchase higher-yielding, long-term issues. The voluntary agreement adopted in Canada is similar to this limitation, which would be consistent with good banking practice in this country.

Another measure would be to empower the Board of Governors to require all commercial banks to hold a specified percentage of Treasury bills and certificates as secondary reserves against their net demand deposits. To aid banks in meeting this requirement, they should be permitted to hold vault cash or excess reserves in lieu of Government securities. This measure would result in stability of interest yields on short-term Government securities and, therefore, of the cost of the public debt. Like the bond portfolio limitation, it would provide a measure for regulating commercial banks' demands for short-term Government securities relative to their demands for longer-term issues. At the same time, it would leave considerable freedom for movement of interest yields on non-Government paper of short-term maturity.

Some administrative flexibility should be authorized in connection with either of these measures in order to meet differences among banks as well as to adjust to the changing needs of the economy for bank credit expansion or contraction.

A further possibility would be to grant additional power to the Board to raise reserve requirements, within some specified limit, against net demand deposits. If this authority were granted, banks should be permitted to count vault cash as reserves, and there should be provision for greater administrative flexibility in applying changes in requirements. To assure effective control, all commercial banks should be subject to the same reserve requirements. Adoption of this measure would strengthen the capacity of the Federal Reserve to prevent bank credit expansion on the basis of additional reserves obtained through gold imports or return flows of currency from circulation.

Under present conditions, however, when banks have relatively small amounts of excess reserves, increases in reserve requirements would make it necessary for banks to liquidate some of their assets. This would result in a rise in interest rates or necessitate Federal Reserve purchase of sufficient securities to provide the additional reserves. Under a continued policy of maintaining the existing level of short-term interest rates, the principal effect of an increase in reserve requirements would be a shift of Government securities from the commercial banks to the Reserve Banks.

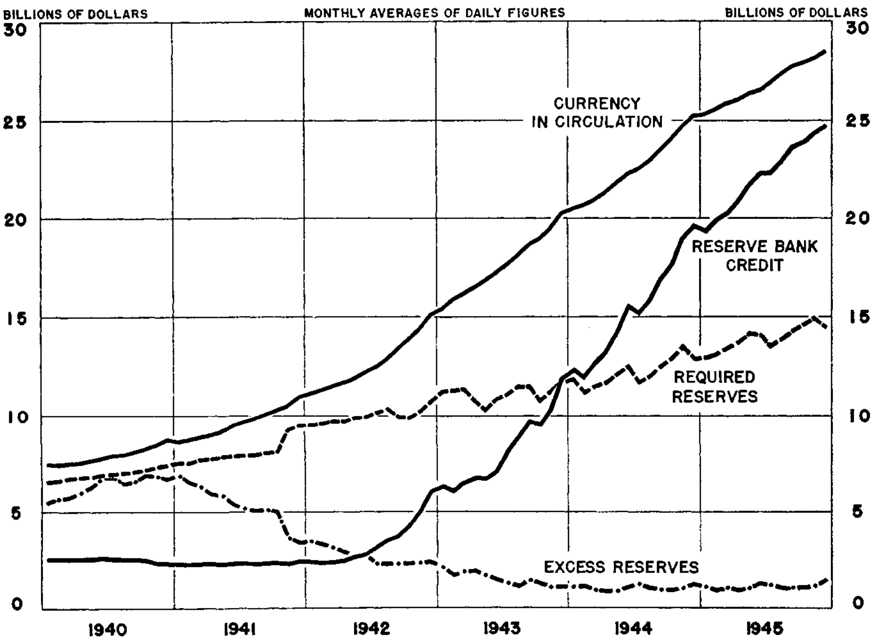
Each of the foregoing measures would provide additional instruments for coping with emerging banking and monetary problems without increasing the cost of Government financing or upsetting the market for Government securities. The suggested measures would help to strengthen the position of the banks and at the same time would enable them to continue their normal peacetime functioning in the financing of commerce, industry, and agriculture, as well as consumers.

WAR FINANCING POLICIES

When the United States entered the war in December of 1941, the Federal Reserve System announced that it was prepared to use its powers to assure that an ample supply of funds would be 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 would be satisfactory from the standpoint of the Government's requirements.

As was stated in the President's budget message of January 14, 1946, "Close wartime cooperation between the Treasury Department and the Federal Reserve

RESERVE BANK CREDIT, REQUIRED AND EXCESS RESERVES OF MEMBER BANKS, AND CURRENCY



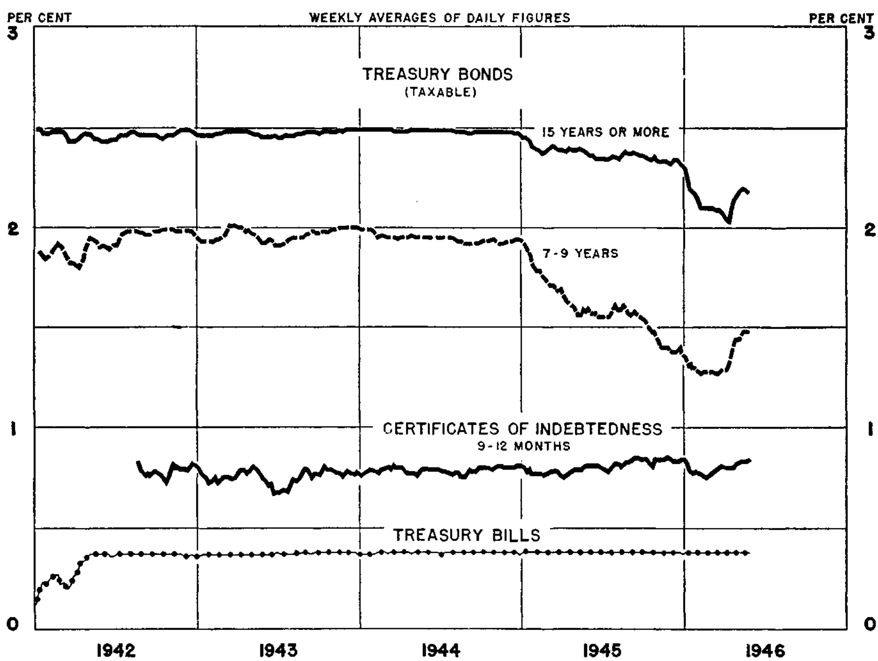
System has made it possible to finance the most expensive war in history at low and stable rates of interest." A structure of interest rates on Government securities conforming closely to the pattern prevailing at the beginning of the war was maintained. The rates on marketable securities ranged from 7/8 per cent on one-year Treasury certificates to 2½ per cent on the longest term Treasury bonds.

Federal Reserve purchases of securities provided the basis for the rapid growth of currency in circulation and also supplied the banks with additional reserves needed to support the expansion of bank credit and deposits. Under existing reserve requirements, each dollar of additional reserves permits an expansion of more than six dollars in bank credit and bank deposits by the banking system as a whole.

As is shown in the chart on page 9, Federal Reserve purchases of 22 billion dollars of Government securities, together with 7 billion of reserves in excess of requirements held by member banks in 1940, provided the basis for a wartime currency expansion of 20 billion and a growth of 8 billion in member bank required reserves. The increase in required reserves reflected an expansion of about 50 billion dollars in member bank deposits against which reserves are required; in addition there was an increase of over 20 billion in United States Government war loan deposits, which have been exempt from reserve requirements since early in the war period. There was also a large expansion in deposits of nonmember banks, which are not required to hold reserves with the Federal Reserve Banks.

As part of the System's policy, the Open Market Committee early in 1942 established a ⅜ per cent buying rate at which the Federal Reserve Banks pur-

YIELDS ON U. S. GOVERNMENT SECURITIES



chased all Treasury bills that were offered to them. There was also put into effect a provision by which banks could retain the option to repurchase Treasury bills from the Reserve Banks at the rate at which they had been sold. The banks were thus given assurance that they could at any time convert these short-term Government securities into cash and were, therefore, more willing to invest excess reserves in such securities. In the course of time, however, nearly all of these bills came to be held in the Federal Reserve portfolio, while commercial banks bought higher-yield issues.

A further step in encouraging the use of available banking funds to finance the war was the establishment at the Federal Reserve Banks, with the Board's approval, of a preferential rate of ½ per cent on advances to member banks secured by Government obligations with a maturity not exceeding one year. This enabled the banks to meet temporary needs for reserves by borrowing from the Reserve Banks rather than by liquidating their Government securities.

Establishment of low discount and buying rates on short-term securities was especially directed toward encouraging banks to purchase and hold short-term, low-yield issues rather than longer-term issues. This objective was also promoted through Treasury policy during the later years of the war of prohibiting or restricting bank holdings of certain longer-term issues offered in the war loan drives.

The effect of these policies in maintaining a low and stable structure of interest rates throughout the war period is shown by the chart on the preceding page. Maintenance of interest rates at low levels served several purposes: It encouraged investors to purchase securities without waiting for higher yields and to hold them without fear of loss from price fluctuations. It kept the market free from disorderly movements. It also retarded the growth in bank earnings on the securities they purchased. Finally, it held down the cost to the Treasury of interest charges on the greatly expanded public debt. As a result of these measures and policies, the Government experienced no difficulty at any time in raising the necessary funds. The average interest cost of the public debt to the Treasury was less than 2 per cent.

Bank credit expansion. While one of the objectives of war finance was to sell as many securities as possible to investors other than banks, some of the procedures followed in financing the war and in maintaining the structure of interest rates resulted in excessive bank credit expansion. In retrospect it is evident that more vigorous policies should have been adopted in order to raise more of the cost of the war through taxation and to restrict bank purchases of Government securities. If fewer securities which were eligible for bank purchase either at the time of issue or later had been offered, the wartime expansion of bank credit would not have been as excessive and the postwar problem of preventing further monetization of the debt might have been avoided.

Although war loan drives were directed toward nonbank investors, and banks were not permitted to subscribe for securities offered in the last six of the war loans except to a limited extent, the methods of conducting the drives resulted in large increases in bank holdings of Government securities. Individuals and businesses paid for securities in part by drawing on their existing deposits and in part by selling to banks securities bought in previous drives. Banks had reserve funds available during the drives because funds were shifted from deposits against which reserves are required to war loan accounts, which were exempt from reserve requirements. As a consequence a stimulus to expansion in bank credit was given during each war loan drive.

Between drives, as the Treasury drew on its accumulated balances to meet its current deficit, deposits of businesses and individuals increased. Member banks met the resulting increase in reserve requirements by selling securities to the Reserve Banks, thus creating new reserves. This process led to a gradual growth in bank reserves during and between drives on the basis of which member bank deposits expanded by more than six times the reserve increase. The Reserve Banks purchased whatever amounts of Government securities were necessary to supply banks with reserves to cover increasing requirements, as well as to meet the steady growth in demand for currency by the public.

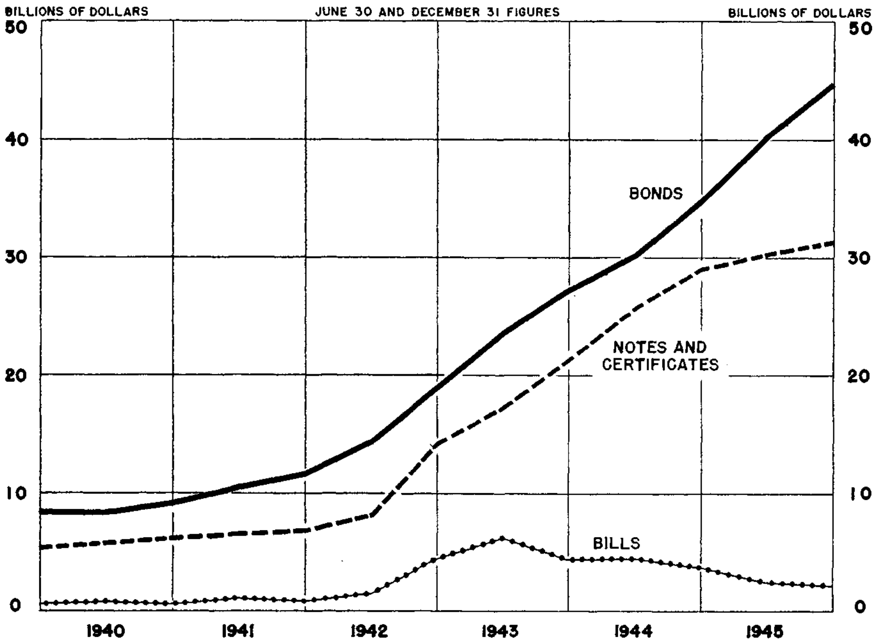
Another factor conducive to bank credit expansion during the war was the maintenance of the wide differential between short-term and long-term interest rates. This differential became established in the prewar period when, partly as a result of tremendous gold imports, banks and others had large amounts of idle funds seeking temporary investment and there was a limited supply of short-term investments. During the war, however, there developed a growing demand for long-term securities with their higher rates. Banks, as well as other investors, began to shift from short-term securities to the longer-term issues. The shorter-term yields were prevented from rising by Federal Reserve support to the market, and as a consequence longer-term rates tended to decline.

It has been especially profitable for banks and other investors to shift from short-term to the longer-term securities without reducing their potential liquidity, as long as the structure of yields on all Government securities continued to be maintained. Because of the lower rates maintained on short-term securities, outstanding longer-term issues rise in price as they approach maturity. Holders can sell these issues at a premium and then purchase other long-term issues yielding the same or higher returns. In many cases short or medium-term securities bought in war loan drives were sold during subsequent drives at a premium, while the holders purchased new issues at par.

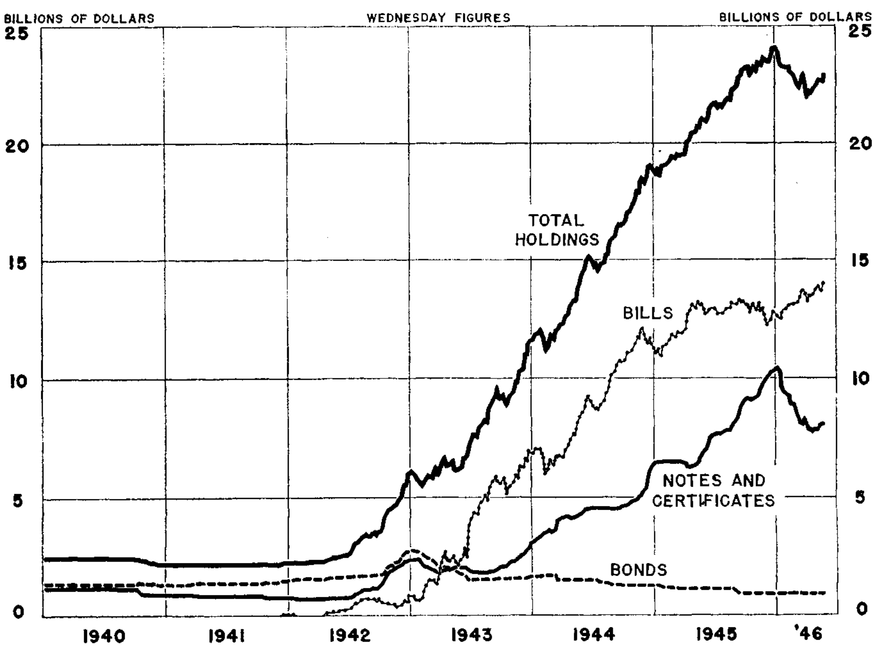
This practice, known as "playing the pattern of rates," brought about the decline in long-term interest rates, which increased the premiums on outstanding medium and longer-term issues. This practice led to bank credit expansion because Federal Reserve purchases created additional bank reserves on the basis of which the banking system as a whole was able to expand loans and securities by more than six times the amount of new reserves created.

Shifting by banks from short-term to longer-term securities occurred to an increasing extent after the middle of 1944. The first chart on the following page shows that in early years of the war the increases in member bank holdings of short-term bills, certificates, and notes were relatively greater than the growth in bonds. Since 1944, however, holdings of bonds have increased more rapidly than those of notes and certificates and bank holdings of bills have been substantially reduced. During the same period the Federal Reserve, as the second chart illustrates, rapidly increased its holdings of Treasury bills and more recently of certificates, while its small holdings of bonds were reduced.

MEMBER BANK HOLDINGS OF U. S. GOVERNMENT SECURITIES
BY CLASSES OF SECURITIES



FEDERAL RESERVE BANK HOLDINGS OF U.S. GOVERNMENT SECURITIES
BY CLASSES OF SECURITIES



Postwar financing policies. With the rapid decline in Government expenditures following the end of hostilities, the monetary situation has undergone a radical change. No further increase in the public debt is expected. There is, consequently, no need for the Treasury to sell additional securities to the banks.

Some of the forces that contributed to credit expansion and the consequent decline in long-term interest rates during the war no longer exist or are less influential. The absence of new borrowing needs by the Treasury is one of these. Another is the discontinuance of war loan drives with their special inducements to bank credit expansion. Utilization by the Treasury of its large cash balance to retire debt is resulting in a reversal of wartime tendencies. Bank holdings of Government securities are contracting, and retirement of Federal Reserve holdings tends to reduce bank reserves. Discontinuance of the preferential discount rate on advances secured by short-term Government securities by the Federal Reserve Banks discourages borrowings by member banks to hold Government securities or to make loans on such securities.

Continued retirement of Government securities held by banks would further decrease the volume of bank credit and bank deposits. The use of existing Treasury balances in banks to retire debt, however, does nothing to reduce the existing volume of deposits of businesses and individuals. To bring about a reduction in these deposits, it will be necessary for the Treasury to retire debt out of a budgetary surplus or to refund maturing securities now held by banks through the sale of new issues to nonbank investors.

In adopting a refunding program designed to reduce bank holdings of Government securities some departure from past practices would be necessary. As previously pointed out, banks hold a large volume of short-term securities, some of which can be retired as they come due, but there is also a large volume of outstanding securities available for purchase by banks. Any refunding program should endeavor to reduce the available supply of bank eligible issues not only at present but also for the future.

New issues should be of the type—such as savings bonds—that are nonmarketable and are redeemable upon notice on a basis that would give a proportionately lower return if redeemed before maturity. They would assure eligible investors of an opportunity for investment of savings funds. Under conditions calling for a budgetary balance or surplus the proceeds should be used to retire maturing public debt largely held by the banking system.. The rate should reflect the supply of savings funds relative to the demand and should not be a reflection of surplus funds created through unnecessary monetization of the public debt by the banking system. The investor would be guaranteed against risk of price fluctuations in case liquidation before maturity were necessary, but would receive a smaller yield for earlier redemption. Under present market conditions in which the short-term rate is supported, investors not only receive maximum yields on marketable long-term issues, which are in effect demand obligations, but they may also obtain a premium by selling their holdings before maturity. This premium varies according to the length of time that such issues are held.

Increased offerings of securities to nonbank investors would need to be accompanied by more effective restraints on bank credit expansion in order to prevent widespread sale to banks of securities eligible for bank purchase by holders wishing to subscribe for the new issues. If this were permitted offerings of these securities by the Treasury might stimulate rather than reduce further expansion in bank credit.

It is because of the monetary situation resulting from the war, as described in this report, and because of the probability that continued restraints will be needed that the Board recommends for consideration by the Congress the provision of additional powers which could be used to prevent further unnecessary expansion of bank credit without raising the cost of Treasury financing.

CONTINUED INFLATIONARY PRESSURES DURING RECONVERSION

Throughout 1945, after as well as before the end of fighting in Germany and Japan, shortages of goods and services to meet civilian demands were widespread and upward pressures on prices continued. Advances in commodity prices were generally held within rather narrow limits but only through direct controls, subsidy payments, and diversion of substantial amounts of income from markets for goods into taxes and savings. Increases in transportation costs, residential rents, and various service charges also were avoided in large measure, but here again price stability depended to a considerable degree on continuation of various direct and indirect controls. Capital values, which were not subject to direct control, rose considerably, with marked increases evident in prices of urban and farm real estate and also in security prices. Basic rates of pay were held close to previous levels for the most part but toward the end of the year substantial upward adjustments were being made in a number of industries, adjustments sought partly to offset decreases in earnings resulting from reductions in the amount of overtime work at premium rates of pay. Markets were generally strong in the latter part of the year, following a brief period of hesitation in August and September, when there was considerable uncertainty concerning the extent to which Government orders, then being canceled in tremendous volume, would be replaced by private buying.

During the period of hesitation numerous steps were taken to facilitate the transition and to prevent any greater amount of unemployment than would be unavoidable in a period of rapid demobilization and general liquidation of the war production program. Rationing, allocation, and inventory controls were discontinued in most lines, employment and wage controls were generally suspended or greatly modified, and Federal taxes were revised downward. Taxes on business were reduced, chiefly through elimination of the excess profits levy, and taxes on individual incomes were lowered, all effective at the beginning of 1946. To facilitate the financing of reconversion, provision was made for prompt deduction from current tax obligations of part of the refunds due to business enterprises under wartime tax laws. Action was also taken to expedite the settlement of war contracts. Direct price controls, however, were continued in order to prevent inflationary developments during an interim period before supplies could be expected to be available in sufficient quantity to stop any general sharp price rise.

Shortages at the end of the year. Shortages in this country, it is true, were not at any time comparable with those in war-devastated areas abroad, and, moreover, soon after the war ended some commodities like gasoline, which had not been freely available during the war, came to be in ample supply. Shortages were sufficiently widespread, nevertheless, to endanger price stability and orderly reconversion. Consumers, producers, and distributors in this country and foreign buyers as well found it impossible to obtain many of the things they were seeking. There were not enough houses to meet heavy consumer demands and not enough commercial structures to meet business demands. Existing stocks of passenger automobiles and many other durable goods held by consumers were considerably smaller than before the war and in some instances almost no new supplies became available before the end of the year. There were many shortages, some of which were not foreseen, of consumer nondurable goods such as clothing and food. Producers were still short of many materials, including imports such as tin and copra, and of numerous component parts required for the manufacture of finished products. In some lines of great importance to the war program much new plant and equipment had been installed during the war, but in others existing plant had deteriorated and replacement requirements were urgent; moreover, large expansion programs were being undertaken in industries with prospects for large sales in the period ahead.

The principal factors underlying the continued widespread shortages at the end of the year were: (1) the depletion of stocks of many goods in the hands of consumers, distributors, and producers resulting from lack of production for several years beginning in 1942; (2) the strengthening of the financial position of business enterprisers and consumers, who had been able to increase their holdings of liquid assets and to reduce their indebtedness because of the large excess of income over taxes and expenditures for goods and services; (3) the continued high, although somewhat reduced, level of income distributed after the war, primarily in connection with a growing volume of production for civilians but partly also, especially at first, in connection with the liquidation of the whole war program; (4) the disposition of consumers and producers to use funds at their disposal rather freely for a wide range of purposes; (5) the time required to transfer manpower and other resources from wartime activities to peacetime production—a start had been made in 1944 and again after the end of the war in Europe, especially in output of producers' equipment, but it was only a start; and (6) the additional time needed after the transfer of resources to turn out sufficient materials, and later finished products, to meet heavy accumulated and current demands. Disorganization of economic life abroad was a factor increasing the immediate demand for products of the United States and limiting the amount of materials available for importation into this country.

Speculative withholding of goods from the market was not a major factor in shortages during 1945, although instances of such withholding were reported at the end of the year. In brief, shortages persisted because, even in an economy as flexible as that of the United States, deficiencies developed in several years of warfare could not be eliminated in a few months.

Increased production of civilian goods. In general, where physical reconversion of plant facilities was required it was accomplished quickly, and in many industries, especially those producing materials, the changeover involved little if any interruption in output. Producers did encounter continuing problems, however, in obtaining large and balanced supplies of materials and parts essential for full production. This was the result of the great shift in requirements and the great difficulty of expanding rapidly the output of such things as building materials, which in the later stages of the war had not been required in as large volume as some other goods. In some instances deliveries were delayed in disputes over ceiling prices. Recruiting of workers for industries paying relatively low wages, as, for example, certain textile and building material industries, proved to be a slow process.

Output, moreover, was interrupted in a number of lines by labor-management disputes, and such disputes became more numerous toward the end of the year. Issues relating to organization matters as well as to wage rates were involved in some disputes and a number of important work stoppages continued for considerable periods. The coal, petroleum refining, glass, lumber, and automobile industries were among the more important industries directly affected by work stoppages. In many industries, however, agreements were reached on new wage scales 10 per cent or more above previous levels without interruptions of output. Altogether from 5 to 6 million workers obtained increases in basic rates in this period. And in many leading industries, including steel, electrical equipment, meatpacking, and the railroads, negotiations did not reach a critical stage until after the end of the year. One of the broader issues involved throughout these negotiations was the extent to which higher wages could be paid without increasing prices, an issue which hinged in part on differences in view as to the prospective volume of business and the levels of productivity attainable.

Notwithstanding the numerous problems of readjustment, production in the economy as a whole declined less during the early autumn than had been expected by many observers and in the final months of the year increased. At factories and mines, where a large part of production for war purposes had been concentrated, the total volume of output declined from 235 per cent of the 1935-39 average in March and 210 in July to 162 in October, and then advanced to 168 in November. Elsewhere in the economy, activity generally increased, as in the construction industry and in many service industries, or showed little change, as in agriculture and on the railroads. The value of the total national product, as represented by expenditures for all currently produced goods and services, including the services rendered by the armed forces, declined only from an annual rate of 206 billion dollars in the second quarter of 1945 to about

185 billion in the fourth quarter. The decline in physical volume of all goods produced and services rendered was not much greater than this. It was thus in spite of a high level of production that shortages persisted in this period.

As compared with the 1935-39 average—not a wholly satisfactory standard in view of the low levels prevailing then—industrial production in the fourth quarter was up 65 per cent, and output of electric power for all purposes was up 80 per cent. In agriculture production for the year was about 30 per cent above the level for the prewar period. Construction activity was rising rapidly at the end of the year but was still not up to the prewar level.

In interpreting these figures for increases since 1935-39 in relation to potential levels in the years ahead, account should be taken not only of the low level of production before the war—an average of about 9 million persons were unemployed—but also of the increases which have occurred since then in the population and the labor force and the improvements which have been developed throughout the economy in techniques of production. Notwithstanding the higher levels of production prevailing at the end of 1945 than before the war, further substantial increases appear to be feasible. Moreover, it is evident that to an increasing degree productive activity will be reflected in increased output of finished products for consumers rather than, as was true to an unusual degree in the latter part of 1945, in production of materials and parts and of industrial equipment for producers.

High level of employment. One important element in the production and supply situation at the end of 1945 was that by that time over 5 million persons in excess of the number currently recruited had been mustered out of the armed forces, and more than this number had been released from employment in war production. This helped to make possible the rapid growth in production for civilians. Concern lest the release of so many workers from the war program in such a short time would lead to an exceptionally large volume of unemployment did not prove warranted. This was partly because withdrawals from the labor force were quite rapid, numbering 2 million or more in this period, and because veterans in many cases did not immediately begin looking for jobs. The principal factor, however, was the absorption of workers in employment for civilian purposes.

The total number of workers employed at the end of the year, excluding 7 million still in the armed forces, was over 51 million, and the number unemployed was about 2 million. The work week meanwhile had been reduced from peak wartime levels but continued to be longer than before the war. In manufacturing the average number of hours worked per week in December 1945 was about 10 per cent below the wartime maximum and 10 per cent above the 1939 average. Further reductions in hours as well as increases in production and employment may be expected during the early months of 1946 as releases from the armed forces proceed at a rate of about a million a month, more than offsetting withdrawals from the labor force and steadily increasing the number of workers available to increase production.

High incomes. Shortages continued after the end of the war partly because of the high level of income which encouraged buying both by business enterprises and by individuals. In the fourth quarter individual incomes, on a seasonally adjusted basis, were at a rate of 157 billion dollars a year, as compared with 163 billion in the second quarter and 67 billion in the 1935-39 period. Incomes in the boom year 1941 amounted to 93 billion dollars.

The reduction in income from the second quarter to the fourth quarter of 1945 reflected a sharp decline in factory pay rolls and some decline in payments to the armed forces, offset only in part by increases in other payments. Factory pay rolls declined about 30 per cent, as activity in many of the higher pay industries declined sharply and the amount of overtime work at premium rates of pay was reduced. There were, however, large increases in wage and salary payments in various other parts of the economy, where activity had been greatly restricted during the war. Unemployment compensation payments and discharge payments to veterans increased considerably. The net income of farmers continued at peak levels and that of other proprietors advanced further. Although corporate profits were somewhat below the high levels of previous wartime years, dividend payments were maintained.

At the end of the year many of these shifts in income payments were continuing, but pay rolls in manufacturing had already begun to increase as activity rose and as wage-rate increases became effective.

Strengthened financial positions. The holding of greatly increased liquid assets by businesses and individuals, discussed in a subsequent section of this report, was an important factor strengthening the demand for goods and services currently being produced and for capital assets and used goods as well. Increases in other reserves, such as insurance and pensions, and substantial reductions in private debt also tended to strengthen market demand.

The improvement in the financial position of business enterprises and individuals as compared with prewar years was not as great as figures on liquid asset accumulation, debt reduction, and the like would suggest, because meanwhile prices had advanced considerably. Moreover, not all people in the country had shared equally in the improvement which did occur. Nevertheless, in view of the general situation and the experience of the latter part of 1945, it appears evident that the improvement in financial position was a real factor in encouraging purchases of all sorts of things and bidding up of prices where shortages persisted and direct controls were not in effect.

Heavy business and consumer demands. Available information shows that expenditures other than those for war purposes generally increased from the second quarter to the fourth quarter of 1945, and it is apparent that outlays would have been made for many more goods and services at the end of the year as well as earlier if they had been available. As it was, consumer outlays increased from a rate of 100 billion dollars a year to 111 billion in this interval and there was a further expansion to 120 billion in the first quarter of 1946.

This rise reflected mainly the purchase of more goods and services, although there was a gradual rise in prices in this period.

As the armed forces were demobilized the size of the civilian population increased. As more goods became available there was increased buying from current income and, in many individual instances, from the disposition of existing assets. The rate of 111 billion dollars of consumer expenditures in the fourth quarter was not only a record in dollar terms but was also a real increase, in physical terms, over the level prevailing at the end of the war and in 1939. The level reached, however, was not as high as that in 1941, and changes from prewar levels varied greatly for different types of goods and services. This unevenness of change was partly a result of the unavailability of supplies of some things and partly a reflection of variations in demand for different products that result from rising incomes. In general demand was strong for most semi-durable goods like clothing and for perishable products, as well as for durable goods. But as yet there were few new durable goods available for purchase.

Business expenditures for new plant and equipment and for inventories, as well as for materials to be fabricated and immediately passed along to consumers, expanded considerably. Here again outlays were limited by lack of available supplies rather than by lack of funds or the disposition to use them.

Expenditures for construction of new houses increased considerably, with the limiting factor being supplies of building materials. The number of new dwelling units started in the fourth quarter was about 90,000 as compared with 60,000 in the second quarter, but the rate was still low relative to prewar levels and very low relative to the rate needed in the early postwar years. In the first quarter of 1946 the number of new dwelling units started rose further to approximately the previous highest level.

Advanced levels of prices. As a result of all these developments affecting the availability of supplies and the intensity of demand, upward pressures on prices were generally strong throughout 1945, except that for a brief period when hostilities ended there was weakness in some markets, particularly for certain agricultural products. Sharp price increases generally in 1945 were avoided only through the operation of various controls, direct and indirect.

While prices in wholesale and retail commodity markets showed only gradual increases during the year, prices for real property and for common stocks advanced sharply. Housing facilities were almost universally short of demand and active bidding drove values in urban areas up about 10 per cent further during the closing months of the year. The level reached at the end of the year was about 60 per cent above that of 1940 although meanwhile rents had not been permited to advance materially. Commercial properties, not subject to rent control, were also in great demand. Values of farm real estate, which had increased at a fairly rapid rate during the war under the stimulus of greatly increased farm income, showed less increase for a brief period after the end of the war but later the advance was accelerated. By the end of the year the increase over the prewar level amounted to nearly 70 per cent, which was about the increase shown from 1914 to 1920 in percentage, though not in dollar, terms. The advance in real estate prices generally provided an opportunity for speculative activity on a growing scale.

Prices of common stocks advanced about 20 per cent in the latter part of 1945 and the volume of trading was relatively large. The general level reached was close to the peak in the early part of 1937. Restrictions imposed on the use of credit for trading in securities are discussed in another section of this report.

The general situation concerning prices as the year closed was more evident in information dealing with the forces which lie back of prices than in price statistics. This was true partly because of the effectiveness of controls in preventing price increases and, in some instances, because of trading in black markets at prices much above the legal limits. Moreover, price statistics do not fully reflect shifts in buying from low-priced to high-priced goods that result in considerable part from a scarcity of low-priced items and do not reflect changes in demand that accompany increased incomes.

Price data, nevertheless, indicate that the increases during the war period were large, although not as great as those during the first world war, and that they were widespread, although by no means uniform. Wholesale commodity prices were up about 40 per cent from the 1939 level and 35 per cent from the average for the 1935-39 period. Farm product prices were double the 1939 level. At retail, prices of food and clothing were up fully 50 per cent. Rents had shown little rise, however, and the increase above January 1941 in the cost of living recognized for purposes of wage adjustments was 33 per cent. Marked advances in prices of real estate and of common stocks have been referred to in preceding paragraphs.

Altogether this is an impressive list of increases, and the underlying situation at the end of the year was such that further advances occurred in the early months of 1946. Adjustments in price relationships, as in production relationships, also were in prospect in the further transition to peacetime conditions. There was danger, however, unless direct and indirect controls were maintained in most instances and even increased in some cases, that price increases would not be limited to those necessary for the reallocation of resources but would become widespread and hamper rather than facilitate the orderly increase of production required to eliminate the extensive shortages still in evidence.

GROWTH IN LIQUID ASSETS

One of the most important wartime developments was a rapid growth in holdings of liquid assets, including currency, bank deposits, and United States Government securities. Between June 1940 and December 1945 personal and business holdings, excluding those of such groups as insurance companies, banks, and governmental bodies, more than tripled. The increase was nearly 155 billion dollars, of which a third was business holdings and two-thirds personal. There was a sevenfold expansion in holdings of United States Government securities by these groups, which accounted for half of the total increase in all types of liquid assets. The growth in demand deposits amounted to almost 38 billion dollars, while currency increased nearly 20 billion and time deposits 21 billion.

These rapid increases were a result of an excess of income, even after payment of wartime taxes, over the supply of goods available for purchase during the war. Throughout the period the proportion of resources devoted to war production remained considerably higher than the proportion of wartime incomes taken in taxes. The excess of income available after taxes over the income which could be spent on consumption goods at the prices prevailing was necessarily saved, and as relatively little private investment was taking place, most of the saving was in liquid form.

These large holdings of liquid assets in part represent more or less permanent saving which people are holding against old age or a rainy day; in part they represent larger working balances required by the growth of business and by wartime disturbances of normal expenditure patterns; and in part they represent deferred purchasing power likely to come on the market as soon as goods are available, particularly goods the production of which was curtailed or eliminated during the war. If even a small fraction of the total should be used in a short period of time to buy goods, the effect in stimulating price increases would be great. On the other hand, if most liquid assets should be held as savings and only used in emergencies, their growth might well make a sizable contribution to the regularization of expenditures and the stabilization of economic activity.

Although reduced following the end of the war, the growth in liquid assets in 1945 remained large. As is indicated in the table, it amounted to 32 billion dollars, compared with 39 billion in 1944, 40 billion in 1943, and 30 billion in 1942. At the beginning of the war business holdings expanded rapidly, but after 1943 the rate of increase slowed down as business experienced larger current tax payments and began to pay off bank loans and other indebtedness. In the second half of 1945 the start of reconversion intensified this development. Demand deposits held by businesses showed little change, while business holdings of liquid assets showed the smallest increase since early 1941. Demand deposits of manufacturing and mining concerns in fact declined by about 2 billion dollars, but balances of trade and service firms increased. An overwhelming portion of the increase in business liquid assets over the war period as a whole was accounted for by increased holdings of United States Government securities and demand deposits.

Individual holdings, on the other hand, increased most rapidly after 1942, and in the second half of 1945 the increase was at a more rapid rate than during any previous period except the second half of 1944. Government securities were the major form taken by personal holdings, but in the past three years there has also been a rapid increase in time deposits.

It is to be expected that the increase of such assets in 1946 will be considerably slower than it has been in the past. The sharp reduction in the Treasury's deficit almost removes the principal cause of the wartime expansion in liquid assets. Since the first of the year there has been a small decrease in currency in circulation and little further change in demand deposits, while time deposits have continued to expand. Treasury war loan accounts are being drawn upon to retire Government securities; since a large part of these securities are held by banks, the effect of such retirements on business and individual holdings of demand deposits and Government securities is relatively small.

Some shift in asset holdings from businesses to individuals may continue in 1946, as business as a whole uses its holdings to meet accrued tax liabilities and costs involved in establishing peacetime production. Some segments of business—

ESTIMATED LIQUID ASSET HOLDINGS OF INDIVIDUALS AND BUSINESSES[1]
[In billions of dollars]

	Outstanding Dec. 31, 1945	Increase June 30, 1940 to Dec. 31, 1945	Change during year				
			1945	1944	1943	1942	1941
Total	221.2	+153.5	+31.0	+39.0	+39.6	+30.4	+10.8
Currency	25.5	+19.4	+2.9	+4.6	+4.9	+4.2	+2.3
Demand deposits	60.3	+37.4	+7.2	+6.0	+10.4	+8.8	+3.5
Time deposits	47.7	+21.0	+8.7	+7.0	+4.3	+0.8	0
U. S. Government securities	87.7	+75.7	+12.2	+21.4	+20.0	+16.6	+5.0
Business holdings—total	73.4	+52.7	+5.2	+11.6	+17.4	+13.0	+3.9
Deposits and currency	42.1	+24.5	+3.0	+3.5	+9.1	+5.4	+1.7
U. S. Government securities	31.3	+28.2	+2.2	+8.1	+8.3	+7.6	+2.2
Personal holdings—total	147.8	+100.8	+25.8	+27.4	+22.2	+17.4	+6.9
Demand deposits and currency	46.8	+33.4	+7.5	+7.5	+6.4	+7.7	+4.1
Time deposits	44.6	+19.9	+8.3	+6.6	+4.1	+0.7	0
U. S. Government securities	56.4	+47.5	+10.0	+13.3	+11.7	+9.0	+2.8

[1] These estimates differ from the published totals for deposits, currency, and holdings of United States Government securities, which are the totals used in an earlier part of this report. The estimates are designed to cover what domestic individuals and businesses hold *according to their records*. In every case the estimated holdings of foreigners, the banking system, insurance companies, building and loan associations, nonprofit institutions, and governments or government agencies, corporations, and trust funds have been deducted. In the case of demand deposits an additional deduction has been made from holdings as reported by banks for the estimated amount of both bank and mail float. Further details of the methods used in making these estimates will be found in the Federal Reserve BULLETINS for June 1945 and February 1946.

particularly the trade and service groups—will probably continue to increase their holdings. It seems likely, however, that liquid asset holdings by individuals will increase in relative importance during the year.

CONSUMER CREDIT REGULATION

Throughout 1945 supplies of consumers' goods continued to be far short of demand, even though there was some increase in these supplies with the ending of the war and consumer demand was still subject to some restraint, including that imposed by the Board's consumer credit regulation, Regulation W. That regulation, a part of the Government's anti-inflation program, applies primarily to instalment credits for purchasing consumers' durable goods but applies also to consumer credits in other forms and for other purposes. Its typical terms require a down payment of one-third and limit the length of instalment contracts to 12 months. The only substantial changes, made about two months after V-J Day, were one which removed the control from credits for home repairs and home improvements and another which extended from 12 months to 18 the permissible maturity on consumer loans for purposes other than purchasing consumers' durable goods.

Regulation W went into effect about three months before Pearl Harbor at a time when the total volume of consumer credit was about 10.1 billion dollars. Reflecting in part the influence of Regulation W, but reflecting still more the curtailed production of consumers' durable goods such as are commonly purchased on credit, this amount decreased to about 4.9 billion in the early months of 1944. It then increased gradually to about 6.7 billion at the end of 1945. There was a further rise in the first quarter of 1946.

Consumers' goods of the kind which are typically purchased on credit—such as household appliances and automobiles—are beginning to become available again. As more of them come on the market, there is sure to be some further expansion of consumer credit, even under the terms presently prescribed by Regulation W. For a considerable time to come, however, expanding production of consumers' goods is likely to be short of demand arising from growing current incomes and from accumulated buying power. Under these circumstances any expansion of consumer credit will tend to aggravate a generally inflationary situation and, therefore, should be kept within moderate bounds. It is during the period while this danger remains acute that consumer credit regulation, like other anti-inflationary measures, is most essential. Unless powerful inflationary forces can be held in check during this period, they will generate the very situation in which powerful deflationary forces, well known to be even more difficult to hold in check, will begin to operate and be likely to gather momentum.

President Truman, referring to this subject in his Message to Congress dated January 14, 1946, made the following statement: "Continued control of consumer credit will help to reduce the pressure on prices of durable goods and will also prolong the period during which the backlog demand will be effective." Reference to the same subject has also been made by a congressional committee—the House Special Committee on Postwar Economic Policy and Planning—which said in a report dated September 8, 1944, "Some control of consumer credit, particularly of instalment credit, may be needed after the war," and in its later report dated March 4, 1946, that "continuance of control over consumer credit" is among the important fiscal and monetary measures which seem to the Committee to be desirable.

The Board recommends the consideration by Congress of legislation which will authorize and direct the Federal Reserve System to continue the regulation of consumer credit on a permanent basis and as an integral part of the System's function of maintaining sound credit conditions.

Over the past 30 years, consumer instalment financing has come to occupy an important and strategic place in the national economy. Such financing is essential to the mass distribution and consequently to the mass production of consumers' durable goods. From time to time, however, the expansion and subsequent contraction of consumer credit have gone so far as to accentuate the upswings and downswings of the business cycle. There is no way of preventing such excessive expansion and contraction except governmental regulation of the terms on which consumer credit shall be made available, such as the down payment required on instalment sales or financing and the length permissible for instalment contracts. To provide for such regulation, by legislation which will contemplate the timely tightening and timely easing of such terms, will assist the over-all program of stabilizing the national economy at a high level of production and employment. The Federal Reserve System, if directed by the Congress to perform this function, can bring to bear on its performance the experience of 30 years in formulating credit policy and the experience of the years since 1941 in administering consumer credit regulation, by Executive Order, during a period of national emergency.

MARGIN REQUIREMENTS

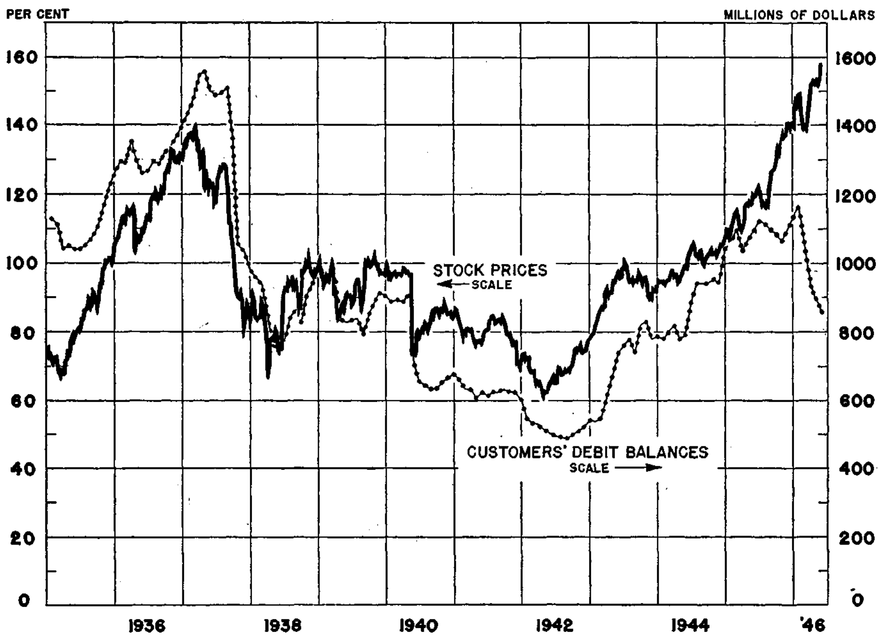
Growth in the supply of money, resulting from the war and its financing, continued during 1945 to exert strong upward pressure on the price levels of corporate securities. Prices of stocks advanced further during the year. There was, however, little increase in the amount of credit employed in purchasing and carrying securities. An important factor in restraining this increase in credit was action by the Board to raise margin requirements, first in February and again in July.

Stock prices declined during the early part of the war and in the spring of 1942 both the level of stock prices and the volume of stock market credit were at the lowest points in many years. Since then, the general movement of stock prices has been upwards, rising rapidly until the middle of 1943, again in the summer of 1944, and again at intervals in 1945. At such times, as is shown on the chart on the following page, the volume of stock market credit usually increased rapidly, reflecting increased buying of stocks on margin, which is well known to be largely speculative.

Increasing the margin requirements in February 1945 from 40 per cent to 50 per cent had little observable effect, either on the growth in stock market credit or on the course of stock prices, but it did operate to reduce somewhat the proportion of trading in stocks that consists of margin trading. After the requirements were raised in July to the 75 per cent level, however, the upward trend of stock market credit was reversed notwithstanding a further sharp increase in stock prices, the proportion of margin trading was further reduced, and margin traders sold more securities than they bought. This afforded evidence of the potency of margin requirements as an instrument of credit policy, the most impressive evidence in fact that has been afforded since the instrument was brought into use, by congressional mandate, in 1934.

A factor in this result was a rule first imposed in July which required the proceeds of all sales of securities in undermargined accounts to be used to reduce outstanding indebtedness in the account.

STOCK MARKET



Early in 1946, at a time when there was renewed governmental interest in combating inflation, when stock prices were rising rapidly and some increase was also taking place in stock market credit, the Board raised margin requirements to the 100 per cent level. In that connection, the Chairman of the Board issued a statement explaining the Board's action and at the same time calling attention to the need for more fundamental measures, particularly fiscal and monetary measures.

INTERNATIONAL TRADE AND FINANCE

End of the war in Europe and Asia marked a turning point in the trade and financial relations of the United States with the rest of the world. During the war period greatly increased exports of goods from the United States represented largely supplies financed under lend-lease agreements with anti-Axis countries. Commercial exports declined from the levels of 1939 and 1940, while imports increased. Various countries exporting to the United States to meet the heavy wartime demands found themselves restricted in purchasing from our limited supplies, and as a consequence accumulated large reserves of gold and dollar balances.

Following the end of the war lend-lease shipments were sharply curtailed while other exports increased sharply. This country again showed a substantial export balance on commercial account. While many countries of the world possessed adequate gold and dollar resources to make purchases here, those countries which had suffered most from the war and, therefore, had the greatest need for supplies, were not in a position to pay in cash for all the goods that were urgently needed. Arrangements were made to provide credits to meet some of these needs. The Export-Import Bank was reorganized, and its lending authority was enlarged primarily for the purpose of making reconstruction loans. An agreement was negotiated with the United Kingdom to cover the most pressing needs of that country for dollars during the next few years and the agreement was subsequently embodied in a bill which was introduced in Congress early in 1946. The Bretton Woods Agreements providing for an International Monetary Fund and an International Bank for Reconstruction and Development were adopted, and a National Advisory Council was set up to coordinate the lending activities of the United States Government and the policies and operations of the American representatives on the Bretton Woods institutions. The Chairman of the Board of Governors of the Federal Reserve System is one of the members of this five-man Council.

Foreign trade. Following the prompt curtailment of lend-lease shipments in September 1945, exports dropped sharply. October shipments, valued at 455 million dollars, were the smallest since the summer of 1941. There was a moderate recovery in the final two months of the year, when a sharp increase in private exports was supported by a substantial rise in UNRRA deliveries and by continuing lend-lease shipments which represented primarily the export of commodities for which repayment terms had been arranged. Total exports for the year (excluding shipments to our armed forces abroad) were valued at nearly 10 billion dollars, of which nearly 4 billion represented "commercial" shipments, i.e., shipments other than lend-lease and relief. The latter figure may be compared with 3 billion dollars of commercial exports in 1944 out of total exports of more than 14 billion. In view of the diverse movements of the three components of the export total during the year, the quarterly data shown in the accompanying table will present a more informative picture than

FOREIGN TRADE OF THE UNITED STATES

[In millions of dollars]

Period	Total exports				General imports
	Total	Lend-lease	Relief[1]	Other	
1941	5,147	739	....	4,408	3,345
1942	8,080	4,933	33	3,114	2,745
1943	12,964	10,357	59	2,548	3,382
1944	14,257	11,305	120	2,832	3,921
1945	9,806	5,561	485	3,760	4,136
Jan.–Mar.	2,820	2,047	48	725	1,024
Apr.–June	3,011	2,026	70	915	1,098
July–Sept.	2,145	1,111	118	916	1,050
Oct.–Dec.	1,830	377	249	1,204	964

[1] Including both public and private relief.

can be derived from annual figures. Imports were less affected than exports by the end of hostilities although the upward trend which had characterized the early months of the year was reversed in the autumn. Total imports of over 4 billion dollars were only slightly larger than those of 1944. In the last two months of the year commercial exports exceeded imports for the first time since November 1942.

Virtual discontinuance of lend-lease operations brought to a close the gigantic international supply program through which the United States shared its productive capacity with the anti-Axis forces of the world. From the inception of lend-lease in March 1941 to the end of September 1945, exports under the program exceeded 32 billion dollars and during 1943 and 1944 accounted for 80 per cent of total shipments from the United States excluding supplies furnished to our armed forces abroad. The great bulk of these exports went to the United Kingdom and the Soviet Union, which together received over 23 billion dollars worth of munitions, foodstuffs, industrial equipment, petroleum, and miscellaneous supplies. Africa and the Middle East received supplies valued at 3.5 billion dollars, over 2 billion of which were sent to Egypt largely for the use of the British forces. The Far East (principally India and Australia) received nearly 4 billion dollars of lend-lease supplies, European nations other than England and Russia approximately 1 billion, and Latin America approximately 365 million.

With the national energies concentrated on war, commercial exports were sharply curtailed. Meanwhile, merchandise imports rose somewhat above prewar values and were purchased predominantly for cash. For the four war years 1942-45 the United States had an import balance on cash account of approximately 1.9 billion dollars. This total figure conceals the considerably larger import balance of the United States in its cash trade with Latin America, the Near East, South Africa, and the Far East. The accompanying table shows the net balance of the United States in its commercial trade with various countries and

WARTIME TRADE OF THE UNITED STATES EXCLUDING LEND-LEASE AND RELIEF SHIPMENTS[1]

[In millions of dollars]

Area and country	1942–45			Last quarter 1945
	Exports	Imports	Balance	Balance
Canada	4,781	4,129	+653	+54
American Republics	3,600	5,513	−1,913	+13
Other Western Hemisphere	516	405	+111	+10
United Kingdom	1,119	413	+706	+81
U.S.S.R.	60	158	−98	−2
Other Europe	584	563	+21	+77
Near East and Africa	952	1,281	−329	+4
Western Asia	208	356	−148	...
British West Africa	46	96	−49	...
Union of South Africa	278	377	−100	...
Far East	641	1,721	−1,080	+3
India and Ceylon	263	739	−476	...
Australia	171	629	−458	...
Total	12,254	14,183	−1,929	+240

[1] Distribution of relief shipments, public and private, partly estimated.

areas of the world for the period 1942-45. The final column shows the shift in this balance during the final quarter of 1945, a shift for which both the decline of lend-lease shipments and the growth of commercial exports were responsible.

The cash merchandise deficit of the United States during the period was augmented by excess payments for service items of which the largest was military expenditure abroad. After allowing for services given and received under lend-lease and reciprocal aid, net service payments for the period probably totaled about 3.3 billion dollars. Because of the predominant importance of military expenditures in these transactions, it may be assumed that the bulk of the net payments went to those countries in which United States soldiers were stationed in large numbers. Payments on all current transactions, including both goods and services, thus exceeded receipts by over 5 billion dollars during these four war years.

Wartime expansion in holdings of gold and dollar balances. This excess of payments over receipts in the wartime accounts of the United States enabled foreign nations to purchase substantial amounts of gold from this country and, in addition, to build up their dollar balances. Net sales of gold by the United States Treasury amounted to 2.7 billion dollars over the period while foreign holdings of dollar balances increased by about 3 billion. Purchases of gold, together with wartime gold production, accounted for a rise in foreign gold holdings from nearly 10 billion dollars in December 1941 to nearly 16 billion in December 1945. Foreign holdings of dollar balances at the end of 1945 totaled 6.4 billion, of which 3.7 billion represented holdings of central banks and governments.

The increase in foreign dollar balances plus net sales of Treasury gold between the end of 1941 and the end of 1945 amounted to about 5.7 billion dollars, whereas excess payments on current transactions were estimated at 5.2 billion. The difference is largely accounted for by credit transactions other than those connected with the distribution of Army-Navy supplies for relief in foreign countries or with the sale of surplus property not entered in United States export statistics.

Of the total estimated increase of 9 billion dollars in foreign-held reserves of gold and dollar balances during the period 1942-45, nearly 6 billion is believed to represent additional holdings of gold. When estimated world production of 3.9 billion dollars is added to the figure for United States Treasury gold sales of 2.7 billion, the increase in world reserves is more than equaled. The 600 million dollars worth of gold remaining may have been absorbed in industry and in private holdings which were augmented by public sale of gold as an anti-inflationary measure in certain Eastern countries.

Of the 9 billion dollars added to foreign reserves since the end of 1941 over 2.5 billion went to Latin American countries of which about 2 billion was in payment for cash sales of goods and services to the United States. Perhaps an additional quarter of a billion dollars in gold was added to reserves from domestic gold production. The balance of the increase must be attributed to dollar sales to countries other than the United States. Canada, South Africa, and European neutrals added almost 3.5 billion dollars to their reserves, bringing the total for countries outside the theatre of hostilities to 6 billion. The major additions to reserves of countries which suffered war damage were the 1.4 billion dollar increase in "net" gold and United States dollar reserves between December 31, 1941 and the end of June 1945 reported by the United Kingdom and attributable largely to American military expenditures in the British sphere; and the increase of some 600 million dollars in China's reserves as a result of a United States loan of 500 million and of military expenditures in the country. The remaining billion dollar increase in reserves outside of the Western Hemisphere represents the sum of numerous small accretions to the reserves of various nations and includes an allowance for a sizable growth in Russian gold reserves resulting from domestic production.

Extension of credits to other countries. With the sharp reduction in lend-lease exports and military expenditures abroad in 1945 other methods of financing exports to foreign countries which had suffered from the war became necessary. During 1945 the United States lent on balance approximately 2 billion dollars to foreign countries. These loans represent for the most part special credit transactions in the second half-year in connection with the furnishing of supplies to civilian populations by the armed forces and the taking over by foreign governments of lend-lease inventories and surplus property.

In order to help finance some of the most essential needs of foreign countries the lending authority of the Export-Import Bank was increased from 700 million to 3,500 million dollars by an Act of Congress approved on July 31, 1945. During the last six months of 1945 the Bank authorized loans of roughly one billion dollars, most of which represented reconstruction loans to devastated countries of Europe. At the end of the year the Export-Import Bank had unused lending authority of 1,800 million dollars. The Bank's loans did not finance a large volume of purchases in 1945. Disbursements under all Export-Import Bank loans totaled only 59 million dollars during the last six months of 1945.

Export-Import Bank loans will play a major role in financing foreign needs in 1946 and in the early months of 1947. Thereafter the International Bank for Reconstruction and Development, which should reach full-scale activity in 1947, will be the main source of long-term foreign loans.

In December 1945 the governments of the United States and United Kingdom concluded discussions on trade and financial matters and announced agreements containing far-reaching proposals. The financial agreement proposes a loan of 3,750 million dollars by the United States to the United Kingdom to meet her unique balance of payments difficulties in the transition period. The agreements were approved by the British Parliament before the end of 1945 and submitted to Congress in 1946. Only with the help of the proposed loan is there any possibility that the United Kingdom will be able to meet the urgent needs of her economy in the transition period and at the same time eliminate exchange restrictions and discriminatory currency practices within the great sterling area.

Establishment of international financial organizations. Both the International Monetary Fund and the International Bank for Reconstruction and Development, proposals for which had been formulated at Bretton Woods in July 1944, came into existence at the end of 1945. The Bretton Woods Agreements Act authorizing United States membership was passed in July, and by the end of December the proposals had been accepted by the majority of the governments represented at Bretton Woods.

The total capital of the International Bank is 7,670 million dollars, of which one-fifth may be used by the Bank to make loans. The remainder can be called only if needed to meet obligations of the Bank. Total loans and guarantees of the Bank are limited to the amount of its unimpaired capital, surplus, and reserves. For the most part the Bank will either lend funds borrowed in member countries or guarantee the loans of private investors. The principal market for securities issued or guaranteed by the Bank is likely to be in the United States.

The International Monetary Fund aims to promote exchange stability, provide for orderly changes in exchange rates when necessary, and to eliminate harmful restrictions on payments for current international transactions. The Fund has 7,397.5 million dollars in gold and various currencies subscribed by members, which will be used to help them meet temporary deficits without resorting to harmful measures. The Fund will play an important role in the transition period in establishing a reasonable pattern of initial exchange rates and in working toward the elimination of wartime exchange controls.

The Bretton Woods Agreements Act provided for an important change in the assets of the United States Stabilization Fund established under the Gold Reserve Act of 1934. Of the Fund's total assets of slightly over 2 billion dollars, 1.8 billion will be used to pay part of the United States subscription to the International Monetary Fund. The remainder, which represents the portion of the United States Fund which has in the past been in active use, will suffice to carry on such operations as are necessary to supplement those of the International Monetary Fund.

The Bretton Woods Agreements Act also established the National Advisory Council on International Monetary and Financial Problems to coordinate the policies and operations of the United States representatives on the Fund and the Bank and of all agencies of the Government engaging in foreign financial transactions including the Export-Import Bank. The Council consists of the Secretary of the Treasury, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank. The Council played an important role in coordinating the financial and lending policies of the United States in the second half of 1945.

V LOAN PROGRAM

During the year 1945 the Federal Reserve Banks, under the general supervision of the Board of Governors, continued to act as agents of the War Department, Navy Department, and United States Maritime Commission in guaranteeing war production and termination loans. Through this system of guarantees, made under Regulation V of the Board of Governors, 10.3 billion dollars in private production credits were made available to the nation's war industries, large and small, in 3½ years' time. The guarantee consisted of an agreement, made in advance of each loan, by which the procurement agency that required the particular production obligated itself to take over a specified portion of the credit risk at any future time, on demand of the bank or other commercial lending institution that had made the loan with its own funds. For this protection against possible loss, the lending institution paid a small portion of its interest return as a guarantee fee.

From the beginning of the V loan program in April 1942 to December 31, 1945, the Federal Reserve Banks received 9,605 applications for guaranteed loans aggregating 10.7 billion dollars. The War Department, Navy Department, and Maritime Commission authorized 8,757 guaranteed loans totaling 10.3 billion. Of these authorizations 6,678 for 8 billion dollars were War Department guarantees; 1,794 for 2.2 billion were Navy Department guarantees; and 285 for 174 million were Maritime Commission guarantees. Only 847 applications aggregating 335 million dollars were rejected by the guaranteeing agencies. The principal reasons for rejections were that the guarantor could not certify that the production of the applicant was necessary, appropriate, or convenient for the prosecution of the war, or that it was believed preferable to provide the necessary financing by advance payments. Of the 8,757 guarantees authorized, 7,999 were actually executed, covering credits aggregating 9.9 billion dollars.

When 1945 began, the volume of V loans was practically at its peak, with 6.2 billion dollars of credit available under agreements in force and 1.7 billion in guaranteed loans actually outstanding. The peak had been reached during 1944, when outstanding loans amounted to 2.1 billion on July 31 and total credit available to 6.3 billion on October 31. Following conclusion of the European phase of the war in May 1945 there was a slight reduction in the volume of guaranteed credits to 5.1 billion dollars in credit available and 1.4 billion in outstanding loans on June 30, 1945. After the surrender of Japan in August the decline in new loan applications, the termination of war contracts and subcontracts, the advances made by the procurement agencies prior to final settlement, and the rapid rate of such settlements greatly reduced the scope of the V loan operation. Only 1.5 billion dollars in aggregate credit available and 511 million in outstanding loans remained in force on December 31, 1945, although 1,323 new guaranteed loans amounting to one billion dollars had been arranged by the Federal Reserve System and authorized by the three procurement agencies during 1945.

Of these new guarantees 599, covering credit authorization of 264 million dollars, were for "T" loans authorized under the Contract Settlement Act of 1944 to cover credit needs in connection with the termination of contracts. More general usage of the "T" loan by contractors was largely obviated by several factors, i.e., the rapidity with which many claims were liquidated after the conclusion of hostilities, the availability of partial payments on claims, and the liquid financial position of companies.

Three changes in administration occurred during the early stages of liquidation in 1945. First, after the German and Japanese surrenders the War and Navy Departments and the Maritime Commission determined that new war production loans should be authorized only in exceptional cases of clear necessity. Second, after consultation with the Office of Contract Settlement the War Department in September began closing its liaison offices at the Federal Reserve Banks (the last of these offices was closed in January 1946). Third, the War and Navy Departments delegated to the Federal Reserve Banks additional authority over outstanding loans, authorizing them at their discretion to approve extensions of loan maturities up to 60 days, waivers of default, and other acts of commercial lending institutions and users of guaranteed credit, provided the interest of the Government would not be materially affected by the desired adjustments.

Not only had the guarantee plan proved effective in making available commercial credit for necessary war production but as the program approached an end, it became evident that the V loan system had more than paid its own financial costs. From the inception of the plan to the end of 1945, the Reserve Banks collected 32.2 million dollars in guarantee and commitment fees for the account of the three guaranteeing agencies. Expenses of the Reserve Banks reimbursed by the three Services for which they were the agents amounted to 3.4 million dollars. The combined net receipts of the procurement agencies accordingly were 28.8 million dollars, and on December 31, 1945, it was estimated that their total losses would not exceed 6 million. This was an over-all ratio of losses to authorizations of 0.06 per cent.

Although a final accounting can not be had until the liquidation process is complete, certain aspects of this new experience in the guaranteeing of commercial loans to industry may be recorded at this time. The operation was decentralized to a considerable extent. The plan was utilized by nearly 1,400 banks and other commercial lending institutions. While these were a minority of all such institutions, their contribution to the war effort was disproportionately large; total war production loans under Regulation V amounted to 66 per cent of the estimated total of war production loans outstanding from all commercial banks on June 30, 1944, and to 54 per cent of that total at the beginning of 1945. The war-financing activity under Regulation V occurred preponderantly within the framework of the system of private enterprise in finance. The participating private institutions utilized their own funds exclusively except in the relatively few cases where they exercised their option at some later time to transfer some part of the risk to the procurement agencies. The plan provided a mechanism for financing the subcontractors as well as the prime contractors in war production.

The smallest credit guaranteed was for $400 and the largest for one billion dollars. Nearly 400 banks participated in the latter credit, of which only 100 million dollars was utilized. This credit, like many other guaranteed loans, was arranged for under the provisions of Regulation V because the guaranteed portion of Regulation V loans was not subject to legal limitations on the amount which might be lent to a single borrower. The maximum amount of this particular credit was in excess of the total lending capacity of all the commercial banks in the country (approximately 600 million dollars) on such loans to a single borrower.

Applicability of the guarantee plan to the financial problems of the smaller businesses was emphatically shown. Up to March 31, 1945, 62 per cent of the business borrowers were enterprises that had less than $500,000 in total assets when their first V loan was obtained. The amounts of credit placed at the disposal of these small enterprises were exceptionally large; for example, the average amount of authorization per borrower to enterprises with less than $50,000 in total assets was $97,000. Less than 8 per cent of the V loan borrowers up to the stated date were enterprises with as much as 5 million dollars in total assets. A valuable and in many respects new experience in the "tailoring" of commercial loans to fit the requirements of the individual borrowers was also a by-product of the experience under Regulation V. In spite of the fact that the higher proportions of risk coverage required the payment of larger fees, more than half of all guarantees provided coverage of the order of 90 per cent, and the average of all guarantees, up to the date stated above, was approximately 85 per cent. Every type of war production, from foods to metal products, textiles and chemicals, was financed under the plan.

BANKING OPERATIONS AND STRUCTURE

Bank earnings. Member bank net profits after taxes increased by 139 million dollars in 1945 and reached a new peak of 788 million. They had been rising steadily since 1942 and in 1943 had attained the highest point ever reported. Income from Government securities and profits on sales of such securities were the principal sources of income. About one-third of net profits was paid out as dividends and the remainder was added to capital accounts.

Earning assets of member banks exceeded 107 billion dollars at the close of 1945, having increased almost 16 billion during the year. In amount this increase was about the same as it had been in 1944 but as a percentage of total earning assets it was less than in any year since 1941. During the defense and war period, 1940-45, earning assets have almost trebled and an increasing proportion of the total has consisted of United States Government securities. At the end of 1945 this proportion was nearly 75 per cent.

The present level of bank profits, as compared with that of the late 1920's, results from circumstances markedly different from those prevailing at that time. Total earning assets of banks were about three times as large in 1945 as in 1929. The rate of interest return on these earning assets, however, was decidedly lower. While the level of market interest rates has fallen substantially for a decade and a half, the average return received by banks from earning assets has dropped even more. The composition of earning assets has shifted from a dominance of loans, a high-yield asset, to United States Government securities, the lowest yielding of all earning assets. At the same time, however, banking losses have declined greatly, while profits on securities sold and recoveries have expanded.

During 1945 member banks increased their holdings of United States Government securities by 11 billion dollars to 78 billions. They also increased their loans and holdings of other securities, as is shown in the accompanying table. Total loans increased to the largest amount outstanding since early in 1931. Loans on securities, which have increased sharply at times of war loan drives and declined between drives, continued at higher levels than in recent years.

MEMBER BANK LOANS AND INVESTMENTS

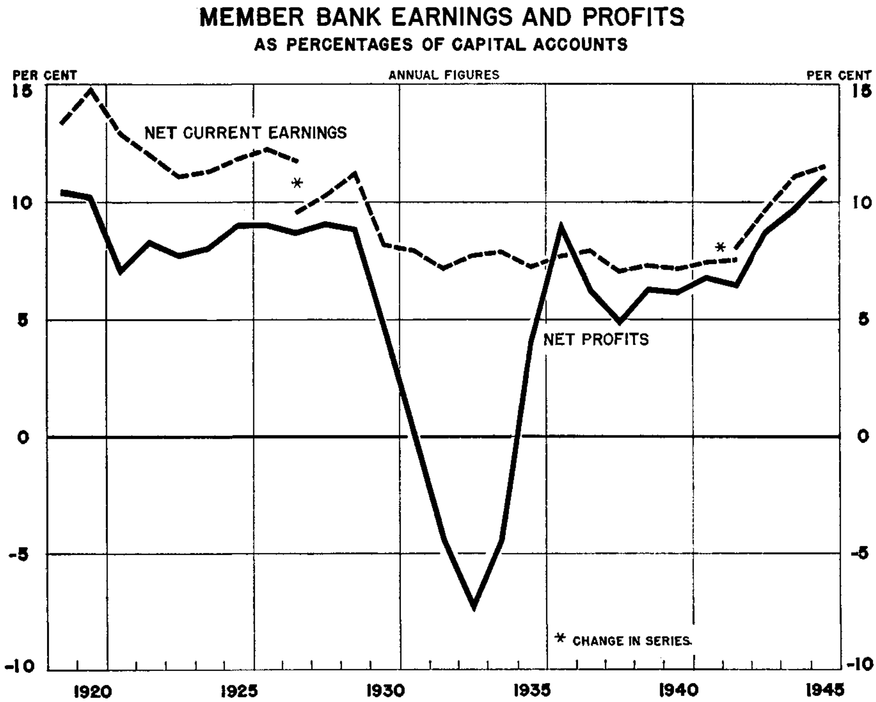
[In billions of dollars]

	Outstanding Dec. 31, 1945	Change during year	
		1945	1944
Loans—total	22.8	+4.1	+2.4
Commercial and industrial loans	8.9	+1.4	+0.1
Agricultural loans	0.9	−0.3	+0.2
Loans for purchasing or carrying securities	6.5	+2.2	+2.1
Real estate loans	3.5	+0.2	−0.1
Consumer loans	1.9	+0.4	....
All other, including loans to banks	1.1	+0.2	....
United States Government securities (direct and guaranteed)	78.3	+10.7	+14.7
State and local government securities	3.3	+0.4	+0.1
Other securities	2.8	+0.5	+0.1

Commercial and industrial loans declined somewhat in the first half of the year, but increased considerably after the termination of hostilities. Since loans to finance war production were sharply curtailed in this period, it appears that loans for reconversion and for other civilian activities may have increased by over 2 billion dollars. At the end of 1945 total commercial and industrial loans at member banks were at the highest level in 15 years. Consumer loans by banks, which reached a low point in 1944, increased somewhat in 1945. There was also a small increase in real estate loans in the latter part of the year.

The wartime growth in earnings has been accompanied by a narrowing of differentials in the rate of return on earning assets among classes of banks and among individual banks. In 1940 the estimated average rate of return received from Government securities was almost twice as high at country banks as at money market banks. At present there is little difference between these groups of banks. Futhermore almost every bank, regardless of size, is now earning some profit. As is shown in the chart on page 36, member bank profits after taxes were almost 11 per cent of capital funds in 1945, a higher level than had been previously reached. The profit ratios of most banks clustered around this average, that is, fell within a range of about 9 to 12 per cent. The present level of net profits may be contrasted with net losses of over 7 per cent on capital funds in the depression year 1933.

It seems unlikely that bank profits will continue at the high levels of 1945, although they are not expected to decline in the near future to a level that will present difficulties for the banks. With the current debt retirement program of the Treasury, it is probable that bank earnings on Government securities



Net current earnings are total earnings from current operations less current operating expenses. Net profits are net current earnings plus recoveries, profits on securities, etc., less losses and charge-offs and taxes on net income. Capital accounts consist of all forms of capital, including capital notes and debentures, surplus, undivided profits, reserves for contingencies, and other miscellaneous capital accounts. Prior to 1927 profits on securities were included in current earnings; beginning in 1942 taxes on net income were excluded, while recurring depreciation was included, as a current operating expense deduction from earnings.

have reached their peak. Earnings on loans, however, with their higher rates of interest, may increase. Bank expenses and taxes increased further in 1945, and somewhat higher expenses may be expected in 1946, although taxes will be lower. Any further expansion in the volume of bank credit or a rise in the general level of interest rates would tend to maintain bank profits at a high level, and possibly to increase them.

Capital accounts. Capital accounts of member banks increased 621 million dollars in 1945, compared with 493 million in 1944. Although there were some sales of additional capital stock, most of the increase was from profits remaining after dividend payments.

The increase of over 2 billion dollars in capital accounts of member banks since 1939 has not kept pace with the growth in deposit liabilities, but the growth in liabilities has been accompanied by increased holdings of Government securities. As a result, the percentage ratio of capital accounts of member banks to total assets other than Government securities and cash assets was 25 on December 31, 1945, practically unchanged from the ratio at the end of 1939.

Changes in number of banking offices. The total number of banking offices, other than offices at military reservations, increased by 112 in 1945 to 18,402. The preceding year there had been an increase of 12, the first reported since 1934. Notwithstanding this recent growth, there was a net decline of 261 between December 1939 and the close of 1945. This figure reflects a decline of 481 in the number of head offices and an increase of 220 in the number of branches and additional offices.

For the first year since 1934, when many banks were reopened after the banking holiday, there was a net increase in the number of banks (head offices) in 1945. During the year 118 new banks opened for business, of which 25 were member banks, 82 insured nonmember banks, and 11 noninsured banks. Through consolidation or otherwise, however, 100 head offices were discontinued. The net increase of 18 brought the number of banks in operation at the end of the year to 14,553. Of this total, 14,011 were commercial banks and 542 were mutual savings banks.

The number of branches and additional offices, other than offices at military reservations, increased by a net of 94 during the year to a total of 3,849. Since 1933 this number has increased in every year except 1942, when it remained unchanged.

The foregoing figures do not include banking facilities at military reservations, of which a considerable number were opened during 1943, 1944, and the early part of 1945. There were about 350 in existence on V-J Day, and at the end of the year there were 241. Including these facilities there were 18,643 banking offices at the end of 1945, comprising 14,553 banks, 3,849 branches, and 241 offices located at military reservations.

Increase in membership in Reserve System. Membership in the Federal Reserve System increased in 1945, as it has in every year since 1939, and registered a net gain of 70 banks for the year. The number of national banks decreased by a net of 8 while the number of State member banks increased by a net of 78. Eight of the 95 State banks admitted to membership were newly organized and 87 were already in operation. All but one of the 87 had previously been admitted to membership in the Federal Deposit Insurance Corporation. Total deposits of these 87 banks were about 378 million dollars. Over one-half of the State banks admitted to membership were located in three Federal Reserve districts—Cleveland, Chicago, and St. Louis.

The 6,884 member banks in operation at the end of 1945 accounted for 49 per cent of the number and 86 per cent of the deposits of all commercial banks in the country. These percentages compare with 44 and 86 respectively at the end of 1939. The State member banks of the Federal Reserve System accounted for 21 per cent of the total number and 69 per cent of the deposits of all State commercial banks. The corresponding percentages were 13 and 68 respectively in December 1939.

Par and nonpar banks. During 1945 there was a net increase of 324 in the number of banks on the Federal Reserve Par List and a net decrease of 312 in the number of nonpar banks.[1] This was a continuation of the trend of the past several years. The 2,133 banks not on the Par List at the end of 1945 represented only 15 per cent of all banks on which checks are drawn and held less than 2 per cent of the deposits of all commercial banks in the country. Corresponding figures for the end of 1939 were 2,719 banks, 19 per cent of all banks on which checks are drawn, and 2 per cent of deposits.

During 1945, 421 banks were added to the Par List, 5 withdrew from the Par List, and 92 par banks terminated existence.[2] Included in the banks added to the Par List were 151 banks in Nebraska, where the increase resulted from the enactment of a State par clearance law. (A similar increase of 111 banks occurred in 1943 as a result of State legislation in Iowa.) Other States in which there was a net increase of 10 or more par banks during 1945 included Tennessee 55, Texas 23, Illinois 18, Florida 16, and Virginia and Wisconsin 15 each.

At the end of 1945 there were 24 States and the District of Columbia in which all banks were on the Federal Reserve Par List, and 8 States in which the number of nonpar banks was 11 or less, as follows: Michigan 1, Kansas 2, Illinois 2, Nebraska 3, West Virginia 3, Montana 4, Washington 10, Oklahoma 11. The 16 other States that collectively had over 98 per cent of the banks not on the Par List at the end of 1945, were: Minnesota 418, Georgia 274, Mississippi 171, Arkansas 129, North Carolina 122, Wisconsin 119, Alabama 117, Tennessee 108, North Dakota 105, South Carolina 103, Louisiana and South Dakota 100 each, Missouri 76, Texas 68, Florida 66, and Virginia 21.

Check routing symbols. The American Bankers Association and the Federal Reserve Banks announced a plan early in June 1945 which will make it easier for banks to sort checks for collection through the Federal Reserve System. The Association distributed a booklet to all banks in the country describing the plan, and the Reserve Banks circularized all par remitting banks in their respective districts.

Under the plan "check routing symbols" were assigned by the Federal Reserve Banks to all par remitting banks. It was recommended that the symbol be printed in the upper right-hand corner of checks, above the dollar amount, in combination with the ABA transit number, which has been in use for years to identify the bank numerically. The ABA transit number appears as the

[1] The Federal Reserve Par List comprises all member banks, which are required under the law to remit at par for checks forwarded to them by the Reserve Banks for payment, and also such nonmember banks as have agreed to do likewise.

[2] Seventy-four of the 92 par banks that went out of existence were absorbed by other member and par nonmember banks, and 40 of the banks thus absorbed were converted into branches.

numerator and the check routing symbol as the denominator of a fraction, as in the following example:

$$\frac{55\text{-}146}{312}$$

In the example the first part of the ABA transit number (to the left of the hyphen) designates the reserve city or State in which the bank is located, and the second part designates a particular bank in that State. In the check routing symbol (the denominator of the fraction) the first digit designates the Federal Reserve District; the second digit designates the head office of the Federal Reserve Bank, a branch office, or a special collection arrangement; and the last digit indicates whether the check is receivable for immediate or deferred credit and the State in which the payor bank is located. In the example above, the first digit designates the Third Federal Reserve District, the second digit designates the Federal Reserve Bank of Philadelphia, and the last digit indicates that the item is receivable for deferred credit and that the payor bank is located in New Jersey.

A survey by the Federal Reserve Banks, based on checks handled in one week in February 1946, showed that about half of the approximately 12,000 banks that are on the Federal Reserve Par List have had the new check routing symbols printed on at least some of their checks.

RESERVE BANK OPERATIONS

Volume of operations. Operations of the Reserve Banks were in considerably larger volume in 1945 than in 1944, especially those relating to the issuance and redemption of securities and to other activities as fiscal agents of the United States.

Discount operations were somewhat larger than in recent years, and there

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1942–45

[Dollar amounts in thousands]

Item and year	Total	Discounts and advances	U. S. Government securities, direct and guaranteed	Industrial loans
Daily average holdings:				
1942	$3,209,649	$6,610	$3,191,259	$11,780
1943	7,761,651	24,759	7,724,488	12,404
1944	14,917,596	135,459	14,772,201	9,936
1945	21,742,567	375,958	21,363,244	3,365
Earnings:				
1942	$51,943	$65	$51,404	$474
1943	68,656	152	68,090	414
1944	103,837	724	102,810	303
1945	141,631	1,977	139,553	101
Average rate of earnings (per cent):				
1942	1.62	0.98	1.61	4.03
1943	0.88	0.61	0.88	3.34
1944	0.70	0.53	0.70	3.05
1945	0.65	0.53	0.65	2.99

was an increase in the Reserve Banks' holdings of Treasury bills acquired from member banks and others under agreements to resell upon demand prior to maturity at a discount rate of ⅜ per cent per annum. Holdings of Government securities in the System Open Market Account also increased. Industrial loan operations again declined, reaching the lowest level since the making of industrial loans and commitments by Federal Reserve Banks to provide working capital for industry was authorized in 1934. The table on page 39 shows daily average holdings during the past four years of discounts and advances, Government securities, and industrial loans, and average rates of earnings thereon.

Receipts and payments of paper currency and coin by the Federal Reserve Banks again increased, reflecting the large amount of currency in circulation. Issues and exchanges of Government securities and the volume of checks handled also increased substantially in 1945. Figures showing the volume of operations in principal departments are given in Table 5 on page 69.

Earnings and expenses. Current earnings, current expenses, and the distribution of net earnings of the various Federal Reserve Banks are given in detail in Table 6 on pages 70-71, and a condensed annual statement for all the Reserve Banks combined since 1913 is given on pages 72-73. The table below shows

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1944 AND 1945

[In thousands of dollars]

Item	1944	1945
Current earnings	104,392	142,209
Current expenses	49,176	48,717
Current net earnings	55,216	93,492
Net additions to current net earnings	3,222	−830
Net earnings	58,438	92,662
Paid U. S. Treasury (Sec. 13b)	327	248
Dividends paid	9,500	10,182
Transferred to surplus (Sec. 13b)	201	262
Transferred to surplus (Sec. 7)	48,410	81,970
Total	58,438	92,662

a condensed summary for all of the Reserve Banks for the years 1944 and 1945. Current earnings were 142 million dollars in 1945 as compared with 104 million in 1944. Current expenses were about the same as in 1944, and net earnings amounted to 92 million dollars, or 34 million more than in 1944. After payments totaling 10 million dollars for dividends to member banks as provided in the Federal Reserve Act and payments to the United States Treasury under Section 13b of the Act relating to industrial loans, 82 million was added to the surplus of the Reserve Banks.

Foreign transactions. The volume of foreign transactions passing through the Federal Reserve Bank of New York continued large in 1945. The magnitude of these transactions on behalf of the United States Government departments and agencies declined sharply after V-J Day, amounting to about 40 million dollars in

December as compared with a monthly average of around 100 million during the summer and with a peak of over 200 million in January 1945. At the same time, other activities increased as relations were resumed with a number of central banks in countries formerly occupied by the enemy. At the end of 1945 the Federal Reserve Bank of New York held accounts for the central banks or governments of 60 foreign countries.

For the year as a whole, total foreign assets held at the Federal Reserve Bank of New York increased. The tendency in the latter months of the year was toward a reduction in the amount of dollar funds, which declined by an over-all amount of 340 million dollars for the year. At the year end these balances amounted to 861 million dollars as compared with the high of 1,246 million recorded in June and the all-time high of 1,650 million for May 1944. Holdings of United States Government securities for account of foreign central banks and governments increased from 960 million dollars in December 1944 to 1,696 million in October 1945, after which they declined to 1,654 million at the end of the year. Gold held under earmark rose from 3,937 million dollars in December 1944 to 4,294 million in December 1945. Exports and imports of gold were on a comparatively small scale. The Federal Reserve Bank of New York continued to operate the United States Exchange Stabilization Fund in accordance with authorizations and instructions from the Treasury. The Federal Reserve Banks also continued to act as agent for the Treasury in the administration of Foreign Funds Control.

During 1945 the Federal Reserve Banks made a series of short-term advances, secured by gold held in New York, to a Latin American central bank, the largest amount outstanding under this agreement being 12 million dollars. In addition, a short-term loan of 35 million dollars, also secured by gold in New York, was made to the government of a liberated European country. Both of these amounts were still outstanding at the close of the year.

Bank premises. The pressure for additional space at most of the Federal Reserve Banks and branches arising from expanded wartime operations was referred to in the *Annual Reports* for 1942 and 1943. Conditions in this respect have not improved, and it appears that most of the Federal Reserve Banks and branches will have to continue to rent outside space until such time as they can make additions to their present inadequate quarters or, in some cases, erect new buildings. The Board of Governors advised the Federal Reserve Banks during the year that, except in cases of urgent need, no building project should be undertaken until it is clear that labor and materials are readily available and the timing of the construction is in harmony with the postwar building program. Under this policy the only construction projects at Federal Reserve Banks authorized in 1945 were an additional story on the building occupied by the Helena Branch of the Federal Reserve Bank of Minneapolis, necessary repairs and improvements to the building acquired by the St. Louis Federal Reserve Bank in 1944, and completion of a vault and of air conditioning at the Federal Reserve Bank of Chicago.

Building sites for future expansion were acquired at the Pittsburgh, New Orleans, and Detroit Branches. A site for a building to house the Seattle Branch, which now occupies rented quarters, was also acquired during the year.

RESERVE BANK PERSONNEL

Chairmen and Deputy Chairmen. One of the Class C directors of each Federal Reserve Bank is designated annually to serve as Chairman and Federal Reserve Agent, and another Class C director is appointed annually as Deputy Chairman. A list of the Chairmen and Deputy Chairmen is shown on page 119.

The Chairman and Deputy Chairman at each of the twelve Federal Reserve Banks were redesignated to serve as such during the year 1945.

Directors. A list of directors of the Federal Reserve Banks and branches as of the close of the year is shown on pages 121-128.

The Board made the following appointments of new directors either for terms beginning January 1, 1945, or to fill vacancies during the year:

Class C Directors. On December 7, Russell L. Dearmont, Chief Counsel for Trustee, Missouri-Pacific Lines, St. Louis, Missouri, was appointed a Class C director of the Federal Reserve Bank of St. Louis.

On March 27, G. A. Frierson, a planter and merchant of Shreveport, Louisiana, was appointed a Class C director of the Federal Reserve Bank of Dallas.

Branch Directors. S. Headley Shouse of Lexington, Kentucky, was appointed a director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland for a two-year term beginning January 1, 1945. Mr. Shouse is engaged in farming.

Paul G. Blazer, Chairman of the Board, The Ashland Oil and Refining Company, Ashland, Kentucky, was appointed a director of the Cincinnati Branch of the Federal Reserve Bank of Cleveland for a three-year term beginning January 1, 1945.

Howard W. Jordan, President, Pennsylvania Rubber Company, Jeannette, Pa., was appointed a director of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland for the term beginning January 1, 1945.

On November 29, James F. Shriver, President, B. F. Shriver Company, Westminster, Maryland, was appointed a director of the Baltimore Branch of the Federal Reserve Bank of Richmond.

Ernest Gilbert of Waldron, Michigan, was appointed a director of the Detroit Branch of the Federal Reserve Bank of Chicago for the term beginning January 1, 1945. Mr. Gilbert is engaged in farming.

On March 12, Hal Bogle, Pecos Valley Alfalfa Mill Company, Dexter, New Mexico, was appointed a director of the El Paso Branch of the Federal Reserve Bank of Dallas.

J. E. Wheat of Woodville, Texas, was appointed a director of the Houston Branch of the Federal Reserve Bank of Dallas for the term beginning January 1, 1945. Mr. Wheat is an Attorney-at-Law.

John M. McGregor, Manager, McGregor Land and Livestock Company, Hooper, Washington, was appointed a director of the Seattle Branch of the Federal Reserve Bank of San Francisco for the term beginning January 1, 1945.

Changes in Presidents and First Vice Presidents. Mr. William A. Day, who had been an officer of the Federal Reserve Bank of San Francisco since July 1917 and President since April 1936, resigned as President on December 31, 1945, having availed himself of the privilege of retiring under the provisions of the Retirement System of the Federal Reserve Banks.

Mr. Day was succeeded as President, effective January 1, 1946, by Mr. Ira Clerk, who had served as First Vice President since April 1936. Mr. Clerk has been an officer of the Bank since it was organized in November 1914. Mr. Clerk, in turn, was succeeded as First Vice President by Vice President C. E. Earhart, who has been with the Bank since 1917 and who has served as an officer since 1920.

During the year the First Vice Presidents of two of the Federal Reserve Banks resigned to accept positions with commercial banks. Mr. H. P. Preston resigned as First Vice President of the Federal Reserve Bank of Chicago effective August 31, 1945, in order to accept the presidency of the Hamilton National Bank of Knoxville, Tennessee. Mr. Preston had served as an officer of the Federal Reserve Bank of Chicago since March 21, 1933, and as First Vice President since March 1, 1936. He was succeeded as First Vice President on October 25 by Vice President and General Counsel Charles B. Dunn. Mr. Dunn had served as General Counsel of the Federal Reserve Bank of Chicago since January 1, 1934. On February 26, 1942, he was appointed Vice President as well as General Counsel.

Mr. Reuben B. Hays resigned as First Vice President of the Federal Reserve Bank of Cleveland effective November 30, 1945, to become Executive Vice President of the First National Bank of Cincinnati, Ohio. Mr. Hays had been a member of the staff of the Federal Reserve Bank of Cleveland since July 10, 1934, an officer since February 16, 1935, and First Vice President since July 1, 1943. He was succeeded as First Vice President on December 1, 1945, by Vice President Wm. H. Fletcher. Mr. Fletcher has been a member of the Bank's staff since February 1918 and an officer of the Bank since July 1923.

Staff. At the end of the year the total number of officers and employees of the twelve Federal Reserve Banks and their twenty-four branches was 23,522, having declined by 920 after the end of 1944. This was the second successive year of decline following several years of successive increases due to the great expansion in the volume of operations accompanied by a high rate of turnover of personnel during the war years. The total number of officers and employees of the Reserve Banks and branches at the end of each year beginning with 1938 was as follows:

1938	10,919	1942	19,972
1939	11,355	1943	24,741
1940	11,640	1944	24,442
1941	14,083	1945	23,522

Effective November 1, 1945, the officer in charge of the El Paso Branch of the Federal Reserve Bank of Dallas was designated as a Vice President of the

Reserve Bank. Effective January 1, 1946, the officers in charge of the Little Rock, Louisville, and Memphis Branches of the Federal Reserve Bank of St. Louis were designated as Vice Presidents of the Reserve Bank and as Managers of the respective Branches. With these changes twelve of the twenty-four branches are now under the immediate direction of resident Vice Presidents of their Reserve Banks.

BANK SUPERVISION BY THE FEDERAL RESERVE

The volume of banking activities continued to expand during 1945. With the war effort a first consideration during the larger part of the year, Federal Reserve authorities endeavored to pursue examination and supervisory practices and policies which would further that effort in the banking field.

Examination of Federal Reserve Banks. The Board's Division of Examinations examined the twelve Federal Reserve Banks and their twenty-four branches during the year as required by law.

Examination of State member banks. State member banks are subject to examinations made by direction of the Board of Governors or of the Federal Reserve Banks by examiners selected or approved by the Board of Governors. The established policy is to make at least one regular examination of each State member bank, including its trust department, during each calendar year, by examiners for the Reserve Bank of the district in which the bank is situated, with additional examinations if considered desirable. Wherever practicable, such examinations are made jointly in cooperation with State banking authorities or, by agreement with State authorities, alternate examinations are made.

The program for the examination of State member banks in 1945 was substantially completed with the close cooperation of State authorities, notwithstanding difficulties of travel and turnover in examining personnel.

Wartime conditions in 1945 made it impracticable to hold the customary conference of representatives of the bank examination departments of the twelve Federal Reserve Banks and of the Board for discussion of examination practices and procedures and formulation of supervisory policies and principles. However, the officers in charge of bank supervision at a number of the Reserve Banks visited the Board's offices for discussions and it was possible also to hold effective discussions between members of the Board's staff and representatives of the Reserve Banks who attended the meeting in New Orleans in November of the National Association of Supervisors of State banks.

Bank holding companies. During 1945 the Board acted upon applications for voting permits submitted by holding company affiliates of banks and authorized the issuance of six permits for general purposes and six permits for limited purposes.

Section 301 of the Banking Act of 1935 provides that the term "holding company affiliate" shall not include, except for the purposes of Section 23A of the Federal Reserve Act, any organization which is determined by the Board not to be engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. During the year the Board made such determinations with respect to four organizations.

Trust powers of national banks. Under the provisions of Section 11(k) of the Federal Reserve Act, the Board granted to 17 national banks authority to exercise one or more trust powers. This number includes the grant of additional powers to 2 banks which previously had been granted certain trust powers. Trust powers of 18 national banks were terminated, 11 by voluntary liquidation or consolidation and 7 by voluntary surrender. At the end of 1945, there were 1,788 national banks holding permits to exercise trust powers.

Increased acceptance powers. During the year the Board approved an application of a national bank made pursuant to the provisions of Section 13 of the Federal Reserve Act for permission to accept drafts and bills of exchange to an amount not exceeding at any one time, in the aggregate, 100 per cent of its paid-up and unimpaired capital stock and surplus. No other applications were received.

Foreign branches and banking corporations. The liberation of the Philippines and the surrender of Japan during the year, with the consequent release from Japanese domination of Far Eastern areas, made it possible for American banking institutions to regain control of their branches situated in that area. As soon as conditions permitted, the parent banks sent representatives to reopen their branches for such banking operations as were feasible, and progress was made generally in this respect despite the many difficult problems encountered. During the year, foreign branches of American banking institutions continued to perform an important function in facilitating import and export movements of strategic and other needed materials and supplies and furnishing banking facilities to our armed forces.

The Board received and approved one application made pursuant to the provisions of Section 25 of the Federal Reserve Act for permission to establish a foreign branch. No new foreign branches of member banks were established and no branches were closed during the year.

At the end of 1945, seven member banks were operating a total of 72 branches in 20 foreign countries or dependencies or possessions of the United States. Of the 72 branches, four national banks were operating 66 and three State member banks were operating 6. The foreign branches were distributed geographically as follows:

Latin America		42
Argentina	10	
Brazil	4	
Chile	2	
Colombia	3	
Cuba	16	
Mexico	1	
Panama	3	
Peru	1	
Uruguay	1	
Venezuela	1	
Continental Europe		2
Belgium	1	
France	1	
England		10
Far East		6
China	2	
India	2	
Hong Kong	1	
Straits Settlements	1	
U. S. Insular Possessions and Dependencies		12
Canal Zone	4	
Philippines	1	
Puerto Rico	7	
Total		72

During the year, the Board approved one application made pursuant to the provisions of Section 25 of the Federal Reserve Act relating to the investment by member banks in stocks of corporations engaged principally in international or foreign banking. The corporation entered into an agreement with the Board as required by the provisions of the Section and, with the Board's approval, established a branch in Paris during the year. Four other corporations organized under State laws have been operating for some years under similar agreements. Two of the four have no foreign branches, one operates a branch in England, and one has an English fiduciary affiliate.

There is only one banking corporation in active operation organized under the provisions of Section 25(a) of the Federal Reserve Act to engage in international or foreign banking. Its head office was examined during the year by the Board's Division of Examinations. The bank operates a branch in Paris, France, and following the surrender of Japan, reopened its branches in Tientsin and Shanghai, China, and in Hong Kong. It also operates a fiduciary affiliate in England.

RESEARCH AND ADVISORY SERVICES

During 1945 the current research and reporting work of the Board continued along the same lines as in other recent years, with emphasis on the study of war and postwar adjustments. Special attention was given to matters relating to Treasury finance, both because of the dominant importance of Government receipts and expenditures in the economic picture and more particularly because of their relation to System open market operations and to banking developments. Business finance was also given careful consideration, from the point of view of possible reconversion and postwar requirements. Membership of the Chairman of the Board of Governors on the Economic Stabilization Board provided the opportunity for an exchange of views with other governmental departments and agencies in the light of the responsibilities of the Federal Reserve System.

Labor and fiscal developments were carefully followed and interpreted, as were conditions in agriculture and housing. Considerable work was done in developing techniques for analyzing the composition of national income, for making projections of income and employment under varying assumptions, and for using these data in exploring the outlook for monetary and banking developments. Work was continued on the problems of measuring industrial production and on the analysis of current business trends. The Reserve Banks and the Board continued to collect and report data on department store sales and stocks. These series provide one of the few sources of information that reflect promptly the effect of reconversion in key metropolitan areas.

Semi-annual surveys of the ownership of demand deposits, the annual survey of the financial condition of business, particularly small business, conducted in cooperation with the Robert Morris Associates, and the current retail credit survey continued to provide important information as to individual and business holdings of liquid assets, as well as other significant financial data. Such data are particularly useful at this time to the Reserve System, to various governmental organizations, and to many private organizations.

During the year the Board of Governors also sponsored exploratory surveys, conducted by the Division of Program Surveys of the Bureau of Agricultural Economics (Department of Agriculture), of liquid holdings of individuals in Birmingham, Alabama, and Douglas County, Illinois. The results of these surveys aroused so much interest and proved to be of such assistance, not only to the Board and various Government agencies but also to other users of such data, that arrangements were made to have a nation-wide survey on the same subject conducted in the same manner early in 1946.

In the international field the Board's work expanded further in response to the growing importance of international problems. During the winter and spring there were many demands associated with congressional hearings and action on the Bretton Woods proposals. Ratification of these proposals placed additional responsibilities upon the Chairman of the Board of Governors as a member of the National Advisory Council on International Monetary and Financial Problems. The Chairman also served on the Advisory Board of the Export-Import Bank and as a member of the group of officials negotiating the British loan. As a consequence the responsibilities of the Board's staff for supplying information on foreign developments were increased.

On several studies of international matters members of the Board's staff worked with members of the staffs of various Government departments at times during the course of the year. Also during the year a special study on bank financing of exports and bankers' attitudes on the desirability of export credit insurance was made for a subcommittee of the Senate Small Business Committee.

On the request of various Governments and central banks, the Board contributed the services of members of its staff to help in the technical preparation of new monetary and banking legislation in several Latin American countries. As a result of such missions, far-reaching reforms were recently enacted in Paraguay and Guatemala. Similar work is currently being carried out in other countries, in collaboration with the Federal Reserve Bank of New York. In some cases assistance has had to be postponed because of the limited staff available for such missions. In the spring and summer the Board also lent the services of a member of its staff for the purpose of assisting in the rehabilitation of the banking system of the Commonwealth of the Philippines.

Members of the Board's staff continued to serve on many interdepartmental committees concerned with the development of economic information for the use of governmental authorities, thereby bringing the System's point of view to various officials and agencies and giving the Federal Reserve authorities a better opportunity to be familiar with work done elsewhere. Members of the staff also worked with members of the staff of a Senate Committee and of other Government agencies in connection with the Full Employment bill and assisted in the preparation of reports on other pressing subjects before Congress.

PUBLICATIONS AND RELEASES

There was a steadily increasing demand for the Board's publications and releases after the end of the war made it possible to discontinue the wartime restrictions on distribution. The monthly *Federal Reserve Bulletin* was issued for the 31st year. Three *Member Bank Call Reports* were released during the year, the complete *Par List* was issued in January and September followed by supplements in the other months, and in February a revised edition of Federal Reserve *Chart Book I* (Bank Credit, Money Rates, and Business) was published. Other publications included *State Bank Members of the Federal Reserve System and Nonmember Banks that Maintain Clearing Accounts with Federal Reserve Banks,* issued in January with monthly supplements thereafter; *The Retail Credit Survey—1944* and *Provisions of State Laws Relating to Bank Reserves,* issued in May.

Between August and December the Board published three of a special series of eight pamphlets in which members of its staff analyzed various postwar problems. It is anticipated that all the other pamphlets in the series will be published in 1946.

BOARD OF GOVERNORS—STAFF AND EXPENDITURES

Staff. On December 31, 1945, the Board's staff, exclusive of those on military leave or leave without pay, numbered 455, as compared with 448 at the end of 1944.

During the year 21 of the Board's permanent employees who had been on military leave rejoined the staff after their discharge from military service; 48 of the 74 permanent employees who had entered military service were still on military leave at the end of the year. Of the 25 employees who had resigned their temporary appointments to enter military service, two were reemployed by the Board during the year on their return to civilian life.

Lawrence Clayton, who had been Assistant to the Chairman of the Board of Governors since December 1934, resigned in January 1945 to become head of a securities company in Boston.

Elliott Thurston, who had been Special Assistant to the Chairman since May 1935, was appointed Assistant to the Chairman, effective February 1, 1945.

Dr. E. A. Goldenweiser, who had been a member of the Board's Division of Research and Statistics since March 1919, and Director of the Division since January 1927, was appointed to the newly created position of Economic Adviser effective February 1, 1945. Dr. Goldenweiser retired as a member of the Board's staff at the close of the year and became a member of the Institute for Advanced Study at Princeton, New Jersey.

Dr. Goldenweiser was succeeded as Director of the Division of Research and Statistics by Woodlief Thomas, who had been Assistant Director of the Division since November 1934. For 13 years prior to that time Mr. Thomas had been engaged in research work for the Federal Reserve System, serving at various times with the Federal Reserve Bank of Philadelphia, the Federal Reserve Bank of New York, and the Board.

Effective February 1, 1945, Howard S. Ellis was appointed Assistant Director of the Division of Research and Statistics. Mr. Ellis had been a member of the Division since September 1943, on leave of absence as Professor of Economics at the University of California.

J. P. Dreibelbis resigned as General Attorney effective March 15, 1945, to become a Vice President of a trust company in New York. Mr. Dreibelbis joined the staff of the Board in January 1936 as Assistant General Counsel and was appointed General Attorney in August 1942.

Effective March 16, 1945, George B. Vest was appointed General Attorney to succeed Mr. Dreibelbis. Mr. Vest has been a member of the Board's legal staff since 1922. In May 1935 he was appointed Assistant General Counsel, in which position he served until August 1942, when he was made Assistant General Attorney.

Effective March 1, 1945, J. Leonard Townsend was appointed by the Board of Governors as Assistant General Attorney.

Effective July 1, 1945, Chester Morrill, who had been Secretary of the Board since October 7, 1931, was appointed to the newly created position of Special Adviser to the Board of Governors, in which capacity he is concerned with matters of policy and procedure.

Effective as of the same date, S. R. Carpenter, who had been a member of the staff since 1926 and Assistant Secretary of the Board of Governors since May 18, 1933, was appointed Secretary.

William B. Pollard resigned as Assistant Director of the Division of Examinations as of the close of the year in order to accept appointment as Vice President of the Federal Reserve Bank of St. Louis with the designation of Manager of the Memphis Branch. Mr. Pollard had been a member of the Board's Division of Examinations since July 1933 and was made Assistant Chief of the Division on July 1, 1942.

Effective January 1, 1946, O. E. Foulk retired as Fiscal Agent under the provisions of the Federal Reserve Retirement System. At the same time the functions of his Office were transferred to the Board's Division of Administrative Services.

Chandler Morse was appointed Assistant Director of the Board's Division of Research and Statistics and assumed his new duties on January 2, 1946. Mr. Morse had served for a number of years on the staff of the Research Department of the Federal Reserve Bank of New York and with the Board's Division of Research and Statistics which he left in 1941 to become associated with the Office of Strategic Services.

During 1945 the Board's personnel continued to participate in the Pay Roll Savings Plan for the purchase of War Savings Bonds. Deductions from salaries for this purpose throughout the year averaged 14.6 per cent of gross pay roll.

Expenditures. The current expenses of the Board for the year 1945 aggregated $2,071,745. Two assessments were levied on the Federal Reserve Banks, representing about fifty-five hundredths of one per cent of their average paid-in capital and surplus for the year, to cover the general expenses of the Board. Details are shown in the following table:

RECEIPTS AND DISBURSEMENTS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM FOR THE YEAR 1945

General fund account:				
Balance January 1, 1945:				
For general expenses of the Board			$223,035.31	
For expenses chargeable to Federal Reserve Banks			33,362.23	
For purchase of United States Savings Bonds for employees under Board's Voluntary Pay Roll Savings Plan			7,735.30	
For income tax withholdings due Collector of Internal Revenue			58,304.80	$ 322,437.64
RECEIPTS				
For general expenses of the Board:				
Assessments on Federal Reserve Banks for estimated general expenses of the Board		$2,340,509.55		
Subscriptions to the Federal Reserve Bulletin		7,115.58		
Other publications, sales		3,261.99		
Reimbursements for leased wire service		53,668.24		
Cafeteria operations		66,324.38		
Miscellaneous receipts, refunds, and reimbursements.		15,034.24	2,485,913.98	
For expenses chargeable to Federal Reserve Banks:				
Assessments on Federal Reserve Banks for:				
Cost of printing Federal Reserve notes		3,231,159.75		
Expenses of leased wire system (telegraph)		61,171.16		
Expenses of leased telephone lines		10,300.75		
Expenses of Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)		45,744.28		
Miscellaneous expenses		5,848.92	3,354,224.86	
Employees' pay roll allotments for purchase of United States Savings Bonds			230,598.20	
Income tax withheld from salaries			255,982.43	
Total receipts				6,326,719.47
Total available for disbursement				6,649,157.11
DISBURSEMENTS				
For expenses of the Board:				
Current expenses of 1945 (per detailed statement)	$2,071,744.64			
Less accounts unpaid December 31, 1945	145,801.17	1,925,943.47		
Expenses of prior years paid in 1945		57,425.50		
Expenses of leased wire service, reimbursable		53,205.27		
Cafeteria operations		61,591.49		
Miscellaneous refunds and items reimbursable		7,809.99	2,105,975.72	
For expenses chargeable to Federal Reserve Banks:				
Cost of printing Federal Reserve notes		3,002,148.45		
Expenses of leased wire system (telegraph)		61,856.12		
Expenses of leased telephone lines		9,000.75		
Expenses of Federal Reserve Issue and Redemption Division (Office of the Comptroller of the Currency)		45,744.28		
Miscellaneous expenses		2,595.25	3,121,344.85	
Purchase of United States Savings Bonds and refunds under Board's pay roll plan			227,904.75	
Collector of Internal Revenue—income tax withheld from salaries			253,762.13	
Total disbursements				5,708,987.45
Balance in general fund account December 31, 1945:				
For general expenses of the Board			602,973.57	
For expenses chargeable to Federal Reserve Banks			266,242.24	
For purchase of United States Savings Bonds for employees under Board's Voluntary Pay Roll Savings Plan			10,428.75	
For income tax withholdings due Collector of Internal Revenue			60,525.10	
				$ 940,169.66

RECEIPTS AND DISBURSEMENTS—Continued

CURRENT EXPENSES

Personal services:	
Salaries	$1,620,453.27
Retirement contributions	124,640.39
Total personal services	$1,745,093.66
Nonpersonal services:	
Traveling expenses	99,328.38
Postage and expressage	16,806.62
Telephone and telegraph	47,988.85
Printing and binding	66,853.11
Stationery and supplies	14,322.92
Furniture and equipment	5,503.70
Books and subscriptions	7,449.61
Heat, light, and power	24,710.77
Repairs and alterations (building and grounds)	2,703.89
Repairs and maintenance (furniture and equipment)	3,165.12
Medical service and supplies	839.94
Insurance	4,050.34
Cafeteria operations	14,363.84
Liquid assets survey	7,500.00
Legal fees and expenses	2,527.98
Miscellaneous	8,535.91
Total nonpersonal services	$ 326,650.98
GRAND TOTAL	$2,071,744.64

Under an arrangement with the Federal Reserve Bank of Richmond, the accounts of the Board for the year 1945 were audited by the Auditor of the Bank, who certified them to be correct.

FEDERAL RESERVE MEETINGS

The Federal Open Market Committee met in Washington on February 28, March 1, June 20, and October 17, 1945, and the executive committee of the full committee met from time to time during the year. Under the provisions of Section 12A of the Federal Reserve Act, the Federal Open Market Committee has responsibility for determining the policies under which the open market operations of the Federal Reserve Banks shall be carried out. A record of the actions taken by the Committee on questions of policy will be found on pages 90-93 of this report.

A Conference of the Chairmen of the Federal Reserve Banks was held on October 29 and 30, 1945, and was attended by the members of the Board of Governors.

The Conference of Presidents of the Federal Reserve Banks held meetings on February 26-27, June 18-19, and October 15-16, 1945, and the Board of Governors met with the Presidents on February 28, March 1-2, June 21, and October 18, 1945.

Meetings of the Federal Advisory Council were held on February 18-19, May 13-14, September 16-17, and November 18-19, 1945, and the executive committee of the Council met on June 13 and October 3, 1945. The Board of Governors met with the Council or its executive committee on each of these occasions. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

During the year several conferences, attended by representatives of the Federal

Reserve Banks and the Board of Governors, were held to discuss monetary and credit developments, international monetary relationships, personnel administration, bank operations, services to member banks, and other System problems.

LEGISLATION AND REPORTS TO CONGRESS

Currency and reserves of Federal Reserve Banks. By an Act of Congress approved June 12, 1945, the reserve requirements of Federal Reserve Banks were reduced to a uniform amount of 25 per cent in gold certificates against Federal Reserve notes and an equal amount against deposit liabilities. The Act also extended indefinitely the authority for the use of direct obligations of the United States as collateral security for Federal Reserve notes and terminated the authority of the Federal Reserve Banks to issue Federal Reserve Bank notes. In addition, the authority of the President and the Secretary of the Treasury with respect to the issuance of United States notes under the Thomas Amendment of May 12, 1933 was terminated.

Bretton Woods Agreements Act; National Advisory Council on International Monetary and Financial Problems. The "Bretton Woods Agreements Act," approved July 31, 1945, provided for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development. Among other things, it made provision for Federal Reserve Banks to act as depository or fiscal agent for the Fund or the Bank under the supervision of the Board of Governors of the Federal Reserve System.

The Act established the National Advisory Council on International Monetary and Financial Problems consisting of the Secretary of the Treasury as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington. The Act placed important responsibilities on the Council and specifically provided that it "shall coordinate, by consultation or otherwise, so far as is practicable, the policies and operations of the representatives of the United States on the Fund and the Bank, the Export-Import Bank of Washington and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions."

Advisory Board of Export-Import Bank of Washington. The "Export-Import Bank Act of 1945," approved July 31, 1945, increased the bank's lending authority and made certain other changes. Among other things, it provided for an Advisory Board consisting of the Chairman of the Export-Import Bank, who shall serve as Chairman, the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, and the Chairman of the Board of Governors of the Federal Reserve System. The Advisory Board may make such recommendations to the Board of Directors of the Bank as it deems advisable, and the Board of Directors shall consult the Advisory Board on major questions of policy.

Purchase of Government obligations directly from the United States. By an Act of Congress approved December 28, 1945, the period during which the Federal Reserve Banks can purchase obligations of the United States directly from the United States was extended until June 30, 1946, unless sooner terminated by Congress or the President. The total amount of securities that can be purchased under this provision continues to be limited to 5 billion dollars held at any one time.

Veterans' guaranteed loans. Certain limitations contained in Section 24 of the Federal Reserve Act upon real estate loans by national banks, were, in effect, set aside by the Act of December 28, 1945, in so far as they relate to loans to veterans guaranteed under the Servicemen's Readjustment Act of 1944.

Reports to Congress. On several occasions during the year, members of the Board were called upon to appear before committees of Congress to give information on proposed legislation. At the request of such committees, and of the Bureau of the Budget, the Board submitted reports on proposed legislation relating to currency and reserves of Federal Reserve Banks, the Bretton Woods Agreements, the Export-Import Bank of Washington, the promotion of maximum employment and production, Government reorganization, increase in the limit on the Federal debt, credit for small business, amendments to the Clayton Anti-Trust Act, loans to veterans, various aspects of the Federal Home Loan Bank System, revaluation of gold, certain suits against national banks, authorization to carry Government obligations at par, and certain types of real estate loans.

Pre-1945 legislation during defense and war period. Although existing law provided much of the necessary authority, the System's vital part in the defense and war efforts was also reflected in legislation passed during this period.

Acts of May 7, 1940 and December 18, 1941 made certain technical and clarifying amendments to Section 5(b) of the Act of October 6, 1917, known as the Trading With the Enemy Act, and confirmed actions taken under the provision. This section, under which the Presidential Proclamation of a "Bank Holiday" had been issued in 1933, was the basis for Presidential Executive Orders by which, beginning in 1940, transactions in funds or other property of invaded countries were subjected to licensing by the Secretary of the Treasury. Reports as to such funds or property, as well as applications for licenses, were required to be filed with the Federal Reserve Banks.

It was under the same provision of the Trading With the Enemy Act that the President, by Executive Order No. 8843 on August 9, 1941, authorized and directed the Board of Governors to exercise a measure of control over consumer credit during the emergency arising out of World War II.

The growing need for defense housing led to the enactment of special legislation for insuring defense housing mortgages. An Act of March 28, 1941 exempted such insured mortgages from the limitations in Section 24 of the Federal Reserve Act on the amounts and maturities of real estate loans by national banks.

Uncertainties regarding the ownership of funds of the invaded countries led to the passage of the Act of April 7, 1941, providing a procedure whereby Reserve

Banks and insured banks may safely make payments of amounts due to foreign governments or central banks in such cases. The Act also clarified the authority of Reserve Banks to maintain banking accounts for foreign banks and governments without having to establish reciprocal accounts with them.

In connection with the existing provisions of law relating to the System's important functions in endeavoring to promote stability in the Government securities market, there were two amendments, largely procedural in character. The first, contained in the "Second War Powers Act of 1942" approved March 27, 1942, authorized the Reserve Banks to purchase United States obligations directly from the United States. The total amount so purchased was limited to 5 billion dollars held at any one time. The authority for such direct purchases was limited to December 31, 1944, unless terminated earlier by Congress or the President. An Act approved December 20, 1944 extended this date to December 31, 1945, and as indicated previously, an Act of December 28, 1945, extended it to June 30, 1946.

The second amendment on the subject was contained in the Act of July 7, 1942. This regrouped the Federal Reserve Banks for the purpose of electing the Reserve Bank representatives on the Federal Open Market Committee, which is composed of the members of the Board of Governors and five representatives of the Federal Reserve Banks. The regrouping provided continuous representation on the Committee for the Federal Reserve Bank of New York, which is located in the principal capital market and acts as the agent for the Committee in the operation of the System's open market account. The tremendous financial operations of the war required certain changes in the reserve requirements of member banks, but these were largely adjustments rather than fundamental alterations. The Act of July 7, 1942 authorized the Board of Governors to change reserve requirements of member banks in central reserve cities, within existing limitations, without necessarily changing the requirements for reserve cities. It also repealed the prohibition against member banks making new loans or paying dividends while their reserves are deficient. The Act of April 13, 1943 provided that, until six months after the cessation of hostilities as declared by Congress or the President, "war loan deposit accounts" (deposits payable to the United States arising solely as a result of subscriptions for United States securities) should be exempt from the reserve requirements applicable to member banks. It also exempted such deposits in insured banks from deposit insurance assessments during the same period. The Act of June 11, 1942 permitted the Secretary of the Treasury to appoint any insured banks as depositaries of public moneys, in effect repealing the requirement that only member banks could be such depositaries.

It was, of course, essential throughout this period that the Reserve Banks continue to have authority to use United States obligations as collateral for Federal Reserve notes. This authority had originally been enacted on February 27, 1932, to last until March 3, 1933. It was repeatedly extended for short periods;

including extensions in 1941 and 1943. As previously indicated, it was finally made permanent by the Act of June 12, 1945.

Under the Presidential Executive Order No. 9112 of March 26, 1942, and Acts approved October 9, 1940 (Assignment of Claims Act of 1940), June 11, 1942, and July 1, 1944 (Contract Settlement Act of 1944), the System provided valuable assistance to individual war contractors, particularly small contractors, in obtaining financing from banks. The Reserve Banks, under the general supervision of the Board of Governors, acted as Fiscal Agents for the War and Navy Departments and Maritime Commission in guaranteeing loans made by financing institutions to war contractors. As indicated in the references to Regulation V under the discussion of changes in the Board's regulations, this financing covered both production and contract termination claims—so-called "V" loans, "VT" loans, 1944 "V" loans, and "T" loans.

CHANGES IN REGULATIONS OF THE BOARD OF GOVERNORS

Foreign banking corporations. Effective February 2, 1945, the Board amended the second paragraph of Section XV of Regulation K, which relates to "Banking Corporations Authorized to do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act," commonly known as Edge Act Corporations, so as to provide that with the permission of the Board the limitation placed on the aggregate liabilities of such a corporation may be exceeded.

Consumer credit. Effective February 5, 1945, the Board amended Regulation W relating to consumer credit so that the existing exemption of veterans' loans that are guaranteed by the Veterans Administration would also apply to veterans' loans guaranteed by similar State agencies.

Effective June 11, 1945, Regulation W was amended in several respects. The changes were chiefly of a technical and administrative nature relating to repairs or improvements of residential property, the so-called "summer plans" for specified home improvement items, and the exemption for certain "disaster credits."

Effective July 27, 1945, certain technical and administrative changes were made in the exemptions relating to credits for aircraft, agricultural loans, and railroad watches.

Effective October 15, 1945, the regulation was amended to exempt credits for home repairs and improvements and to lengthen from 12 months to 18 the maturity limitation on loans which are not for the purpose of purchasing consumers' durable goods.

Effective December 1, 1945, another amendment was adopted which was primarily of the nature of a technical or clarifying supplement to the preceding amendment. It permits outstanding obligations to be renewed or revised so as to obtain the benefit of any increase in maximum maturity authorized by any changes in the regulation made since the obligation arose. It also permits an 18 months' maturity for consolidated obligations if none of the additional credit is to be used to purchase consumers' durable goods. In addition, the amendment restored to the regulation provisions effective prior to May 1942, which relieve an automobile salesman from having to meet the standard requirements when he buys a car to be used as a demonstrator.

Margin requirements for purchasing securities. On two occasions in 1945, the Board amended Regulation T entitled "Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges," and Regulation U, entitled "Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange." The first amendments, effective February 5, 1945, increased the 40 per cent margin requirements for purchasing registered securities to 50 per cent, the figure already applicable to short sales.

Effective July 5, 1945, these regulations were further amended to increase the margin requirements to 75 per cent for purchases of registered securities. The increased margins also applied to short sales. At the same time provisions were adopted, to become effective July 16, 1945, making certain changes in the regulations to simplify and strengthen the supporting rules. The new provisions required that the proceeds of sales of securities in accounts that are undermargined under the new requirements shall be used to the extent necessary to increase the margin on the remaining securities in the account until they are up to the new requirements. Except to this extent, neither regulation required that existing accounts or loans be brought up to the level of the new requirements. As in the past, neither regulation applied to loans for purposes other than purchasing, carrying, or trading in securities.

Effective January 21, 1946, Regulations T and U were amended to increase margin requirements to 100 per cent for both purchases of registered securities and short sales. The rules that became effective in July 1945 continued to require that the proceeds of liquidations be used to bring undermargined accounts up to the level required for new commitments.

Reserves of member banks. Effective August 1, 1945, the Board amended Section 2(*a*) of Regulation D relating to reserves of member banks, so as to provide that a member bank with its head office or any branch office located in a central reserve city shall be considered to be in a central reserve city for reserve purposes and a member bank with any office in a reserve city but no office in a central reserve city shall be considered to be in a reserve city. However, a member bank considered to be in a central reserve or reserve city solely by reason of the location of an office in an outlying district of such a city may obtain permission, upon the affirmative vote of five members of the Board of Governors, to carry lower reserve balances.

Common trust funds. Effective September 1, 1945, the Board amended Section 17 of Regulation F entitled "Trust Powers of National Banks" so as to increase from $25,000 to $50,000 the amount of the funds of any one trust which may be invested in a common trust fund. At the same time, the Board adopted other amendments to the common trust fund provisions of the regulation to provide restrictions on a bank's advertising of such funds and to make certain other minor changes, principally of a clarifying nature. Corresponding changes also were made in the provisions relating to mortgage investment funds.

Pre-1945 changes in Board's regulations during defense and war period. Changes in the Board's regulations reflected chiefly changes in underlying statutes. Two new regulations, Regulation W, relating to consumer credit, and Regulation V, relating to the financing of war production and war contract termination, grew out of Presidential Executive Orders.

Regulation W was originally issued on August 21, 1941, to become effective September 1, 1941. It then applied only to instalment sales and instalment loans, and covered a fairly limited list of consumer durable goods. Amendments effective March 23 and May 6, 1942, brought charge accounts and single-payment loans under the regulation, broadened the list of articles to include almost all kinds of consumer durable and semi-durable goods, and also further restricted the credit terms available under the regulation.

There were a number of other amendments to Regulation W. Some were for the purpose of improving its practical working; but until the relaxations mentioned above in 1945, most of the changes were made to support various phases of the war program sponsored by other branches of the Government.

Regulation V was issued effective April 6, 1942, pursuant to the President's Executive Order No. 9112 of March 26, 1942. The regulation provided the general framework for a highly successful war program under which the Federal Reserve Banks, under the supervision of the Board of Governors, acted as agents for the War and Navy Departments and the Maritime Commission in guaranteeing loans made by banks for the purpose of financing war production contractors. Within this general V loan framework, and without amendment to the regulation, the program was extended in September 1943 to include so-called VT loans which provided contractors with protection against termination of their war contracts, as well as funds for current production. After the enactment of the Contract Settlement Act of 1944, the regulation was amended, effective September 11, 1944, to cover the making of T loan guarantees for the purpose of financing contractors after cancellation of their contracts.

Effective April 30, 1942, the Board of Governors made certain clarifying and technical changes in Regulation S, relating to loans by Federal Reserve Banks to commerce and industry under Section 13b of the Federal Reserve Act, in order further to facilitate Federal Reserve participation in the financing of war production.

Effective March 20, 1942, Regulation A, relating to discounts for and advances to member banks by Federal Reserve Banks, was amended to clarify the authority of Reserve Banks to make 90-day advances to member banks on the security of direct obligations of the United States. Effective September 18, 1942, the regulation was amended so that paper guaranteed pursuant to Executive Order No. 9112 need not be negotiable in order to be eligible for discount by a Federal Reserve Bank. Effective September 11, 1944, there was a further amendment to apply the same rule to paper guaranteed pursuant to the Contract Settlement Act of 1944.

Regulation D, relating to reserve requirements of member banks, was amended a number of times in 1942. This was to conform to changes in the law and also to release reserves to banks in central reserve cities by reducing requirements on their demand deposits in three steps from 26 per cent to 20 per cent. All member banks in central reserve and reserve cities were given permission to average their required reserves over a weekly period. Previously reserves of banks in Federal Reserve Bank and branch cities, and in three other nearby cities, were averaged over semi-weekly periods. The regulation was amended in 1943 to conform to the statutory changes exempting war loan deposit accounts from reserve requirements.

LITIGATION

Injunction under Regulation W. A decree restraining Consumers Home Equipment Co. and A. B. Chereton, its President, from violations of Regulation W of the Board of Governors of the Federal Reserve System was entered on July 19, 1945, in the District Court of the United States for the Eastern District of Michigan, Southern Division.

The Consumers Home Equipment organization, which has its head office at Detroit, Michigan, and offices in Illinois, Indiana, Kentucky, Michigan, New York, Ohio, and Pennsylvania, and affiliates with offices in Maine, Massachusetts, New Hampshire, Rhode Island, and West Virginia, is engaged in the house-to-house sale of household merchandise on an instalment basis. The company was charged with violating the regulation in a number of instances by making sales without obtaining the down payment required, by failing to furnish statements of transactions to customers, and by not only failing to maintain records but attempting to conceal violations by manipulation and alteration of its records.

The effect of the decree, to which the defendants consented, is to render the defendants liable for punishment for contempt of court in the event they are found in the future to have violated the regulation in any of the respects described in the decree.

The text of the decree appears in the Appendix at page 94.

Suit regarding condition of membership. In 1944 the Peoples Bank, Lakewood Village, California, brought suit in the District Court of the United States for the Northern District of California against the Federal Reserve Bank of San Francisco, the Board of Governors of the Federal Reserve System, and the Federal Reserve Agent at San Francisco. The complaint alleged that a condition of membership which had been prescribed when the Peoples Bank became a member of the Federal Reserve System was unauthorized by law and asked for a declaratory judgment and for an injunction restraining the defendants from enforcing the condition. Defendants filed separate motions to dismiss the suit.

The District Court in an opinion rendered November 17, 1944, and set out in the Appendix at pages 95-101, granted these motions of the defendants.

An appeal to the United States Circuit Court of Appeals for the Ninth Circuit was taken by the plaintiff as to the Federal Reserve Bank and the Federal Reserve Agent, and a cross appeal was taken by the Federal Reserve Bank.

On June 29, 1945, the Circuit Court of Appeals rendered a decision dismissing the appeals. The opinion of the Court appears in the Appendix at pages 102-103.

On December 24, 1945, the Peoples Bank filed suit in the District Court of the United States for the District of Columbia against the individual members of the Board of Governors. The allegations and requested relief were similar to those in the California litigation.

Suit regarding removal of bank directors. On April 30, 1945, suit was filed in the District Court of the United States for the District of Columbia by John Agnew and F. O. Fayerweather against the Board of Governors of the Federal Reserve System and the individual members thereof to review an order of the Board issued pursuant to authority conferred by Section 30 of the Banking Act of 1933, removing plaintiffs as directors of a national bank in Paterson, New Jersey. The removal order was predicated upon a finding that plaintiffs had violated Section 32 of the Banking Act of 1933, which prohibits any officer, director or employee of any company, partnership or individual primarily engaged in the business of underwriting securities from serving at the same time as an officer, director or employee of any member bank of the Federal Reserve System. Plaintiffs contended in effect that the use of the words "primarily engaged" in Section 32 limited its application to cases in which the underwriting business of the securities company is first in volume as compared with other businesses in which it is engaged and that, since this was not true of the securities company of which they were employees, the statute was not applicable to them.

Motions were filed by the defendants challenging the jurisdiction of the court to entertain proceedings to review the Board's order in this case and also challenging plaintiffs' interpretation of the law as set forth above. The motions were granted by the District Court and the suit dismissed.

The plaintiffs appealed the case to the United States Court of Appeals for the District of Columbia. On February 13, 1946, the Court, speaking through Justice Prettyman, rendered an opinion reversing the District Court. Justice Edgerton dissented. The opinion of the Court appears in the Appendix at pages 104-114 followed by the dissenting opinion at pages 114-116.

On April 29, 1946, the Supreme Court of the United States granted a petition for a writ of certiorari to review the decision of the Court of Appeals.

TABLES

NO. 1—STATEMENT OF CONDITION OF THE FEDERAL RESERVE BANKS (IN DETAIL) DECEMBER 31, 1945[1]

ASSETS

[Amounts in boldface type are those shown in the Board's weekly statement. In thousands of dollars.]

Interdistrict settlement fund	5,529,121		
Gold certificates on hand	1,010,444		
Gold certificates with Federal Reserve Agent	10,523,000		
Gold certificates on hand and due from U. S. Treasury		**17,062,565**	
Redemption fund for Federal Reserve notes		**800,359**	
Total gold certificate reserves			**17,862,924**
Other cash:			
United States notes		27,984	
Silver certificates		179,245	
Standard silver dollars		1,789	
National and Federal Reserve Bank notes		8,092	
Subsidiary silver, nickels, and cents		19,205	
Total other cash			**236,315**
Discounts and advances secured by U. S. Government securities:			
Discounted for member banks	201,865		
Discounted for individuals, etc	40		
		201,905	
Other discounts and advances:			
Discounted for member banks	....		
Foreign loans on gold	47,000	47,000	
Total discounts and advances		**248,905**	
Industrial loans		**1,941**	
U. S. Govt. securities in system open market account:			
Bills	7,979,322		
Certificates	**8,364,461**		
Notes	**2,119,650**		
Bonds	**946,892**		
U. S. securities—repurchase option (Treasury bills)	4,851,923		
Total U. S. Government securities		**24,262,248**	
Total loans and securities			**24,513,094**
Due from foreign banks			**110**
Federal Reserve notes of other Federal Reserve Banks			**153,226**
Uncollected items:			
Transit items		1,851,986	
Exchanges for clearing house		238,207	
Other cash items		107,739	
Total uncollected items			**2,197,932**
Bank premises:			
Land		12,787	
Buildings (including vaults)		44,399	
Fixed machinery and equipment		17,039	
Total bank premises		74,225	
Less depreciation		40,843	
Bank premises, net			**33,382**
Other assets:			
Industrial loans past due	54		
Miscellaneous assets acquired account industrial loans	707		
Miscellaneous assets acquired account closed banks	183		
Total	944		
Less valuation allowances	812		
Net		132	
Federal Deposit Insurance Corporation stock[2]		....	
Fiscal Agency and other expenses, reimbursable		9,572	
Interest accrued		34,876	
Premium on securities		13,613	
Deferred charges		871	
Sundry items receivable		4,178	
Real estate acquired for banking house purposes		1,655	
Suspense account		766	
All other		217	
Total other assets			**65,880**
Total assets			**45,062,863**

[1] Before closing books at end of year. [2] Charged off. See footnote 4, Table 7.

NO. 1—STATEMENT OF CONDITION OF THE FEDERAL RESERVE BANKS (IN DETAIL) —*Continued*

LIABILITIES

Federal Reserve notes outstanding (issued to Federal Reserve Banks)		25,633,380	
Less: Held by issuing Federal Reserve Banks	770,075		
Forwarded for redemption	214,173	984,248	
Federal Reserve notes, net (includes notes held by Treasury and by Federal Reserve Banks other than issuing Bank)			**24,649,132**
Deposits:			
Member bank—reserve account		**15,914,099**	
U. S. Treasurer—general account		**976,516**	
Foreign		**862,320**	
Other Deposits:			
Nonmember bank—clearing accounts	128,853		
Officers' and certified checks	8,336		
Federal Reserve exchange drafts	647		
All other	307,736		
Total other deposits		**445,572**	
Total deposits			**18,198,507**
Deferred availability items			**1,619,770**
Other liabilities:			
Accrued dividends unpaid		849	
Unearned discount		113	
Discount on securities		5,849	
Sundry items payable		1,027	
Suspense account		76	
All other liabilities		138	
Total other liabilities			**8,052**
Total liabilities			**44,475,461**

CAPITAL ACCOUNTS

Capital paid in			**177,095**
Surplus (Sec. 7)			**238,319**
Surplus (Sec. 13b)			**27,164**
Other capital accounts:			
Reserves for contingencies:			
Reserve for registered mail losses		5,720	
All other		53,684	
Earnings and expenses:			
Current earnings	142,209		
Current expenses	48,717		
Current net earnings	93,492		
Add—profit and loss	2,110		
Deduct—dividends accrued since Jan. 1	10,182		
Net earnings available for charge-offs, reserves, and surplus		85,420	
Total other capital accounts			**144,824**
Total liabilities and capital accounts			**45,062,863**

NO. 2—STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK AT END OF 1944 AND 1945

[In thousands of dollars]

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond		Atlanta	
	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944
ASSETS														
Gold certificates	17,062,565	17,850,365	747,953	878,238	4,908,821	5,149,403	878,051	945,229	1,070,132	1,314,819	1,042,110	905,275	1,022,330	890,388
Redemption fund—Federal Reserve notes	800,359	594,126	59,189	40,929	124,283	106,731	61,134	42,799	78,031	57,694	60,083	49,204	45,950	38,521
Total gold certificate reserves	17,862,924	18,444,491	807,142	919,167	5,033,104	5,256,134	939,185	988,028	1,148,163	1,372,513	1,102,193	954,479	1,068,280	928,909
Other cash	236,315	242,189	18,536	17,980	36,867	57,125	15,577	17,816	15,768	19,184	18,487	15,779	25,352	19,481
Discounts and advances:														
Secured by U. S. Govt. securities	201,905	79,825	1,060	245	197,330	77,775	250	505	450	....	775	650	....	....
Other	47,000	....	3,149	....	17,014	....	4,136	....	4,089	....	1,974	....	1,645	....
Total discounts and advances	248,905	79,825	4,209	245	214,344	77,775	4,386	505	4,539	....	2,749	650	1,645	....
Industrial loans	1,941	3,751	110	201	....	12	1,763	2,570	....	308	53	126	....	21
U. S. Government securities:														
Bills	12,831,245	11,147,918	718,776	832,508	3,052,191	2,259,370	760,805	787,511	1,129,195	1,258,178	675,894	764,847	634,373	714,028
Certificates	8,364,461	4,886,640	583,354	233,390	2,098,442	1,622,723	621,726	295,001	802,373	284,067	513,908	255,244	420,812	171,197
Notes	2,119,650	1,568,221	147,829	74,900	531,769	520,764	157,554	94,670	203,332	91,164	130,229	81,913	106,637	54,940
Bonds	946,892	1,243,426	66,038	59,387	237,552	412,908	70,383	75,063	90,833	72,283	58,176	64,948	47,637	43,561
Total U. S. Government securities (including guaranteed securities)	24,262,248	18,846,205	1,515,997	1,200,185	5,919,954	4,815,765	1,610,468	1,252,245	2,225,733	1,705,692	1,378,207	1,166,952	1,209,459	983,726
Total loans and securities	24,513,094	18,929,781	1,520,316	1,200,631	6,134,298	4,893,552	1,616,617	1,255,320	2,230,272	1,706,000	1,381,009	1,167,728	1,211,104	983,747
Due from foreign banks	110	136	7	10	[1] 40	[1] 49	10	12	10	12	5	6	4	4
Federal Reserve notes of other Federal Reserve Banks	153,226	112,514	4,463	3,303	17,675	17,759	7,298	4,042	10,569	6,072	29,092	10,539	12,545	12,160
Uncollected items	2,197,932	2,448,145	160,798	184,062	420,234	569,682	139,850	153,977	217,034	272,593	192,767	201,593	150,104	119,603
Bank premises	33,382	34,278	1,352	1,610	8,674	8,894	3,313	3,457	3,989	4,101	2,769	2,852	1,568	1,611
Other assets	65,915	57,077	4,650	3,002	15,382	16,460	4,353	3,278	6,349	4,042	3,955	2,916	3,699	2,471
Total assets	45,062,898	40,268,611	2,517,264	2,329,765	11,666,274	10,819,655	2,726,203	2,425,930	3,632,154	3,384,517	2,730,277	2,355,892	2,472,656	2,067,986

[1] After deducting $70,000 participations of other Federal Reserve Banks on Dec. 31, 1945, and $87,000 on Dec. 31, 1944.

LIABILITIES														
Federal Reserve notes in actual circulation [1]	24,649,132	21,731,017	1,478,972	1,366,544	5,407,924	4,851,017	1,635,243	1,427,509	2,096,342	1,893,593	1,738,344	1,487,766	1,483,961	1,276,563
Deposits:														
Member bank—reserve account	15,914,950	14,372,899	709,430	677,659	4,855,437	4,554,844	799,634	710,778	1,156,889	1,128,014	727,247	636,754	762,425	628,914
U. S. Treasurer—general account	976,668	440,487	89,027	31,269	293,764	175,050	59,678	28,722	84,773	46,017	42,299	23,385	53,726	9,566
Foreign	862,320	1,203,703	56,168	83,042	[2] 337,584	[2] 466,212	72,195	106,353	71,375	102,885	34,457	46,241	28,714	36,992
Other deposits	445,572	393,881	4,379	4,730	343,765	287,547	4,308	4,578	9,671	7,662	3,758	2,324	4,087	2,850
Total deposits	18,199,510	16,410,970	859,004	796,700	5,830,550	5,483,653	935,815	850,431	1,322,708	1,284,578	807,761	708,704	848,952	678,322
Deferred availability items	1,619,770	1,633,226	140,710	133,586	236,189	319,639	106,130	105,809	157,950	160,573	155,713	136,942	115,889	94,140
Other liabilities including accrued dividends	7,661	7,071	406	763	1,413	1,139	500	614	790	827	338	396	322	373
Total liabilities	44,476,073	39,782,284	2,479,092	2,297,593	11,476,076	10,655,448	2,677,688	2,384,363	3,577,790	3,339,571	2,702,156	2,333,808	2,449,124	2,049,398
CAPITAL ACCOUNTS														
Capital paid in	177,095	162,531	10,635	10,053	63,630	59,281	13,064	12,227	17,654	16,339	7,177	6,517	6,354	5,851
Surplus (Sec. 7)	358,355	228,153	22,439	15,239	116,860	84,903	28,946	19,872	33,745	19,071	15,593	7,813	14,450	7,936
Surplus (Sec. 13b)	27,428	27,165	3,012	2,880	7,205	7,143	4,501	4,468	1,007	1,007	3,326	3,290	762	762
Other capital accounts	23,947	68,478	2,086	4,000	2,503	12,880	2,004	5,000	1,958	8,529	2,025	4,464	1,966	4,039
Total liabilities and capital accounts	45,062,898	40,268,611	2,517,264	2,329,765	11,666,274	10,819,655	2,726,203	2,425,930	3,632,154	3,384,517	2,730,277	2,355,892	2,472,656	2,067,986
Commitments to make industrial loans	1,644	4,165	164	....	....	....	703	3,048	300	50	200	415	....	....
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes:														
Issued to Federal Reserve Bank by Federal Reserve Agent	25,633,380	22,507,705	1,539,012	1,414,389	5,555,137	5,020,538	1,699,231	1,472,713	2,183,181	1,958,442	1,799,845	1,536,494	1,566,911	1,335,337
Held by Federal Reserve Bank	984,248	776,688	60,040	47,845	147,213	169,521	63,988	45,204	86,839	64,849	61,501	48,728	82,950	58,774
In actual circulation [1]	24,649,132	21,731,017	1,478,972	1,366,544	5,407,924	4,851,017	1,635,243	1,427,509	2,096,342	1,893,593	1,738,344	1,487,766	1,483,961	1,276,563
Collateral held by F. R. Agent for notes issued to banks:														
Gold certificates	10,523,000	11,298,000	460,000	610,000	3,120,000	3,020,000	500,000	623,000	635,000	812,000	670,000	615,000	680,000	605,000
Eligible paper	201,455	79,625	1,060	245	197,330	77,775	250	505	....	....	775	650	....	....
U. S. Government securities	15,403,201	11,534,902	1,100,000	810,000	2,400,000	2,000,000	1,200,000	850,000	1,550,000	1,150,000	1,175,000	950,000	900,000	750,000
Total collateral held	26,127,656	22,912,527	1,561,060	1,420,245	5,717,330	5,097,775	1,700,250	1,473,505	2,185,000	1,962,000	1,845,775	1,565,650	1,580,000	1,355,000

[1] Includes Federal Reserve notes held by the U. S. Treasury or by a Federal Reserve Bank other than the issuing bank.

[2] After deducting $523,414,000 participations of other Federal Reserve Banks on Dec. 31, 1945 and $735,225,000 on Dec. 31, 1944.

NO. 2—STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK AT END OF 1944 AND 1945—*Continued*

	Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944
ASSETS												
Gold certificates	3,027,003	3,236,811	588,990	619,419	331,936	345,553	584,231	649,877	465,459	527,145	2,395,549	2,388,208
Redemption fund for F. R. notes	135,309	97,907	42,997	32,783	20,145	14,820	35,246	25,779	26,155	17,755	111,837	69,204
Total gold certificate reserves	3,162,312	3,334,718	631,987	652,202	352,081	360,373	619,477	675,656	491,614	544,900	2,507,386	2,457,412
Other cash	28,148	29,840	15,293	13,473	7,685	5,933	15,130	14,151	11,800	9,434	27,672	21,993
Discounts and advances:												
Secured by U. S. Government securities	....	....	1,790	....	....	....	250	450	....	200	....	....
Other	6,110	....	1,410	....	1,081	....	1,410	....	1,410	....	3,572	....
Total discounts and advances	6,110	....	3,200	....	1,081	....	1,660	450	1,410	200	3,572	....
Industrial loans	....	....	....	....	....	....	15	25	....	....	....	488
U. S. Government securities:												
Bills	2,299,424	1,453,730	493,510	459,871	312,354	326,202	531,497	527,505	444,765	461,372	1,778,461	1,302,796
Certificates	1,095,666	906,499	427,625	232,353	232,112	88,636	417,570	188,719	364,886	133,449	785,987	475,362
Notes	277,655	290,914	108,365	74,567	58,818	28,444	105,817	60,565	92,466	42,827	199,179	152,553
Bonds	124,034	230,663	48,409	59,124	26,275	22,553	47,271	48,021	41,306	33,957	88,978	120,958
Total U. S. Government securities (including guaranteed securities)	3,796,779	2,881,806	1,077,909	825,915	629,559	465,835	1,102,155	824,810	943,423	671,605	2,852,605	2,051,669
Total loans and securities	3,802,889	2,881,806	1,081,109	825,915	630,640	465,835	1,103,830	825,285	944,833	671,805	2,856,177	2,052,157
Due from foreign banks	14	17	3	4	3	3	3	4	3	4	8	11
Federal Reserve notes of other Federal Reserve Banks	16,558	14,752	9,042	8,426	6,713	3,913	9,287	5,214	5,812	5,802	24,172	20,532
Uncollected items	341,424	361,579	103,677	108,109	54,099	44,130	115,564	119,635	83,162	80,740	219,219	232,442
Bank premises	3,106	2,879	2,059	2,116	1,263	1,252	2,597	2,667	829	901	1,863	1,938
Other assets	9,410	10,154	3,966	3,058	1,799	1,274	3,134	2,591	2,912	1,787	6,306	6,044
Total assets	7,363,861	6,635,745	1,847,136	1,613,303	1,054,283	882,713	1,869,022	1,645,203	1,540,965	1,315,373	5,642,803	4,792,529

LIABILITIES												
Federal Reserve notes in actual circulation [1]	4,444,533	3,978,835	1,063,366	930,849	551,859	475,794	910,750	796,543	618,639	546,527	3,219,199	2,699,477
Deposits:												
Member bank—reserve account	2,347,115	2,169,950	599,150	528,958	385,403	317,789	774,851	670,715	764,670	642,981	2,032,699	1,705,543
U. S. Treasurer—general account	139,437	27,827	37,877	15,916	38,287	15,877	42,323	26,291	36,544	12,085	58,933	28,482
Foreign	106,652	143,346	24,612	35,836	18,869	25,432	24,612	33,524	24,612	33,524	62,470	90,316
Other deposits	4,907	4,802	16,301	11,790	2,425	2,109	1,281	4,240	1,360	3,721	49,330	57,528
Total deposits	2,598,111	2,345,925	677,940	592,500	444,984	361,207	843,067	734,770	827,186	692,311	2,203,432	1,881,869
Deferred availability items	241,594	245,947	84,735	73,102	41,673	32,597	94,418	97,541	75,172	60,207	169,597	173,143
Other liabilities including accrued dividends	1,825	927	299	263	332	229	289	279	239	558	908	703
Total liabilities	7,286,063	6,571,634	1,826,340	1,596,714	1,038,848	869,827	1,848,524	1,629,133	1,521,236	1,299,603	5,593,136	4,755,192
CAPITAL ACCOUNTS												
Capital paid in	21,074	19,599	5,611	5,142	3,861	3,501	5,731	5,237	6,007	5,238	16,297	13,546
Surplus (Sec. 7)	53,029	33,201	12,939	7,048	8,869	4,950	11,891	6,196	10,670	6,025	28,924	15,899
Surplus (Sec. 13b)	1,429	1,429	527	527	1,073	1,073	1,137	1,137	1,307	1,307	2,142	2,142
Other capital accounts	2,266	9,882	1,719	3,872	1,632	3,362	1,739	3,500	1,745	3,200	2,304	5,750
Total liabilities and capital accounts	7,363,861	6,635,745	1,847,136	1,613,303	1,054,283	882,713	1,869,022	1,645,203	1,540,965	1,315,373	5,642,803	4,792,529
Commitments to make industrial loans	....	....	....	55	....	....	....	....	185	....	92	597
FEDERAL RESERVE NOTE STATEMENT												
Federal Reserve notes:												
Issued to Federal Reserve Bank by Federal Reserve Agent	4,570,154	4,068,615	1,119,753	971,228	569,076	486,557	948,173	822,824	663,464	586,556	3,419,443	2,834,012
Held by Federal Reserve Bank	125,621	89,780	56,387	40,379	17,217	10,763	37,423	26,281	44,825	40,029	200,244	134,535
In actual circulation [1]	4,444,533	3,978,835	1,063,366	930,849	551,859	475,794	910,750	796,543	618,639	546,527	3,219,199	2,699,477
Collateral held by F. R. Agent for notes issued to bank:												
Gold certificates	1,890,000	2,200,000	300,000	375,000	170,000	195,000	280,000	320,000	169,000	249,000	1,649,000	1,674,000
Eligible paper	....	....	1,790	....	....	....	250	450	....	....	....	....
U. S. Government securities	2,700,000	1,900,000	878,201	654,902	400,000	300,000	700,000	525,000	500,000	345,000	1,900,000	1,300,000
Total collateral held	4,590,000	4,100,000	1,179,991	1,029,902	570,000	495,000	980,250	845,450	669,000	594,000	3,549,000	2,974,000

[1] Includes Federal Reserve notes held by the U. S. Treasury or by a Federal Reserve Bank other than the issuing bank.

NO. 3—HOLDINGS OF UNITED STATES GOVERNMENT SECURITIES BY FEDERAL RESERVE BANKS, END OF DECEMBER 1943, 1944, AND 1945

[In thousands of dollars]

Type of issue	Rate of interest (Per cent)	Dec. 31, 1943	Dec. 31, 1944	Dec. 31, 1945	Change during	
					1944	1945
Treasury bonds:						
1944–46	3¼	196,000			−196,000	
1944–54	4	60,930			−60,930	
1945–47	2¾	121,200	135,250		+14,050	−135,250
1945	2½	19,000	17,800		−1,200	−17,800
1946–56	3¾	37,250	43,950	43,950	+6,700	
1946–48	3	96,700	99,700	99,700	+3,000	
1946–49	3⅛	47,852	47,952	47,952	+100	
1947–52	4¼	13,000	12,000	12,000	−1,000	
1948–50*	2	38,100	39,600	39,600	+1,500	
1948–51	2¾	100,500	100,500	100,500		
1948*	1¾		25,000	25,000	+25,000	
1949–51*, June	2	7,750	7,750	7,750		
1949–51*, Sept	2	3,000	3,000	500		−2,500
1949–52	3⅛	32,500	31,500	31,500	−1,000	
1949–53	2½	74,100	74,100	74,100		
1950–52*, Sept	2	88,700	38,300	36,800	−50,400	−1,500
1950–52	2½	75,000	70,000	70,000	−5,000	
1951–54	2¾	85,300	81,300	81,800	−4,000	+500
1951–55	3	16,000	16,000	16,000		
1951–53*	2	192,500	22,800	21,150	−169,700	−1,650
1951–53	2¼	32,500	31,500	31,500	−1,000	
1952–55*	2¼	26,500	31,600	31,600	+5,100	
1952–54*, Dec	2		60,930		+60,930	−60,930
1953–55	2	16,700	13,700	13,700	−3,000	
1954–56	2¼	6,000			−6,000	
1955–60	2⅞	8,000	14,500	14,500	+6,500	
1956–58*	2½	7,790	7,790	6,940		−850
1956–59	2¾	5,000	5,000	5,000		
1958–63	2¾	40,900	40,900	40,900		
1960–65	2¾	37,250	37,250	37,250		
1963–68*	2½		2,595		+2,595	−2,595
1964–69*, June	2½		15,699		+15,699	−15,699
1964–69*, Dec	2½		20,800		+20,800	−20,800
1967–72*	2½	73,443	94,660	57,200	+21,217	−37,460
Total Treasury bonds		1,559,465	1,243,426	946,892	−316,039	−296,534
Treasury notes:						
Mar. 15, 1944	1	88,100			−88,100	
June 15, 1944	¾	59,400			−59,400	
Sept. 15, 1944	1	23,700			−23,700	
Sept. 15, 1944*	¾	23,200			−23,200	
Mar. 1, 1945*	.90		320,400		+320,400	−320,400
Mar. 15, 1945	¾	55,600	20,600		−35,000	−20,600
Mar. 15, 1945*	1¼	146,100	152,371		+6,271	−152,371
Jan. 1, 1946*	.90		417,250	576,550	+417,250	+159,300
Mar. 15, 1946*	1		74,400	74,400	+74,400	
July 1, 1946*	.90			899,500		+899,500
Dec. 15, 1946*	1½	268,800	268,800	273,800		+5,000
Sept. 15, 1948*	1½		311,900	295,400	+311,900	−16,500
Total Treasury notes		664,900	1,565,721	2,119,650	+900,821	+553,929
Certificates of indebtedness*		2,467,300	4,886,640	8,364,461	+2,419,340	+3,477,821
Treasury bills:						
Bought under repurchase option*		3,845,077	3,983,771	4,851,923	+138,694	+868,152
Other*		2,923,191	7,164,147	7,979,322	+4,240,956	+815,175
Total Treasury bills		6,768,268	11,147,918	12,831,245	+4,379,650	+1,683,327
Guaranteed securities:						
CCC Feb. 15, 1945*	1⅛	2,500	2,500			−2,500
RFC Apr. 15, 1944*	1	10,500			−10,500	
HOLC 1944–52	3	34,501			−34,501	
HOLC 1945–47	1½	1,271			−1,271	
FFMC 1944–64	3¼	7,925			−7,925	
FFMC 1944–49	3	26,317			−26,317	
Total guaranteed securities		83,014	2,500		−80,514	−2,500
Total holdings		11,542,947	18,846,205	24,262,248	+7,303,258	+5,416,043

* Taxable issues.

NO. 4—HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES BY THE FEDERAL RESERVE BANKS, 1942–45

[In millions of dollars]

Date	Amount	Date	Amount	Date	Amount
1942—June 16	58	1943—Mar. 2	3	1943—June 15	805
19	70	4	174	16	659
20	47	5	354	17	350
22	34	6	543	18	256
23	94	8	591	19	212
		9	648		
Sept. 15	324	10	632	Sept. 8	11
16	189	11	790	9	126
17	286	13	1,043	10	243
18	76	15	1,302	11	246
19	53	16	1,250	13	214
		17	981	14	179
Nov. 27	139	18	836	15	424
28	329	19	778	16	258
30	422	20	768		
		22	603	1945—Mar. 15	4
Dec. 1	98	23	700		
10	16	24	512	Dec. 4	107
15	145	25	432	5	318
		26	384	6	374
1943—Jan. 29	115	27	304	7	484
30	202	29	104	8	484
		30	40	10	202

NO. 5—VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1941–45

[Number in thousands; amounts in thousands of dollars]

	1941	1942	1943	1944	1945
NUMBER OF PIECES HANDLED[1]					
Discounts and advances:					
Applications	2	1	2	5	8
Notes discounted and advances made	4	1	2	5	8
Industrial loans:					
Loans made	.6	1	.8	.6	(2)
Commitments to make industrial loans	.2	.2	.1	(2)	(2)
Currency received and counted	2,529,703	2,678,801	2,874,099	3,006,898	3,016,719
Coin received and counted	3,216,761	3,761,445	3,810,300	4,167,265	4,562,709
Checks handled:					
U. S. Government checks	123,128	130,895	266,686	426,460	510,608
All other	1,142,465	1,204,648	1,246,384	1,288,465	1,341,342
Collection items handled:					
U. S. Government coupons paid[3]	15,047	14,990	[r]16,527	17,054	18,292
All other	6,392	5,833	5,072	4,622	4,483
Issues, redemptions, and exchanges by fiscal agency department:					
U. S. Government direct obligations	13,479	117,425	[4]270,358	[4]356,845	[4]381,593
All other	411	473	250	937	474
Transfer of funds	840	842	[r]865	906	939
AMOUNTS HANDLED					
Discounts and advances	125,178	193,278	2,840,341	14,922,128	34,778,804
Industrial loans:					
Loans made	15,695	68,032	60,265	20,381	14,043
Commitments to make industrial loans	19,530	22,207	10,221	4,769	2,350
Currency received and counted	11,283,817	13,010,185	15,599,680	17,157,034	18,307,687
Coin received and counted	327,555	355,581	381,254	417,014	445,892
Checks handled:					
U. S. Government checks	27,732,559	67,834,790	113,791,554	127,931,710	124,610,917
All other	334,336,667	409,273,478	509,640,311	532,755,045	563,498,349
Collection items handled:					
U. S. Government coupons paid[3]	926,960	1,082,321	[r]1,481,520	1,840,647	2,348,172
All other	6,003,082	6,167,564	7,882,053	7,962,994	9,295,666
Issues, redemptions, and exchanges by fiscal agency department:					
U. S. Government direct obligations	33,278,154	90,338,225	[4]209,762,970	[4]261,297,489	[4]299,624,101
All other	3,262,012	3,260,660	1,986,425	2,840,687	2,729,452
Transfer of funds	118,423,057	140,444,452	203,510,209	215,006,532	223,490,280

[r] Revised. [1] Two or more checks, coupons, etc., handled as a single item are counted as one "piece."
[2] Less than 500. [3] Includes coupons from obligations guaranteed by the United States.
[4] Except Treasury savings certificates and war savings stamps received for redemption.

NO. 6—EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1945

Item	System	Boston	New York	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago	St. Louis	Minne-apolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Discounted bills	$1,977,081	$87,764	$1,045,398	$55,854	$114,493	$59,278	$57,478	$227,592	$107,862	$55,166	$83,869	$4,579	$77,748
Purchased bills	110	....	110	....	....	....	....	....	....	....	....	....	....
Industrial loans	100,755	5,987	142	69,200	2,279	4,531	102	2,730	....	....	1,233	....	14,551
Commitments to make industrial loans	12,533	447	....	117	240	3,510	....	1,480	214	....	....	800	5,725
U. S. Government securities	139,552,881	9,132,479	34,924,153	9,929,522	13,098,832	8,686,182	7,202,604	19,705,119	6,433,581	3,597,155	6,492,342	5,531,031	14,819,881
All other	566,186	7,310	55,922	8,594	73,380	10,121	21,114	139,840	54,462	4,766	156,133	9,802	24,742
Total current earnings	142,209,546	9,233,987	36,025,725	10,063,287	13,289,224	8,763,622	7,281,298	20,076,761	6,596,119	3,657,087	6,733,577	5,546,212	14,942,647
CURRENT EXPENSES													
Operating expenses:													
Salaries:													
Officers	2,854,484	149,333	576,613	149,416	239,055	182,756	183,752	354,229	198,644	164,458	187,264	172,911	296,053
Employees	46,515,928	2,614,475	10,154,205	2,892,287	4,444,307	2,689,594	2,503,373	7,537,418	2,689,726	1,254,087	2,420,126	2,232,144	5,084,186
Retirement System contributions	4,101,690	213,799	857,008	229,479	357,513	266,226	252,659	708,747	252,290	137,745	225,642	214,459	386,123
Legal fees	29,465	358	2,691	9,676	7,175	13	425	607	....	40	2,108	6,000	372
Directors' fees and expenses	128,363	10,587	11,266	8,452	11,048	7,781	13,194	9,884	6,914	11,615	15,023	8,156	14,443
Federal Advisory Council, fees and expenses	15,480	1,550	759	697	918	627	350	1,244	1,350	1,424	1,755	1,456	3,350
Traveling expenses (other than of directors and members of Federal Advisory Council)	453,611	25,594	62,720	19,988	45,239	33,117	32,645	68,085	44,642	25,020	28,418	28,890	39,253
Postage and expressage	7,611,246	723,820	1,145,694	529,174	671,666	633,425	554,034	903,864	349,446	263,141	430,437	395,444	1,011,101
Telephone and telegraph	533,766	24,040	93,256	31,320	48,373	26,366	44,445	41,734	46,947	23,513	41,815	37,384	74,573
Printing, stationery, and supplies	3,241,708	241,079	590,984	240,383	292,315	165,771	235,497	516,317	189,844	78,214	172,272	159,053	359,979
Insurance on currency and security shipments	28,292	2,876	3,515	1,687	4,046	2,298	3,448	2,649	863	703	1,190	1,305	3,712
Other insurance	220,365	13,400	51,348	8,622	15,248	12,811	10,850	28,410	14,574	9,315	18,680	10,405	26,702
Taxes on real estate	1,510,801	136,000	442,362	91,436	132,403	83,900	66,646	180,560	65,864	73,442	92,930	38,752	106,506
Depreciation (building)	1,041,179	55,832	221,060	143,275	112,476	92,914	42,548	70,581	55,786	29,086	70,312	72,477	74,832
Light, heat, power, and water	596,925	36,256	155,940	33,305	72,269	40,905	36,903	70,843	35,581	22,578	22,135	36,462	33,748
Repairs and alterations	287,660	15,774	32,741	4,615	41,212	21,508	19,731	23,679	30,291	38,804	46,966	5,245	7,094
Rent	1,000,294	20,598	49,729	82,686	139,945	24,424	94,603	306,179	39,808	16,441	29,556	21,154	175,171
Furniture and equipment	772,917	63,580	163,355	28,494	101,491	26,158	67,266	130,787	52,395	15,807	46,607	30,945	46,032
All other	2,107,011	100,353	242,273	175,795	237,683	95,147	157,342	417,720	154,267	70,495	135,163	105,543	215,230
Total operating expenses	73,051,185	4,449,304	14,857,519	4,680,787	6,974,382	4,405,741	4,319,711	11,373,537	4,229,232	2,235,928	3,988,399	3,578,185	7,958,460

Less reimbursement for certain fiscal agency and other expenses	31,384,732	1,637,801	5,276,799	1,673,873	2,959,228	1,746,233	2,185,982	5,727,458	1,893,963	981,495	1,645,771	1,740,863	3,915,266
Net operating expenses	41,666,453	2,811,503	9,580,720	3,006,914	4,015,154	2,659,508	2,133,729	5,646,079	2,335,269	1,254,433	2,342,628	1,837,322	4,043,194
Assessment for expenses of Board of Governors	2,340,509	156,989	843,342	204,489	203,849	98,625	81,557	303,183	71,535	53,409	70,411	71,180	181,940
Federal Reserve currency:													
Original cost	4,194,119	204,798	1,112,731	322,021	179,668	431,524	394,097	525,960	223,952	26,528	171,458	182,264	419,118
Cost of redemption	516,190	23,032	86,367	27,032	37,967	35,248	52,502	75,789	33,772	10,953	27,419	31,162	74,947
Total current expenses	48,717,271	3,196,322	11,623,160	3,560,456	4,436,638	3,224,905	2,661,885	6,551,011	2,664,528	1,345,323	2,611,916	2,121,928	4,719,199

PROFIT AND LOSS

Current net earnings	93,492,275	6,037,665	24,402,565	6,502,831	8,852,586	5,538,717	4,619,413	13,525,750	3,931,591	2,311,764	4,121,661	3,424,284	10,223,448
Additions to current net earnings:													
Profits on sales of U. S. Government securities	3,312,628	241,116	802,592	255,719	336,234	207,653	169,877	415,493	156,071	95,519	161,320	141,061	329,973
Recoveries of, and withdrawals from allowances for, losses on industrial advances (net)	476,585	185,721	129,671	100,721	6,074	44,373	10,000	....	....	....	....	....	25
All other	305,627	9,419	5,345	101,736	63,778	2,717	18,835	7,473	4,136	6,798	32,836	11,321	41,233
Total additions	4,094,840	436,256	937,608	458,176	406,086	254,743	198,712	422,966	160,207	102,317	194,156	152,382	371,231
Deductions from current net earnings:													
Charge-offs on bank premises	201,650	201,650	....	....	....	....	....	....	....	....	....	....	....
Reserves for contingencies	3,709,701	637,740	....	4,591	....	627,298	468,946	....	623,745	....	885,955	....	461,426
All other	1,013,496	179,130	2,919	184	123,057	2,624	....	518,405	25,418	413	49,923	41,215	70,208
Total deductions	4,924,847	1,018,520	2,919	4,775	123,057	629,922	468,946	518,405	649,163	413	935,878	41,215	531,634
Net additions	−830,007	−582,264	934,689	453,401	283,029	−375,179	−270,234	−95,439	−488,956	101,904	−741,722	111,167	−160,403
Net earnings	92,662,268	5,455,401	25,337,254	6,956,232	9,135,615	5,163,538	4,349,179	13,430,311	3,442,635	2,413,668	3,379,939	3,535,451	10,063,045
Paid U. S. Treasury (Sec. 13b)	247,659	57,502	65,940	83,968	7,177	4,154	9,884	2,516	....	....	873	730	14,915
Dividends paid	10,182,851	618,318	3,627,446	765,606	1,025,112	409,879	367,516	1,215,381	326,314	221,686	330,263	344,375	930,955
Transferred to surplus (Sec. 13b)	262,133	131,402	62,662	32,452	....	35,858	....	....	−241	....	....	....	....
Transferred to surplus (Sec. 7)	81,969,625	4,648,179	21,581,206	6,074,206	8,103,326	4,713,647	3,971,779	12,212,414	3,116,562	2,191,982	3,048,803	3,190,346	9,117,175
Surplus (Sec. 7), January 1	228,152,331	15,238,712	84,902,462	19,871,579	19,071,303	7,813,341	7,935,878	33,200,673	7,048,131	4,949,737	6,196,267	6,024,966	15,899,282
Additions, as above	81,969,625	4,648,179	21,581,206	6,074,206	8,103,326	4,713,647	3,971,779	12,212,414	3,116,562	2,191,982	3,048,803	3,190,346	9,117,175
Transferred from reserves for contingencies:													
Previously charged to current net earnings	11,131,011	....	5,706,052	....	922,976	....	....	4,408,080	....	67,380	....	26,523	....
Previously charged to surplus	37,102,278	2,551,663	4,670,085	3,000,000	5,647,512	3,066,084	2,542,929	3,207,763	2,774,128	1,660,401	2,646,415	1,427,808	3,907,490
Surplus (Sec. 7), December 31	358,355,245	22,438,554	116,859,805	28,945,785	33,745,117	15,593,072	14,450,586	53,028,930	12,938,821	8,869,500	11,891,485	10,669,643	28,923,947

NO. 7—CURRENT EARNINGS, CURRENT EXPENSES, AND NET EARNINGS OF FEDERAL RESERVE BANKS AND DISPOSITION OF NET EARNINGS, 1914-45

Bank and period	Earnings and expenses			Disposition of net earnings				
	Current earnings	Current expenses	Net earnings [1]	Dividends paid	Franchise tax paid to U. S. Treasury [2]	Paid to U. S. Treasury (Sec. 13b)	Transferred to surplus (Sec. 13b)	Transferred to surplus (Sec. 7)
All Federal Reserve Banks by years:								
1914–15	$2,173,252	$2,320,586	$−141,459	$217,463				
1916	5,217,998	2,273,999	2,750,998	1,742,774				
1917	16,128,339	5,159,727	9,582,067	6,804,186	$1,134,234			$1,134,234
1918	67,584,417	10,959,533	52,716,310	5,540,684				48,334,341
1919	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894			70,651,778
1920	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742			82,916,014
1921	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466			15,993,086
1922	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605			−659,904
1923	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056			2,545,513
1924	38,340,449	28,431,126	3,718,180	6,682,496	113,646			−3,077,962
1925	41,800,706	27,528,163	9,449,066	6,915,958	59,300			2,473,808
1926	47,599,595	27,350,182	16,611,745	7,329,169	818,150			8,464,426
1927	43,024,484	27,518,443	13,048,249	7,754,539	249,591			5,044,119
1928	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659			21,078,899
1929	70,955,496	29,691,113	36,402,741	9,583,913	4,283,231			22,535,597
1930	36,424,044	28,342,726	7,988,182	10,268,598	17,308			−2,297,724
1931	29,701,279	27,040,664	2,972,066	10,029,760				−7,057,694
1932	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418			11,020,582
1933	49,487,318	29,222,837	7,957,407	8,874,262				−916,855
1934	48,902,813	29,241,396	15,231,409	8,781,661			$−60,323	6,510,071
1935	42,751,959	31,577,443	9,437,758	8,504,974		$297,667	27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581		227,448	102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966		176,625	67,304	2,616,352
1938	36,261,428	28,911,608	9,581,954	8,019,137		119,524	−419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462		24,579	−425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971		82,152	−54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936		141,465	−4,333	570,513
1942	52,662,704	38,624,044	12,470,451	8,669,076		197,672	49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342		244,726	135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126		326,717	201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851		247,659	262,133	81,969,625
Total—1914–45	1,769,297,812	859,663,386	870,355,054	232,224,867	149,138,300	2,086,234	[3] −118,138	[4] 487,023,791

Aggregate for each Federal Reserve Bank 1914–45:								
Boston	119,494,845	61,678,875	56,740,343	16,544,838	7,111,395	278,693	+136,626	32,668,791
New York	508,855,322	207,458,425	300,783,529	79,360,168	68,006,262	281,141	−547,005	153,682,963
Philadelphia	136,909,734	65,500,061	71,628,434	21,485,017	5,558,901	715,347	+302,501	43,566,668
Cleveland	160,514,239	80,055,049	75,384,464	23,499,401	4,842,447	82,058	−8,446	46,969,004
Richmond	89,445,577	49,272,567	37,459,492	9,782,408	6,200,189	170,501	−94,970	21,401,364
Atlanta	83,054,898	40,865,394	37,023,438	8,265,592	8,950,561	79,177	+5,491	19,722,617
Chicago	242,068,994	112,725,926	120,818,467	26,973,275	25,313,526	150,618	+11,681	68,369,367
St. Louis	77,514,062	44,032,089	28,918,071	8,144,662	2,755,629	7,063	−21,217	18,031,934
Minneapolis	55,008,650	29,833,269	23,808,442	5,673,965	5,202,900	55,115	+64,875	12,811,587
Kansas City	84,592,501	50,891,801	30,829,014	7,811,338	6,939,100	64,201	−8,388	16,022,763
Dallas	64,325,594	38,195,145	23,168,398	7,449,422	560,049	101,134	+55,336	15,002,457
San Francisco	147,513,396	79,154,785	63,792,962	17,234,781	7,697,341	101,186	−14,622	38,774,276

[1] Current earnings less current expenses, plus other additions and less other deductions.

[2] The Banking Act of 1933 eliminated the provision in the Federal Reserve Act requiring payment of a franchise tax.

[3] On Dec. 31, 1945, surplus (Sec. 13b)—relating to funds received from the Secretary of the Treasury under Section 13b of the Federal Reserve Act for the purpose of making loans to industry—amounted to $27,428,173 ($27,546,311 received from the Secretary of the Treasury minus the $118,138 net debits shown here).

[4] On Dec. 31, 1945, surplus (Sec. 7)—accumulated pursuant to Section 7 of the Federal Reserve Act—amounted to $358,355,245 ($487,023,791 retained net earnings, shown here, minus $139,299,557, charge-off cost of Federal Deposit Insurance Corporation stock, and $500,000, charge-off on bank premises, plus $11,131,011 transferred from reserves for contingencies).

NO. 8—NUMBER AND SALARIES OF OFFICERS AND EMPLOYEES OF FEDERAL RESERVE BANKS

Federal Reserve Bank (including branches)	President	Other officers		Employees, except those whose salaries are reimbursed to Bank		Employees whose salaries are reimbursed to Bank		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
[December 31, 1945]									
Boston	$25,000	13	$116,100	848	$1,465,596	541	$867,173	1,403	$2,473,869
New York	45,000	48	550,850	2,863	6,451,032	1,662	3,518,633	4,574	10,565,515
Philadelphia	25,000	12	127,000	1,187	1,954,073	506	976,165	1,706	3,082,238
Cleveland	25,000	25	193,350	1,280	2,433,786	918	1,727,884	2,224	4,380,020
Richmond	21,000	22	178,040	853	1,454,276	658	1,065,549	1,534	2,718,865
Atlanta	20,000	24	168,000	684	1,215,888	818	1,168,262	1,527	2,572,150
Chicago	30,000	35	324,000	1,573	3,471,366	1,762	3,401,363	3,371	7,226,729
St. Louis	25,000	23	173,340	763	1,424,010	734	1,269,194	1,521	2,891,544
Minneapolis	25,000	18	137,250	383	600,483	384	615,927	786	1,378,660
Kansas City	20,000	24	176,060	686	1,217,823	635	1,087,545	1,346	2,501,428
Dallas	20,000	23	157,905	626	1,107,781	572	974,917	1,222	2,260,603
San Francisco	25,000	36	274,700	1,130	2,145,517	1,141	2,125,012	2,308	4,570,229
Total	$306,000	303*	$2,576,595*	12,876	$24,941,631	10,331	$18,797,624	23,522	$46,621,850
[December 31, 1944]									
Boston	$25,000	10	$93,842	838	$1,390,063	568	$844,707	1,417	$2,353,612
New York	45,000	43	491,600	2,780	5,652,872	1,820	3,589,795	4,644	9,779,267
Philadelphia	25,000	13	128,300	1,006	1,599,267	574	969,612	1,594	2,722,179
Cleveland	25,000	26	204,432	1,127	1,988,494	1,148	1,858,306	2,302	4,076,232
Richmond	21,000	19	149,660	802	1,292,491	710	1,080,134	1,532	2,543,285
Atlanta	20,000	24	154,600	627	949,605	898	1,294,015	1,550	2,418,220
Chicago	30,000	34	307,800	1,607	3,160,755	2,118	3,753,294	3,760	7,251,849
St. Louis	25,000	23	169,340	674	1,213,267	786	1,278,247	1,484	2,685,854
Minneapolis	25,000	19	141,000	324	522,252	470	687,440	814	1,375,692
Kansas City	20,000	20	159,780	624	1,040,338	752	1,208,853	1,397	2,428,971
Dallas	20,000	22	151,305	563	946,420	711	1,130,011	1,297	2,247,736
San Francisco	25,000	36	262,700	1,094	1,946,265	1,520	2,668,301	2,651	4,902,266
Total	$306,000	289†	$2,414,359†	12,066	$21,702,089	12,075	$20,362,715	24,442	$44,785,163

* Includes $587,261 reimbursed to the Banks for salaries of 82 officers.
† Includes $618,436 reimbursed to the Banks for salaries of 89 officers.

NO. 9—MINIMUM DOWN PAYMENTS AND MAXIMUM MATURITIES ON CONSUMER CREDIT SUBJECT TO REGULATION W

Prescribed by Board of Governors of the Federal Reserve System in accordance with Executive Order No. 8843 dated August 9, 1941

Type of credit	Effective May 6, 1942		In effect December 31, 1945	
	Down payment (%)[1]	Maximum maturity (months)	Down payment (%)[1]	Maximum maturity (months)
Instalment sales:[2]				
Automobiles	33⅓	15	33⅓	15
Mechanical refrigerators, washing machines, radios, vacuum cleaners	33⅓	12	33⅓	12
Stoves, ranges	33⅓	12	33⅓	12
Furnaces, oil burners, plumbing and sanitary fixtures[3]	33⅓	12	...	...
Furniture	20	12	20	12
Floor coverings	33⅓	12	33⅓	12
Watches, clocks	33⅓	12	33⅓	12
Jewelry	33⅓	12	33⅓	12
Clothing, furs	33⅓	12	33⅓	12
Materials (not elsewhere listed) for repair or improvement of residential structures[4]	...	12	...	...
Instalment loans:				
To purchase listed articles	(5)	(5)	(5)	(5)
To pay charge account arising from sale of listed article, or to pay single-payment loan	...	6	...	6
Other	...	12	...	[6]18
Consolidations of instalment sale or loan with previously outstanding instalment credit—General rule	(5)	12	(5)	12
Consolidations of instalment loans if additional credit is not to purchase listed articles	...	12	...	[7]18
Single-payment loans	(5)	3	(5)	3
Charge sales of listed articles	...	10th day of 2d month after sale	...	10th day of 2d month after sale

[1] Down payments determined *after* deduction of any trade-in, except in case of automobiles.
[2] Terms shown for selected articles. For terms on other listed articles, see regulation.
[3] No down payment required after June 10, 1945. No maturity limitation after Oct. 14, 1945.
[4] No maturity limitation after Oct. 14, 1945.
[5] Where credit is to purchase listed articles, requirements same as on instalment sales of the respective articles.
[6] Effective Oct. 15, 1945.
[7] Special maturity for these credits provided by amendment effective Dec. 1, 1945.

NOTE.—The above limitations have been subject to various exceptions; for exceptions in detail, and for additional provisions not reflected in this table, the regulation should be consulted. Where no figure is shown, there was no limitation imposed by Regulation W.

NO. 10—FEDERAL RESERVE BANK DISCOUNT, INTEREST, AND COMMITMENT RATES, AND BUYING RATES ON BILLS

[Per cent per annum]

In effect December 31, 1945

Type of transaction	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
Discounts for and advances to member banks under Secs. 13 and 13a of the Federal Reserve Act:												
Advances secured by Government obligations maturing or callable in one year or less	½	½	½	½	½	½	½	½	½	½	½	½
All other	1	1	1	1	1	1	1	1	1	1	1	1
Advances to member banks under Sec. 10(b) of the Federal Reserve Act	1½	1½	1½	1½	1½	1½	1½	1½	1½	1½	1½	1½
Advances to individuals, partnerships, or corporations other than member banks secured by direct obligations of the United States (last paragraph of Sec. 13 of the Federal Reserve Act):												
To nonmember banks	1	1	1	1	1	1	1	1	1	1	1	1
To others	2	2½	2	2	2½	2	2	2	2½	2	2	2½
Advances to industrial or commercial businesses under Sec. 13b of the Federal Reserve Act, direct or in participation with financing institutions	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5	2½-5
Discounts for and purchases from financing institutions under Sec. 13b of the Federal Reserve Act:												
On portion for which institution is obligated	(1)	(1)	(2)2	(1)	(1)	(1)	2½-5	1-1½	(1)	(1)	(1)	(1)
On remaining portion	(3)	(3)	(3)	(3)	(3)	(3)	2½-5	(3)	(3)	(3)	(3)	(3)
Commitments to make advances under Sec. 13b of the Federal Reserve Act:												
To industrial or commercial businesses	½-1	½-1¼	½-1¼	½-1¼	½-1¼	½-1¼	¼-1¼	½-1¼	½-1¼	½-1¼	½-1¼	½-1¼
To financing institutions	½-1	½-1¼	½-1¼	(4) ½-1¼	½-1¼	(4) ½-1¼	¼-1¼	¼-1¼	½-1¼	½-1¼	(4) ½-1¼	(4) ½-1¼
Minimum buying rates on prime bankers' acceptances payable in dollars	(5)	......	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
1-90 days	......	½	......	......	......	......	......	......	......	......	......	......
91-120 days	......	¾	......	......	......	......	......	......	......	......	......	......
121-180 days	......	1	......	......	......	......	......	......	......	......	......	......
Buying rate on Treasury bills[6]	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜	⅜

[1] Rate charged borrower by financing institution less commitment rate.
[2] May charge same rate as charged borrower by financing institution, if less.
[3] Rate charged borrower.
[4] Financing institution is charged ¼ per cent on undisbursed portion of loan.
[5] The same minimum rates in effect at the Federal Reserve Bank of New York apply to any purchases made by other Federal Reserve Banks.
[6] Established rate at which Federal Reserve Banks stand ready to buy all Treasury bills offered. Effective Aug. 3, 1942, purchases of such bills, if desired by the seller, were made on condition that the Reserve Bank, upon request before maturity, would sell back bills of like amount and maturity at the same rate of discount. Since May 15, 1943, all purchases have been made subject to repurchase option.

NOTE.—Maximum maturities for discounts and advances to member banks are: 15 days for advances secured by obligations of the Federal Farm Mortgage Corporation or the Home Owners Loan Corporation guaranteed as to principal and interest by the United States, or by obligations of Federal Intermediate Credit Banks maturing within 6 months; 90 days for other advances and discounts made under Sections 13 and 13a of the Federal Reserve Act (except that discounts of certain bankers' acceptances and of agricultural paper may have maturities not exceeding 6 months and 9 months respectively); and 4 months for advances under Section 10(b). The maximum maturity for advances to individuals, partnerships, or corporations made under the last paragraph of Section 13 is 90 days. Industrial advances and commitments made under Section 13b of the Federal Reserve Act may have maturities not exceeding 5 years.

NO. 11—MAXIMUM RATES ON TIME DEPOSITS

Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q

[Per cent per annum]

Type of deposit	Nov. 1, 1933, to Jan. 31, 1935	Feb. 1, 1935, to Dec. 31, 1935	In effect beginning Jan. 1, 1936
Savings deposits	3	2½	2½
Postal Savings deposits	3	2½	2½
Other time deposits payable:			
In 6 months or more	3	2½	2½
In 90 days to 6 months	3	2½	2
In less than 90 days	3	2½	1

NOTE.—Maximum rates that may be paid by insured nonmember banks as established by the Federal Deposit Insurance Corporation, effective Feb. 1, 1936, are the same as those in effect for member banks. Under Regulation Q the rate payable by a member bank may not in any event exceed the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located.

NO. 12—MEMBER BANK RESERVE REQUIREMENTS

[Per cent of deposits]

Period in effect	Net demand deposits [1]			Time deposits (all member banks)
	Central reserve city banks	Reserve city banks	Country banks	
June 21, 1917–Aug. 15, 1936	13	10	7	3
Aug. 16, 1936–Feb. 28, 1937	19½	15	10½	4½
Mar. 1, 1937–Apr. 30, 1937	22¾	17½	12¼	5¼
May 1, 1937–Apr. 15, 1938	26	20	14	6
Apr. 16, 1938–Oct. 31, 1941	22¾	17½	12	5
Nov. 1, 1941–Aug. 19, 1942	26	20	14	6
Aug. 20, 1942–Sept. 13, 1942	24	20	14	6
Sept. 14, 1942–Oct. 2, 1942	22	20	14	6
Oct. 3, 1942 and after	20	20	14	6

[1] Demand deposits subject to reserve requirements; i.e., demand deposits other than war loan deposits, minus cash items in process of collection and demand balances due from domestic banks.

NO. 13—MARGIN REQUIREMENTS [1]

Prescribed by Board of Governors of the Federal Reserve System in accordance with Securities Exchange Act of 1934

[Per cent of market value]

	Nov. 1, 1937–Feb. 4, 1945	Feb. 5, 1945–July 4, 1945	July 5, 1945–Jan. 20, 1946	Effective Jan. 21, 1946
Regulation T:				
For extensions of credit by brokers and dealers on listed securities	40	50	75	100
For short sales	50	50	75	100
Regulation U:				
For loans by banks on stocks	40	50	75	100

[1] Regulations T and U limit the amount of credit that may be extended on a security by prescribing a maximum loan value, which is a specified percentage of its market value at the time of the extension; the "margin requirements" shown in this table are the difference between the market value (100 per cent) and the maximum loan value.

NO. 14—ANALYSIS OF CHANGES IN NUMBER OF BANKING OFFICES DURING 1945

	All banks	Commercial banks					Mutual savings bank	
		Total	Member banks		Nonmember banks[1]			
			National	State member	Insured	Noninsured	Insured	Noninsured
ANALYSIS OF BANK CHANGES								
Number of banks on Dec. 31, 1944	**14,535**	**13,992**	**5,025**	[2] **1,789**	**6,452**	**729**	[2] **192**	**351**
Increases in number of banks:								
Primary organizations (new banks)[3]	+118	+118	+17	+8	+82	[4] +11	......	......
Decreases in number of banks:								
Consolidations and absorptions	−81	−80	−34	−8	−34	−4	......	−1
Voluntary liquidations[5]	−19	−19	−2	......	−9	−8	......	......
Inter-class bank changes:								
Conversions—								
National into State	......	......	−5	......	+5	......	......	......
State into national	......	......	+16	−7	−9	......	......	......
Federal Reserve membership[6]:								
Admissions of State banks	......	......	......	+87	−86	−1	......	......
Withdrawals of State banks	......	......	......	−2	+2	......	......	......
Federal deposit insurance[7]:								
Admissions of State banks	......	......	......	......	+14	−14	......	......
Withdrawals of State banks	......	......	......	......	−1	+1	......	......
Net increase or decrease in number of banks	**+18**	**+19**	**−8**	**+78**	**−36**	**−15**	......	**−1**
Number of banks on Dec. 31, 1945	**14,553**	**14,011**	**5,017**	[2] **1,867**	**6,416**	**714**	[2] **192**	**350**
ANALYSIS OF BRANCH CHANGES[8]								
Number of branches and additional offices on Dec. 31, 1944	**4,064**	**3,924**	**1,813**	**1,079**	**978**	**54**	**99**	**41**
Increases in number of branches:								
De novo branches	+67	+65	+29	+11	+21	[4] +4	+2	......
Banks converted into branches	+42	+41	+24	+10	+7	......	......	+1
Decreases in number of branches:								
Branches discontinued	−15	−15	......	−4	−10	−1	......	......
Inter-class branch changes:								
From National to State member	......	......	−1	+1	......	......	......	......
From nonmember to State member	......	......	......	+8	−8	......	......	......
Banking offices at military reservations:								
Established	+60	+60	+44	+10	+6	......	......	......
Reopened	+2	+2	+1	......	+1	......	......	......
Discontinued	−130	−130	−99	−17	−14	......	......	......
Net increase or decrease in number of branches and additional offices	**+26**	**+23**	**−2**	**+19**	**+3**	**+3**	**+2**	**+1**
Number of branches and additional offices on Dec. 31, 1945	**4,090**	**3,947**	**1,811**	**1,098**	**981**	**57**	**101**	**42**

[1] Includes such unincorporated (private) banks as report to State banking departments.
[2] The State member bank figures and the insured mutual savings bank figures *both* include three member mutual savings banks. These banks are not included in the total for "commercial banks" and are included only once in "all banks."
[3] Exclusive of new banks organized to succeed operating banks.
[4] Includes one unclassified increase.
[5] Exclusive of liquidations incident to the succession, conversion, and absorption of banks.
[6] Exclusive of conversions of national banks into State bank members, or vice versa. Such changes do not affect Federal Reserve membership; they are included under "conversions."
[7] Exclusive of insured nonmember banks converted into national banks or admitted to Federal Reserve membership, or vice versa. Such changes do not affect Federal Deposit Insurance Corporation membership; they are included in the appropriate groups under "inter-class bank changes."
[8] This analysis covers all branches and other additional offices at which deposits are received, checks paid, or money lent. Offices established at miliary reservations (shown separately) include "banking facilities" provided through arrangements made by the Treasury Department with banks designated as depositaries and financial agents of the Government. Five of these banking facilities are in each case operated by two national banks, each bank having separate tellers windows; each of these facilities is counted as one banking office only.

NO. 15—NUMBER OF BANKS ON FEDERAL RESERVE PAR LIST AND NOT ON PAR LIST BY FEDERAL RESERVE DISTRICTS AND STATES, ON DECEMBER 31, 1944 AND 1945

Federal Reserve district or State	Total banks on which checks are drawn[1]		Banks on par list						Banks not on par list (Nonmember)[1]	
			Total		Member		Nonmember[1]			
	1945	1944	1945	1944	1945	1944	1945	1944	1945	1944
DISTRICT										
Boston	495	503	495	503	340	347	155	156	....	....
New York	955	964	955	964	814	816	141	148	....	....
Philadelphia	851	858	851	858	647	647	204	211	....	....
Cleveland	1,177	1,181	1,177	1,180	721	710	456	470	....	1
Richmond	1,005	1,007	756	733	472	468	284	265	249	274
Atlanta	1,115	1,104	489	408	325	316	164	92	626	696
Chicago	2,458	2,432	2,396	2,361	995	969	1,401	1,392	62	71
St. Louis	1,459	1,460	1,093	1,073	490	475	603	598	366	387
Minneapolis	1,273	1,268	588	566	472	467	116	99	685	702
Kansas City	1,747	1,754	1,732	1,590	751	749	981	841	15	164
Dallas	969	960	849	824	585	580	264	244	120	136
San Francisco	505	506	495	492	272	270	223	222	10	14
Total	**14,009**	**13,997**	**11,876**	**11,552**	**6,884**	**6,814**	**4,992**	**4,738**	**2,133**	**2,445**
STATE										
Alabama	216	217	99	90	83	83	16	7	117	127
Arizona	11	12	11	12	6	7	5	5	....	....
Arkansas	225	224	96	95	66	66	30	29	129	129
California	194	192	194	192	113	110	81	82	....	....
Colorado	138	140	138	140	92	92	46	48	....	....
Connecticut	116	116	116	116	64	64	52	52	....	....
Delaware	40	40	40	40	17	17	23	23	....	....
Dist. of Columbia	21	21	21	21	18	18	3	3	....	....
Florida	165	165	99	83	66	61	33	22	66	82
Georgia	357	347	83	76	59	59	24	17	274	271
Idaho	46	46	46	46	26	26	20	20	....	....
Illinois	851	833	849	831	491	474	358	357	2	2
Indiana	491	494	491	494	234	228	257	266	....	....
Iowa	656	650	656	650	162	161	494	489	....	....
Kansas	614	618	612	616	213	214	399	402	2	2
Kentucky	386	387	386	382	113	113	273	269	....	5
Louisiana	151	149	51	44	43	40	8	4	100	105
Maine	63	65	63	65	38	40	25	25	....	....
Maryland	170	174	170	174	80	80	90	94	....	....
Massachusetts	186	191	186	191	150	154	36	37	....	....
Michigan	443	440	442	439	231	228	211	211	1	1
Minnesota	676	670	258	249	210	209	48	40	418	421
Mississippi	202	202	31	28	28	26	3	2	171	174
Missouri	589	591	513	512	182	176	331	336	76	79
Montana	111	111	107	100	78	74	29	26	4	11
Nebraska	410	407	407	256	146	147	261	109	3	151
Nevada	8	9	8	9	6	7	2	2	....	....
New Hampshire	65	65	65	65	53	53	12	12	....	....
New Jersey	346	348	346	348	294	293	52	55	....	....
New Mexico	41	41	41	41	27	27	14	14	....	....
New York	682	689	682	689	590	593	92	96	....	....
North Carolina	202	202	80	76	54	54	26	22	122	126
North Dakota	150	152	45	45	42	42	3	3	105	107
Ohio	677	679	677	679	424	417	253	262	....	....
Oklahoma	380	382	369	370	217	215	152	155	11	12
Oregon	70	68	70	68	33	32	37	36	....	....
Pennsylvania	1,020	1,029	1,020	1,029	770	767	250	262	....	....
Rhode Island	22	23	22	23	12	13	10	10	....	....
South Carolina	144	145	41	36	28	28	13	8	103	109
South Dakota	166	164	66	65	60	60	6	5	100	99
Tennessee	293	292	185	130	82	78	103	52	108	162
Texas	859	850	791	768	543	538	248	230	68	82
Utah	57	57	57	57	34	34	23	23	....	....
Vermont	71	71	71	71	40	40	31	31	....	....
Virginia	314	312	293	278	197	194	96	84	21	34
Washington	122	126	112	112	55	56	57	56	10	14
West Virginia	179	178	176	173	108	109	68	67	3	5
Wisconsin	557	557	438	423	168	163	270	260	119	134
Wyoming	56	56	56	55	38	37	18	18	....	1

[1] Does not include nonmember mutual savings banks, on a few of which some checks are drawn. The difference of 5 between the number of nonmember commercial banks on Dec. 31, 1945 shown in this table and in Table 14 is due to the fact that this table excludes 117 banks (principally 50 industrial banks and 52 nondeposit trust companies) on which no checks are drawn, and includes 112 banks (principally 98 private banks and 12 cooperative banks) on which checks are drawn but which are not reporting to a State banking department or are in liquidation.

Back figures.—See *Banking and Monetary Statistics*, Table 15, pp. 54–55, and *Annual Report* for 1943, p. 82.

APPENDIX

RECORD OF POLICY ACTIONS
BOARD OF GOVERNORS

Meeting on February 2, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Mr. Draper moved that the Board take action to reduce the maximum loan value of registered securities in a general account, prescribed in the supplement to Regulation T, and on stocks, as prescribed in the first paragraph of the supplement to Regulation U, from 60 per cent to 50 per cent.

Mr. McKee moved, as a substitute for Mr. Draper's motion, that action on a change in margin requirements be deferred pending the outcome of the discussions of the Economic Stabilization Board, to which Chairman Eccles had referred during the meeting.

The substitute motion was put by the chair and lost, Mr. McKee voting "aye" and Messrs. Eccles, Ransom, Szymczak, Draper, and Evans voting "no."

Mr. Draper's original motion was put by the chair and carried, Messrs. Eccles, Ransom, Szymczak, Draper, and Evans voting "aye" and Mr. McKee voting "no."

In accordance with Mr. Draper's motion and effective February 5, 1945:

Regulation T was amended to increase margin requirements on registered securities (other than exempted securities) in a general account subject to section 3 of the regulation from 40 to 50 per cent, and on registered securities (other than exempted securities) in a special omnibus account subject to section 4 of the regulation from 25 to 35 per cent.

Regulation U was amended to increase margin requirements on any stock subject to section 1 of the regulation from 40 to 50 per cent, and on any registered stock in the case of a loan to a broker or dealer, under conditions set forth in the supplement, from 25 to 35 per cent.

On these actions Mr. McKee voted "no."

Mr. McKee's substitute motion was made by reason of a statement of Chairman Eccles during the meeting that discussions were being carried on at the time by the Economic Stabilization Board, of which the Chairman was a member, with respect to steps that might be taken by the Government in the field of taxation, credit control and otherwise to prevent further inflationary developments.

The other members of the Board did not favor Mr. McKee's motion, and voted for the above amendments, on the grounds that no question as to the desirability of the action was involved in reaching a decision on other steps to counteract inflationary developments and, therefore, the action should be taken without awaiting the outcome of the current discussions; that the history of the Securities Exchange Act of 1934 shows that action by the Board on margin requirements should take into account the amount of credit outstanding and also the level of stock prices, the general business situation, and related factors; that the general level of stock market prices during recent weeks had been rising to a succession of new 7-year highs, the volume of trading being above normal; that the volume of stock market credit (as measured by customers' debit balances) had been increasing and was for the first time above any level since the beginning of 1938; that the proportion of margin trading by the public commonly rises on sharp advances in the market, and that along with the increase in proportion of such trading there had been an increase also in the number of shares being carried in margin accounts. It was, therefore, the opinion of the other members of the Board that a move in the direction of higher margin requirements was justified for the purpose of preventing the excessive use of credit for purchasing or carrying securities, particularly under war conditions, and that there no longer existed any reason for the differential between the lower margin requirements on purchases and those on short sales of securities that had been in effect since October 1937.

The increase in the margin requirements for special omnibus accounts under Regulation T and on registered stocks in connection with loans to brokers or dealers under Regulation U was in accordance with the policy previously existing of having a differential of 15 per cent in the margin requirements in such cases.

Mr. McKee's vote of "no" on Mr. Draper's original motion, and on the amendments adopted in accordance with that motion, was based on the belief that the statute did not intend that action to increase or decrease margin requirements would be predicated on the volume of activity in the market or the level of stock market prices, and that the prevention of the excessive use of credit for the purchase or carrying of securities, as contemplated by the statute, did not call for action to increase margin requirements at this time inasmuch as trading was largely on a cash basis and the increase in the volume of credit in use in the market was not alarming.

Amendments to Regulation K, Banking Corporations Authorized to do Foreign Banking Business under the Terms of Section 25(a) of the Federal Reserve Act, and to Agreements Entered into with the Board by State Chartered Foreign Banking Corporations under the Terms of Section 25 of the Federal Reserve Act.

By unanimous vote, Section XV of Regulation K was amended, effective February 2, 1945, to provide that, except with the permission of the Board of Governors, the aggregate of the liabilities of an Edge Act corporation outstanding on account of acceptances, monthly average domestic and foreign deposits, debentures, bonds, notes, guaranties, indorsements, and other such obligations shall not exceed at any one time 10 times the amount of the corporation's subscribed capital and surplus.

It was also agreed unanimously that, in proper cases, a similar change would be made in agreements entered into with the Board by State chartered foreign banking corporations as a condition precedent to the investment by member banks in the stock of such corporations pursuant to the provisions of section 25 of the Federal Reserve Act.

For many years the Regulation had provided that the aggregate of the liabilities of an Edge Act corporation, as specified above, could not exceed 10 times the amount of its capital and surplus. A limitation of a similar type was contained in the agreements made with the Board by State chartered foreign banking corporations as a condition precedent to the investment by member banks in the stock of such corporations. When this requirement was first imposed, there were no adequate precedents to guide the Board in the supervision of these institutions, and such a limitation was regarded as necessary in the interest of sound operations. A review of the policy of the Board in this matter was occasioned by a request from a State chartered foreign banking corporation that the requirement be eliminated from an agreement proposed to be entered into by the corporation with the Board, and it was decided that the Board would not be justified in deleting the requirement entirely from such agreements or from Regulation K, but that in the light of experience it would now be proper to provide for flexibility where the need existed and demonstrated capable management appeared to justify such action.

The Regulation retained authority in the Board to amend the Regulation, provided that such amendment did not prejudice obligations undertaken in good faith under the Regulation in effect at the time such obligations were assumed, and the agreements with State chartered corporations retained a requirement that such corporations would restrict their operations and conduct their business in such manner and under such further limitations as the Board might prescribe from time to time.

Meeting on February 5, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote, Section 8 of Regulation W was amended, effective February 5, 1945, so as to exempt from its provisions any extension of credit to a veteran guaranteed in whole or in part by any State agency pursuant to legislation similar to the Servicemen's Readjustment Act of 1944.

By a previous amendment which became effective November 6, 1944, loans guaranteed in whole or in part by the Administrator of Veterans' Affairs under the provisions of the Servicemen's Readjustment Act of 1944 were exempted from the regulation. Subsequently it came to the attention of the Board that a State had enacted similar legislation providing for guaranties by a State agency, and that other States might take the same action. The credits under this legislation which would be subject to Regulation W consisted principally of residential repairs and improvements and certain consumers durable goods purchased occasionally for business use, and it was the view of the Board that such credits when guaranteed under State legislation could be exempted from the Regulation for the same reason as prompted the earlier amendment.

Meeting on May 22, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote, effective June 11, 1945, Regulation W was amended in certain respects relating almost exclusively to transactions for financing the purchase of materials, articles, and services used in repairs or improvements of residential property.

The reasons for the Board's action are set forth in the following paragraphs contained in a statement for the press issued under date of May 23, 1945:

> "The purpose of this amendment, notwithstanding the fact that it makes certain changes of detail in down-payment and maturity requirements, is

essentially administrative. It reflects no change in the Board's consumer credit policy or in the place of consumer credit regulation in the Government's anti-inflation program.

"Under the amendment no credit transaction in the home-improvement field is any longer exempted from the Regulation by reason of the way in which it may be secured, the area in which it may be located, or the type of job to which it may relate. For all such credit transactions, if they relate to residential property and are not over $1,500, a length-of-contract requirement is prescribed, but no down-payment requirement is prescribed for any of them. The maximum maturity may not hereafter exceed 18 months except that for certain 'fuel conservation credits' extended during the next five months the maximum maturity may be 24 months. Heretofore some such transactions have been altogether exempt, some have been subject to a maturity limitation of 12 months, and others have been subject to both a down-payment requirement of one-third and a maturity limitation of 12 months.

"The amendment also contains some technical provisions which relate to so-called 'summer plans' for specified home-improvement items and others which relate to the exemption for 'disaster credits.' "

Meeting on June 27, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Amendment to Regulation D, Reserves of Member Banks.

By unanimous vote, Section 2(a) of Regulation D was amended effective August 1, 1945, to provide that for reserve purposes a member bank with its head office or any branch office located in a central reserve city shall be considered to be in a central reserve city, and a member bank with its head office or any branch office in a reserve city but no office in a central reserve city shall be considered to be in a reserve city, provided that a member bank considered to be in a central reserve or reserve city solely by reason of the location of an office in an outlying district of such a city may be permitted, upon the affirmative vote of five members or the Board of Governors, to carry lower reserve balances as provided in Section 2 of the Regulation.

The question which gave rise to this amendment was the manner in which reserves should be computed in the case of a member bank having a branch or branches in a reserve city, but having its head office in a non-reserve city. The Board had never ruled on the question whether, in such a situation, the deposits of a member bank should be subject to the reserve requirements applicable to reserve city banks or those applicable to non-reserve city banks. However, the Board had ruled many years ago, in the case of a bank with its head office in a reserve city and branches in non-reserve cities, that such a bank was required to maintain against all of its deposits wherever located the reserves required of reserve city banks.

Before taking action on the amendment, the Board obtained the views of the Federal Reserve Banks and, through them, of the member banks which would be affected by the amendment. After careful consideration of these views and the potential effect of the amendment on the banks, as well as the history of reserve requirements and the provisions and purposes of section 19 of the Federal Reserve Act, the Board came to the conclusion that the amendment should be adopted.

The amendment adopted by the Board provides the same rule for all member banks with either a head office or a branch in a reserve city as the rule made in the early years of the Federal Reserve System that a member bank with its head office in a reserve city having non-reserve city branches is required to maintain reserves on a reserve city basis against all of its deposits wherever received. It also follows the principle observed since 1918 in New York City, in that a member bank located in a borough other than Manhattan is not required to carry reserves on a central reserve city basis unless it has a branch in Manhattan, and a member in the boroughs of Queens or Richmond is classified as a non-reserve city bank unless it has an office in Brooklyn or the Bronx in which case it is classified as a reserve city bank. Moreover, the amendment is consistent with the position taken by the Board for many years that a bank and its branches comprise a single institution for reserve purposes.

Meeting on July 3, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Amendments to Regulation T, Extension and Maintenance of Credit by Brokers, Dealers, and Members of National Securities Exchanges, and Regulation U, Loans by Banks for the Purpose of Purchasing or Carrying Stocks Registered on a National Securities Exchange.

Regulations T and U were amended to increase the margin requirements on registered securities (other than exempted securities) in a general account and on short sales under Regulation T, and on stocks under Regulation U from 50 to 75 per cent, effective July 5, 1945, and to include in both regulations a requirement to become effective July 16, 1945, that the proceeds of sales of securities in an undermargined account be used to the extent necessary to increase the margin on the remaining securities until they are on a 75 per cent basis. The amendments also made certain technical changes in the regulations, including one relating to specialists' accounts, to become effective July 5, 1945, which excepted specialists from the increase in margin requirements and from the change in requirements concerning the proceeds of sales; another which terminated as of July 16, 1945, any margin requirements on omnibus accounts, and a third which, effective July 16, 1945, eliminated from Regulation U the exemption of any loan for the purpose of purchasing stocks to any person whose total indebtedness to the bank did not exceed $1,000.

On this action the vote was unanimous except that Mr. McKee voted "no" on the proposed increase in margin requirements from 50 to 75 per cent, on the amendments relating to specialists' accounts, and the termination of the exemption from the provisions of Regulation U of a loan to a person whose total indebtedness to the bank did not exceed $1,000.

In deciding to increase the margin requirements to the 75 per cent level and to make the related changes included in these amendments, the Board considered that the continued upward trend and increased activity in the securities markets justified the action for the purpose of preventing the excessive use of credit for purchasing or carrying securities. In addition, account was taken of the fact that the amount of credit used for these purposes, after decreasing in March, had increased again thereafter by a substantial amount. All of these considerations were deemed by the Board to have special weight by reason of the existence of an unprecedented and growing volume of purchasing power in the hands of individuals and corporations, as a result of the war and war financing, at a time when there was an acute shortage of goods, and the consequent danger of general inflation.

In deciding to impose new restrictions on the use of credit in undermargined accounts, which would not require any liquidation but would prevent the use of credit already obtained from being used to make new commitments, the Board was influenced by the consideration that this would operate to restrain speculative activity and that it would also put the holders of old accounts, so far as new purchases were concerned, on the same basis as new customers.

The requirements for specialists were left unchanged in recognition of the fact that specialists, under the rules of national securities exchanges, are charged with a stabilizing function and are subject to strict rules of the exchanges designed to confine their operations to the performance of that function.

The prescribing of margin requirements for omnibus accounts and omnibus loans was terminated on the ground that it had ceased to be necessary, largely in consequence of the operation of a rule of the Securities and Exchange Commission, relating to the hypothecation of customers' securities. This rule, promulgated in 1941, had the effect of limiting the omnibus borrowings of brokers and dealers to the mere refinancing of customers' transactions which were themselves governed by Regulation T.

Meeting on July 9, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Evans.

Amendment to Regulation F, Trust Powers of National Banks.

> By unanimous vote, Regulation F was amended, effective September 1, 1945, to provide (a) that the maximum amount that may be invested by a national bank for any one trust in a common trust fund be increased from 10 per cent of the value of the assets of the common trust fund or \$25,000, whichever is less, to 10 per cent of the value of the assets of the fund at the time of investment or \$50,000, whichever is less, (b) a reasonable time, not to exceed one week, in which to effect appraisals and make the necessary computations following each valuation date, and (c) for restrictions on the advertising of a common trust fund. Similar changes were made in the provisions relating to mortgage investment funds.

These changes were adopted after consultation with the Committee on Common Trust Funds of the American Bankers' Association and other qualified trust officers. When the limitation of \$25,000 was adopted in 1937, it was regarded as a compromise and subject to change as the actual operation of common trust funds and their development might indicate. As a result of such experience, it appeared to the Board that, without danger to the safety of trust funds, the limitation could be raised to permit greater diversity in investments and to effect operating economies which would benefit both the trustees and the beneficiaries. The change relating to appraisals and computations following valuation dates was for the purpose of clarifying the language of the regulation which had been somewhat differently interpreted by different banks and to allow additional time in which to make the necessary determinations. The third amendment was for the purpose of preventing the use of a common trust fund as an investment trust and to emphasize the requirement of the Regulation that the bank could not permit any funds of any trust to be invested in a common trust fund if it had reason to believe that the trust was not created or was not being used for bona fide fiduciary purposes.

MEETING ON JULY 27, 1945

Members present: Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote (Mr. Draper was unable to be present but had stated that if present he would vote for the amendment), Section 8 of Regulation W was amended effective July 27, 1945, to change as stated below the provisions of the exemptions relating to (1) military aircraft credits, (2) agricultural loans, and (3) railroad watches.

In its application to aircraft, the regulation had not previously made a distinction between personal and commercial planes because no planes were available for private purchase. With the sale by the Government of surplus stocks and the fact that new planes would be coming on the market within a few months, it was felt that such a distinction should be made so that small planes for personal use would be subject to the Regulation while larger planes which would be used for commercial purposes would be exempt.

The purpose of the second change was to broaden the exemption of agricultural loans so as to make it possible for the Federal Land Banks to make as large a loan in certain circumstances as the Land Bank Commissioner may make.

Before this amendment was adopted, the purchase of railroad watches was exempt from the Regulation on condition that the registrant obtain a certification of need on a form prescribed by the War Production Board. This certification had been discontinued by the War Production Board and, since the railroads still required new employees to purchase such watches, it was felt that the reasons for the exemption still existed. The amendment was adopted for the purpose of continuing it under a procedure which provided for a certification of need by the division superintendent of the railroad.

MEETING ON SEPTEMBER 25, 1945

Members present: Mr. Eccles, Chairman; Mr. Ransom, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote, Regulation W was amended, effective October 15, 1945, to exempt therefrom credits for home repairs and improvements and to lengthen from 12 to 18 months the maturity limitations on loans not for the purpose of purchasing consumers' durable goods.

This action was taken by the Board after a review of developments following the termination of the war and of the measures that had been or might be taken to relax wartime controls in the interest of orderly reconversion. It was the belief of the Board that, until consumers' goods came on the market in sufficient supply to meet demands, the use of consumer credit to purchase such goods should continue to be discouraged and that, therefore, the Regulation should not be substantially amended at this time except as stated above. The exemption of home-improvement credits was in accord with the policy of rapid relaxation of other Governmental controls on residential and other building. The extension of the permissible maturity for loans not for the purpose of purchasing consumers' durable goods was approved because it was felt that the extension would be a helpful liberalization for persons and families facing readjustment of their affairs in consequence of the ending of the war and would not seriously impair the effectiveness of the Regulation in accomplishing its primary objectives.

Meeting on November 16, 1945

Members present: Mr. Eccles, Chairman; Mr. McKee; Mr. Draper; Mr. Evans.

Amendment to Regulation W, Consumer Credit.

> By unanimous vote, Regulation W was amended, effective December 1, 1945, to (a) exempt from its provisions any extension of credit to an automobile salesman which was to be repaid within 12 months to purchase an automobile to be used as a demonstrator, and (b) to permit any loan, which was not made for the purpose of purchasing consumers' durable goods and which was made when the maturity was limited to 12 months, to be extended to 18 months from the date of the original loan, and to permit additions to instalment loans with maturities up to 18 months provided the addition did not represent credit for purchasing consumers' durable goods and the payments on the consolidated loan were as large as on the old obligation.

The first change restored a provision in the Regulation which was in effect prior to May 1942 and was designed to relieve an automobile salesman from having to meet the standard requirements in purchasing a new automobile which was to be used as a demonstrator.

The second change was in the nature of a clarifying supplement to the amendment adopted by the Board as of October 15, 1945, which extended from 12 to 18 months the permissible maturity for instalment loans which were not for the purpose of purchasing consumers' durable goods. It was agreed that this change was a logical consequence of the amendment of October 15, 1945, although not included in its language.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

Meeting on March 1, 1945

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Williams; Mr. Gidney; Mr. Leedy; Mr. Gilbert.

A meeting of the Federal Open Market Committee (the last before the members of the Committee took office who were elected as representatives of the Federal Reserve Banks for terms of one year beginning March 1, 1945), was held on February 28, 1945, for the purpose of ratifying actions which had been taken under existing policies and to discuss matters relating to Treasury financing. At that meeting no policy actions were taken.

1. Authority to Effect Transactions in System Account.

At the meeting on March 1, 1945, upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than $1,500,000,000.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000.

The open market policies of the System continued through the year 1944 to be determined on the basis of the needs of war financing and were designed to continue the assurance of an adequate supply of member bank reserves and to exert an influence toward the maintenance of conditions in the Government security market that would be satisfactory from the standpoint of Government requirements. When this meeting of the Committee was held, plans were being made for the Seventh War Loan Drive which would result in a further large increase in Treasury borrowing. It also appeared that as long as the war lasted there probably would be a continued increase in currency in circulation, coupled with a further reduction in the monetary gold stock of the United States, all of which would require large additional amounts of reserve funds to be supplied by the Federal Reserve Banks. In these circumstances the Committee was of the opinion that there was no occasion for a change in its existing general policy, and that it should renew the outstanding direction to the executive committee to arrange for the purchase and sale of securities for the System account. This was accomplished by the approval of the direction set forth above, which was in the same form as the direction issued at the previous meeting of the Federal Open Market Committee on December 11, 1944.

2. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, the following direction to the Federal Reserve Banks was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the option holder:

Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of 3/8 per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account.

The above direction was in the same form as that issued by the Committee on March 1, 1944, with respect to the purchase of Treasury bills except that the last sentence was changed to provide that the Federal Reserve Banks should make prompt reports of all transactions in Treasury bills (instead of reports of purchases only) to the Manager of the System Open Market Account. The direction was renewed for substantially the same reasons as when the earlier action was taken and was presented for the purpose mainly of affording the incoming representatives of the Federal Reserve Banks who were elected as members of the Committee for terms of one year beginning March 1, 1945, an opportunity to vote on the question of policy involved. The change in the last sentence of the direction was merely to conform the language of the direction to the present practice of reporting all transactions in Treasury bills to the Manager of the System Open Market Account.

Meeting on June 20, 1945

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Williams; Mr. Gidney; Mr. Leedy; Mr. Gilbert.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee was approved by unanimous vote:

That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than $2,000,000,000.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000.

When this action was taken the Seventh War Loan Drive was nearing completion. It was evident to the Committee that, although the European phase of the war had come to an end, there was little likelihood of any decline in war expenditures during the period before another meeting of the Committee and, for that reason, the need for reserve funds would continue to be large. In fact, it was estimated that if the next meeting of the Committee were held in October of this year it would be necessary for the Federal Reserve Banks to put into the market in the neighborhood of $2 billion in order to supply the funds that would be needed. In view of this situation, the Committee decided that its existing general policy should be continued for substantially the same reasons as prompted its adoption. Accordingly, the above direction was approved in the same form as the direction issued at the meeting of the Committee on March 1, 1945, except that, for the reason set forth above, the limitation contained in the first paragraph on the amount by which the total securities held in the System account could be increased was raised from $1,500,000,000 to $2,000,000,000.

Meeting on October 17, 1945

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Williams; Mr. Gidney; Mr. Leedy; Mr. Gilbert.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded and by unanimous vote, the following direction to the executive committee was approved:

That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than $2,000,000,000.

That the executive committee be further directed, until otherwise directed, by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the amount of such certificates held in the account at any one time shall not exceed $1,500,000,000.

Since the preceding meeting of the Committee the war had come to an end and the Treasury had announced the Victory Loan Drive as the last great public drive to be held. With the approach of the termination of the war the Committee at previous meetings had considered the need for reformulating the credit policies of the System, on the basis of possible postwar conditions. It gave particular consideration to abuses that had grown up in the Government security markets, including speculative purchases of securities during the war loan drives and sales by banks of short-term securities to the Federal Reserve Banks to obtain funds with which to purchase long-term securities which had created reserves in amounts greater than were needed for the successful financing of the war and which were adding to inflationary pressures. A discussion of these problems will be included in the report of the Board of Governors to Congress.

At this meeting the open market policies of the System were reviewed in the light of these considerations and of an estimate before the Committee that it would be necessary for the Federal Reserve Banks between the date of this meeting and the end of the Victory Loan Drive, to purchase between $1.5 billion and $2 billion of Government securities for the purpose of providing the funds which would be needed to meet anticipated increases in currency in circulation and in required reserves of member banks. It was felt that the reasons on which the existing policies of the Committee were based made it desirable to continue these policies through the remainder of the current year and the direction set forth above, which was in the same form as the direction issued at the meeting on June 20, 1945, was approved for that purpose. In this connection it was understood that the executive committee would continue its discussions with the Treasury of the problems arising with the termination of the war as well as the System's postwar credit policies and the policies of the Treasury with respect to management of the public debt.

UNITED STATES v. CONSUMERS HOME EQUIPMENT CO.

District Court of the United States for the Eastern District of Michigan, Southern Division

United States of America, Plaintiff, v. Consumers Home Equipment Co., a corporation, and A. B. Chereton, 4801-19 Woodward Avenue, Detroit, Michigan, Defendants.	Civil Action No. 5097

Judgment

The above-entitled matter came on to be heard by the Court upon the complaint and stipulation for consent judgment filed herein by the parties. Upon consideration of the same and it appearing to the Court that plaintiff's complaint alleges in substance that the defendants named have violated Regulation W of the Board of Governors of the Federal Reserve System and that the defendants have stipulated that this consent judgment be entered against them,

Now, Therefore, It Is Hereby Ordered, Adjudged and Decreed

That the defendants, Consumers Home Equipment Co. and A. B. Chereton, and their agents, servants, representatives, employees and persons in active concert and participation with them, and any and all companies and persons under their control, respectively, be and they are hereby permanently enjoined, in the installment sale of merchandise, from:

1. Making installment sales subject to the requirements of Regulation W of the Board of Governors of the Federal Reserve System without obtaining the cash down payment required by Section 4(*a*) of said Regulation.
2. Making installment sales subject to the requirements of Regulation W of the Board of Governors of the Federal Reserve System without furnishing the obligors the statement of transaction required by Section 4(*d*) of said Regulation.
3. Making installment sales subject to the requirements of Regulation W of the Board of Governors of the Federal Reserve System without maintaining and preserving, for the life of the obligation to which they relate, such books of account, records and other papers as are relevant to establishing whether or not an extension of credit within the scope of said Regulation was in conformity with the requirements thereof, as required by Section 12(*h*) of said Regulation.

Dated this 19th day of July, 1945.

By the Court:
(signed) Ernest A. O'Brien,
Judge, United States District Court.

PEOPLES BANK v. FEDERAL RESERVE BANK OF SAN FRANCISCO

DISTRICT COURT OF THE UNITED STATES, NORTHERN DISTRICT OF CALIFORNIA

PEOPLES BANK, Plaintiff,

v.

FEDERAL RESERVE BANK OF SAN FRANCISCO, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AND HENRY F. GRADY, FEDERAL RESERVE AGENT, Defendants.

ORIGINAL FILED November 17, 1944, with Clerk, U. S. District Court, San Francisco.

No. 23243-R

OPINION

This is a suit by the Peoples Bank, a State banking corporation organized under the laws of the State of California, to annul and enjoin the enforcement of a condition of membership required by the Board of Governors of the Federal Reserve System as a prerequisite to granting plaintiff the right to become a member bank of the Federal Reserve System.

Following the jurisdiction allegations, and those identifying the parties, the complaint alleges (Par. IV) that on or about November 28, 1941, plaintiff, desiring to become a member of the Federal Reserve System, made application to the Board of Governors of the Federal Reserve System (hereinafter referred to as "the Board"), under the rules and regulations prescribed by the Board, for the right to subscribe to the stock of the Federal Reserve Bank of San Francisco (hereinafter referred to as "Reserve Bank"). On or about May 6, 1942, it is stated, the Board approved plaintiff's application for membership, subject to certain conditions, among which was the one complained of, numbered 4. This condition, it is stated, was as follows:

> "4. If, without prior written approval of the Board of Governors of the Federal Reserve System, Transamerica Corporation or any unit of the Transamerica group, including Bank of America National Trust and Savings Association, or any holding company affiliate or any subsidiary thereof, acquires, directly or indirectly, through the mechanism of extension of loans for the purpose of acquiring bank stock, or in any other manner, any interest in such bank, other than such as may arise out of usual correspondent bank relationships, such bank, within 60 days after written notice from the Board of Governors of the Federal Reserve System, shall withdraw from membership in the Federal Reserve System."

Plaintiff claims that this condition is "arbitrary, unreasonable, capricious, discriminatory, ultra vires and null and void in all respects" in that no power has been conferred upon the Board to exact such condition as a prerequisite to membership in the Federal Reserve System. It is then alleged (Par. V) that on or about May 7, 1942, the defendant Reserve Bank informed plaintiff that, as a condition to its subscription to stock in the Reserve Bank, it would be required by said bank to accept condition No. 4 and agree to comply therewith by resolution of its board of directors. On or about May 12, 1942, plaintiff, it is stated, "being desirous of acquiring the said stock" in the Reserve Bank and becoming a member thereof "and under the compulsion of the said requirement of said defendant," accepted the condition and, by resolution of plaintiff's board, agreed to comply therewith. Although the fourth paragraph of the complaint states that the condition of membership complained of emanated from the Board, it is alleged that it was "exacted" of plaintiff by the Reserve Bank and that, in so doing, the Reserve Bank violated the obligation imposed upon it by statute to administer its affairs fairly and impartially and without discrimination against plaintiff.

It is alleged (Par. VI) that on or about February 17, 1944, without the assistance of prior knowledge of plaintiff, Transamerica Corporation became the owner of five hundred out of five thousand shares of the capital stock of plaintiff. It is stated, upon information and belief, that this acquisition of plaintiff's stock by Transamerica Corporation was without the written approval of the Board and falls within the purview of condition No. 4 "imposed upon plaintiff by defendant, the Federal Reserve Bank of San Francisco." Notice of this purchase of plaintiff's stock by Transamerica Corporation was given the Board by plaintiff on or about April 4, 1944 (Par. VII). After stating that the defendants assert that the condition is valid and enforceable, it is alleged (Par. VIII), also upon information and belief, that the defendants intend to and will, unless restrained, take proceedings, predicated on condition No. 4, to deprive plaintiff of its stock in the Reserve Bank and its membership in the Federal Reserve System, to the irreparable damage of plaintiff and that such proceedings are imminent. The validity and enforceability of the condition is denied, and it is alleged that the condition, being void, constitutes a cloud upon plaintiff's title to its shares in the Reserve Bank. Alleging the existence of a justiciable controversy and the lack of other adequate remedy, plaintiff asks this Court for declaratory relief, for a decree invalidating the condition and for temporary and permanent injunctive relief against the enforcement of the condition or the termination of plaintiff's membership in the Federal Reserve System. However, no application for an injunction *pendente lite* was made.

In opposition to the relief requested in the complaint, the following motions were filed: Board of Governors of the Federal Reserve System, motion to dismiss; Henry F. Grady, motion to dismiss; Federal Reserve Bank of San Francisco, motion to dismiss and, in the alternative, motion for summary judgment. In addition, plaintiff interposed a counter-motion for summary judgment against the defendant Reserve Bank. To this counter-motion, defendant Reserve Bank filed a motion to strike. This counter-motion will be stricken. It is clear that, under Rule 56a of the Federal Rules of Civil Procedure, a party seeking to recover upon a claim or to obtain declaratory relief may move for summary judgment in his favor only after a pleading responsive to the complaint has been filed. No such pleading has been filed by the Reserve Bank in this case. The counter-motion is premature.

Moore's *Federal Practice,* Vol. 3, p. 3181
U. S. v. *Adler's Creamery Inc.,* C. C. A., 2nd, 1939 107 Fed. (2d) 987
Fox v. *Johnson and Wimsatt,* 127 Fed. (2d) 729

The motion of the Board of Governors of the Federal Reserve System for dismissal will be granted. This Board is an independent establishment of the United States, created by the Congress to perform certain important governmental functions prescribed by the Federal Reserve Act and other statutes (30 Op. Atty. Gen. 308, 311). Neither in the enactment creating the Board nor in any subsequent act has the Congress given its consent to suits against the Board. Aside from this, however, it is undeniably true that, by law, the habitat or official residence of this Board is in the District of Columbia (U.S.C., Tit. 12, Sec. 244). Service of summons and complaint in this case was made by sending a copy thereof by registered mail to the Board at its office in Washington, D. C. The appearance entered by the Board was special, for the sole purpose of testing the jurisdiction of this Court over it. Whether or not this suit be considered as one against the United States and therefore not maintainable against the Government without its own consent or Congressional sanction, it is undeniably true that the Board is not an "inhabitant" of this district and therefore may not be sued herein without its consent (U.S.C., Tit. 28, Sec. 112). That this is the law is amply supported by the authorities.

International Molders Union v. *National Labor Relations Board,* 26 Fed. Supp. 423.
Appalachian Electric Power Co. v. *Smith* (C.C.A. 4th) 67 Fed. (2d) 451; certiorari denied, 291 U. S. 674
Raichle v. *Federal Reserve Bank of New York* (C.C.A. 2d) 34 Fed. (2d) 910
Howard v. *United States ex rel. Alexander* (C.C.A. 10th) 126 Fed. (2d) 667; certiorari denied, 62 S. Ct. 1297, 316 U.S. 699, 86 L. Ed. 1768
Kentucky Natural Gas Corporation v. *Public Service Commission of Kentucky* (D.C., Ky.) 28 Fed. Supp. 509; affirmed in C.C.A., 119 Fed. (2d) 417
Carr v. *Desjardines* (D.C., Okla.) 16 Fed. Supp. 346
United States v. *Western Fruit Growers, Inc.* (D.C., Cal.) 34 Fed. Supp. 794

Plaintiff contends that, because the Federal Reserve Act makes provision for the appointment in each Reserve district of a Federal Reserve Agent who, in addition to his duties as chairman of the board of directors of the Reserve Bank, is required to maintain a local office of the Board on the premises of the Reserve Bank and to act as the official representative of the Board in the performance of the functions of the Board (U.S.C., Tit. 12, Sec. 244), the situation is *sui generis* and the general rule is inapplicable. With this contention, I do not agree. If it were sound, it would subject the Board to the jurisdiction of any district court in any district where a Reserve Bank is maintained and a Federal Reserve Agent could be found. In many of the cases in which the right of governmental agencies to be sued only in the District of Columbia has been sustained, there have been local agents with powers as broad as those accorded Federal Reserve Agents, authorized to act and acting for the agency at the place where the suit was brought, but the fact that such agency existed has not been held to create an exception to the rule. Nor has the plaintiff cited any cases in support of its contention.

The motion of Henry F. Grady, Federal Reserve Agent, for dismissal as to him is likewise granted. It is not contended that Grady performed any function or had any authority to act in connection with the imposition of the condition of membership concerning which complaint is made. He is described in plaintiff's brief as "a proper though not indispensable party" (Plaintiff's Brief, p. 86). It may be true that, if he had been an actor in the matters concerning which complaint is made and if he had legal authority for such acts, he would be a proper party. But the questions presented on this motion to dismiss are primarily whether the Board is an indispensable party and, if so, whether, with the Board absent, this Court can proceed with the suit as against the Reserve Agent. In other words, granting that this Court has jurisdiction of the person of the Reserve Agent, does the complaint state a claim for relief as to him and is there any justiciable controversy as to him in the absence of the Board. In matters of the kind involved in this suit, the Board is undoubtedly an indispensable party and, under the facts alleged in the complaint, there exists no cause of action against the Reserve Agent and no justiciable controversy between him and plaintiff. Plaintiff says:

> "No allegation is made that the Reserve Agent took any part in the imposition upon the plaintiff of the invalid condition, but it is alleged that he, along with the other defendants, contends that it is a valid condition and intends to enforce it as against the plaintiff." (Plaintiff's Brief on motion to dismiss complaint, p. 7)

Regardless of what the Reserve Agent believes regarding the validity of the condition of membership (a matter which is entirely immaterial), a careful search of the law governing his statutory authority fails to disclose any provision which would confer upon him any authority to enforce the conditions or penalize plaintiff for breach thereof (U.S.C., Tit. 12, Secs. 305, 411 to 417, inc., and 445). Moreover, the mere expression by the pleader of the opinion or fear that the Reserve Agent "intends" to enforce the condition, without any allegation as to when, where or by what means the threat of enforcement was made, does not assist in stating a valid claim (*National War Labor Board, et al.* v. *Montgomery Ward & Co., Inc.*, 144 Fed. (2d) 528). The power and responsibility of fixing conditions of membership for State banks applying for admission to the Federal Reserve System, as well as the administrative power to expel banks from the Federal Reserve System for violation, are vested by law in the Board of Governors of the Federal Reserve System and in that body alone. In such matters, the Federal Reserve Agent has no authority whatever and, if an injunction were to be granted in this suit, it would be the hands of the Board which must be tied, not those of the Federal Reserve Agent. In the absence of the Board, there exists no justiciable controversy between plaintiff and the Federal Reserve Agent and no jurisdiction in this Court to hear the case as to him.

Appalachian Electric Power Co. v. *Smith,* supra *New Orleans Private Patrol, etc.* v. *Fleming* (D.C., La.) 33 Fed. Supp. 856
Webster v. *Fall, Secretary of Interior* 45 S. Ct. 148, 266 U.S. 507
Redlands Foothill Groves v. *Jacobs* (D.C., Cal.) 30 Fed. Supp. 995
Bethlehem Ship Building Corp. v. *Nylander, et al.* (D.C., Cal.) 14 Fed. Supp. 201
James, Inspector v. *Lake Wales Citrus Growers Assn.* (C.C.A., 5th) 110 Fed. (2d) 653

In opposition to the motion to dismiss and the alternative motion for summary judgment interposed by the Federal Reserve Bank of San Francisco, plaintiff very earnestly and ably argues that, even though this Court does not have jurisdiction to hear the suit as against the Board and even though it be found, as I have found, that, as to the Federal Reserve Agent, the complaint fails to state a claim or cause of action upon which relief can be granted, nevertheless this Court has jurisdiction of the person of the Federal Reserve Bank and should proceed with the suit as against it. In opposition to the motion to dismiss, it is argued that the complaint states a cause of action as against the Reserve Bank alone (Plaintiff's Brief, pp. 5, 6); that the complaint shows the existence of a cloud upon or an adverse claim affecting plaintiff's ownership of stock in the Reserve Bank (Plaintiff's Brief, pp. 87-93); and that the condition of membership is absolutely void and therefore the fact of its acceptance by plaintiff is immaterial (Plaintiff's Brief, pp. 14-55). These and the other arguments made in opposition to the Reserve Bank's motion to dismiss I have considered carefully.

In opposition to the alternative motion for summary judgment interposed by the Reserve Bank, it is argued that it is immaterial that the Reserve Bank acted in a purely ministerial and clerical capacity on behalf of the defendant Board; that the complaint alleges and the fact is that the Reserve Bank "imposed" the condition complained of as a requirement of its own and that it is neither legally nor factually true that the Reserve Bank is without authority to take proceedings for the enforcement of condition No. 4.

First, in connection with the motion for summary judgment, I have read the two affidavits of William A. Day, President of the Reserve Bank, and the counter-affidavit of W. M. Parker, Cashier of plaintiff bank, and have considered the cases cited in the briefs. It seems clear from the uncontradicted statements contained in the Day affidavits that the Reserve Bank has never taken any position with regard to the validity of the condition; that it has not attempted to and does not intend in the future to attempt to enforce the condition; and that, prior to this suit, it had never received from plaintiff any complaint regarding the condition or its imposition. It is equally clear that neither the letter dated May 7, 1942, addressed by the Reserve Bank to plaintiff (Day affidavit, Ex. I), transmitting the "suggested form" of resolution for adoption by plaintiff's board, nor the resolution itself constituted an attempt by the Reserve Bank to take action independent of that of the Board with relation to the condition of membership. These were pursuant to instructions from the Board and constitute the mere action of the Board. It is also clear from the law that Congress has vested in the Board, and in that body only, the power and authority to prescribe conditions of membership for State member banks and, after administrative hearing, to forfeit membership upon proper proof of violation of the law or the regulations of the Board made pursuant thereto (U.S.C., Tit. 12, Sec. 327). Neither the Parker affidavit nor the exhibits thereto tend to contradict these conclusions. Therefore, there is ample reason to grant the motion of the Reserve Bank for summary judgment. However, due to the fact that I have concluded that I do not have jurisdiction of the subject matter of the suit as it affects the Reserve Bank and have decided to grant its motion to dismiss, the motion for summary judgment will be denied.

I am of the opinion that, as against the Federal Reserve Bank of San Francisco, the complaint fails to state a claim or cause of action upon which relief can be granted; that as to that Bank alone this suit is one against a subaltern without authority and is not maintainable; and that this suit does not present a proper case for injunctive relief, because in the complaint no coercion or compulsion in the legal sense is alleged, because it does not appear from the complaint that plaintiff is now confronted with any immediate or imminent danger of injury, irreparable or otherwise, and because, as between plaintiff and the Reserve Bank, no justiciable controversy, in the legal sense, exists. It is my opinion, also, that this suit may not properly be maintained as one to remove a cloud upon the title of plaintiff's stock in the Reserve Bank. For the foregoing reasons, the motion of the Federal Reserve Bank of San Francisco for dismissal as to it will be granted.

All State banks desiring to become members of the Federal Reserve System are required to apply to the Board of Governors, under such rules and regulations as it may prescribe, for the right to subscribe for stock in the appropriate Reserve Bank. The Board, subject to the provisions of the Act and subject to such conditions as it may prescribe pursuant thereto, may permit the applying bank to become a member (U.S.C., Tit. 12, Sec. 321). If at any time it should appear to the Board that a member bank has failed to comply with the applicable provisions of the Act or the regulations of the Board, it is within the sole power of the Board, after hearing, to require the offending bank to surrender its stock and forfeit membership. The Board may, in proper cases, restore forfeited membership (U.S.C., Tit. 12, Sec. 327). Whenever a member bank is ordered by the Board, under authority of law, to surrender its stock holdings in the Reserve Bank, all its rights and privileges as a member bank thereupon cease (U.S.C., Tit. 12, Sec. 328). It is thus evident from the law that the Board is the only body vested by Congress with authority to admit and expel State member banks. That that is true is equally evident from Regulation H, promulgated by the Board and governing the membership of State banks (C.F. Reg., U.S.C., Tit. 12, Ch. II, Part 208). This being true, any act on the part of the Reserve Bank, looking to the imposition of conditions of membership or the enforcement thereof, would be an act on its part, without authority in law and without binding effect. The complaint alleges that plaintiff's application for membership was approved by the Board, which gave its permission to plaintiff to become a member bank subject to conditions (Complaint, Par. IV). The subsequent allegation to the effect that the Reserve Bank "required" the acceptance of the condition and an agreement to comply with it, while no doubt made for the purpose of giving this Court a semblance of jurisdiction, does not aid to that end for, at best, it must be concluded that, if true, the Reserve Bank was merely passing on to plaintiff the conclusions reached by the Board, the only body vested with authority in the premises. As a subaltern without authority, the Reserve Bank may not be sued alone for the alleged misfeasance of the admitted superior. The relief sought is from the Reserve Board, not the Reserve Bank. To allow this suit to be maintained as against the subordinate alone would be contrary to the settled rules of equity practice.

Warner Valley Stock Co. v. *Smith,* 165 U. S. 28, 34, 17 S. Ct. 225, 41 L. Ed. 621
Gnerich v. *Rutter,* 265 U. S. 388, 44 S. Ct. 532, 68 L. Ed. 1068
Jewel Productions, Inc. v. *Morgenthau,* 100 Fed. (2d) 390
Neher v. *Harwood* (C.C.A., 9th) 128 Fed. (2d) 846, 849

Defendant Reserve Bank also urges that the complaint does not allege a proper case of coercion or compulsion warranting equitable relief; that there is presented no proper case for declaratory relief; that plaintiff has sustained no present injury; and that, taken at its best, the complaint sets forth a case of anticipated possible future injury which may or may not be sustained, depending upon future and, as yet, unannounced action by the Board of Governors of the Federal Reserve System. It is claimed that this case is governed by decisions such as the following:

Smith v. *American Asiatic Underwriters* (C.C.A., 9th) 127 Fed. (2d) 754
Southern Pacific Company v. *Conway* (C.C.A., 9th) 115 Fed. (2d) 746
United States v. *West Virginia,* 295 U. S. 463, 55 S. Ct. 789, 79 L. Ed. 1546
Northport Power & Light Co. v. *Hartley,* 283 U. S. 568, 51 S. Ct. 581, 75 L. Ed. 1275

These arguments seem sound and, aside from the more important question of jurisdiction over the subject matter, sufficient to warrant sustaining the motion to dismiss. The condition of membership complained of is certainly not self-executing. It provides merely that, *if* Transamerica Corporation or its subsidiaries acquire stock of plaintiff bank without the Board's permission and *if* the Board, being advised of that fact, gives plaintiff notice, plaintiff will withdraw from or surrender its membership in the Federal Reserve System. It is to be presumed that, the two prerequisite facts existing, if the plaintiff refused to surrender its membership in the System on notice from the Board, this would constitute a violation of the condition. But it is not alleged that the Board has taken any action of the kind described and, since over six months elapsed between the filing of the complaint in this suit and the hearing on the motions without a supplemental complaint being filed, it may be presumed that the Board has not yet acted. However that may be, it is clear that the complaint presents a case of anticipated, possible injury, based, it seems largely, upon conjecture and not such a case of immediate and impending danger as would warrant injunctive relief.

National War Labor Board v. *Montgomery Ward,* supra

Finally, it is my opinion that there is no merit in plaintiff's contention that condition No. 4 constitutes a cloud upon the title to plaintiff's stock in the Reserve Bank or an adverse claim affecting the same, in the nature of a cloud, the existence of which the Court has power to remove. Plaintiff's shares in the Reserve Bank are a mere incident to its membership therein. This stock is nontransferable, nonnegotiable and has no "market value." Title to this stock must, under the law, remain in plaintiff bank so long as it is a member bank and, when and if that status is forfeited, the title to the stock is likewise forfeited. None of the defendants claims an estate or interest in the stock adverse to plaintiff. Clearly a case is not presented which is governed by section 738 of the California Code of Civil Procedure. The suit sounds *in personam,* against the Board of Governors for alleged abuse of discretion, not *in rem.* Moreover, if, as I have determined, this Court is without jurisdiction to hear the case, as against the Board, jurisdiction as to all other incidents of the case likewise fails.

Hartmann v. *Federal Reserve Bank of Philadelphia,* 55 Fed. Supp. 801

1. The motion of the plaintiff, Peoples Bank, for summary judgment against the defendant, Federal Reserve Bank of San Francisco, is denied.

2. The motion of the defendant, Federal Reserve Bank of San Francisco, for summary judgment against the plaintiff is denied.

3. The motion of the defendant, Federal Reserve Bank of San Francisco, to strike plaintiff's motion for summary judgment is granted.

4. The motions to dismiss filed by each of the defendants will be granted.

The Court is of the view that the defendant Board of Governors of the Federal Reserve System is an indispensable party not properly before the Court and that the complaint does not state a claim for equitable relief or for declaratory judgment within the jurisdiction of this Court as to any of the defendants. Therefore, this Complaint is dismissed as to all defendants for lack of jurisdiction of this Court.

An order will be entered in accordance with this Opinion.

DATED: San Francisco, California,
November 17th, 1944.

Michael J. Roche,
United States District Judge.

UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT

PEOPLES BANK, Appellant,

v.

FEDERAL RESERVE BANK OF SAN FRANCISCO AND HENRY F. GRADY, FEDERAL RESERVE AGENT, Appellees.

FEDERAL RESERVE BANK OF SAN FRANCISCO, Appellant,

v.

PEOPLES BANK, Appellee.

No. 11,002

June 29, 1945

UPON APPEALS FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF CALIFORNIA, SOUTHERN DIVISION

Before Garrecht, Mathews and Bone, Circuit Judges

Garrecht, C. J.

The question here is whether this Court has jurisdiction.

The Peoples Bank brought suit against the Federal Reserve Bank of San Francisco, Board of Governors of the Federal Reserve System, and Henry F. Grady, Federal Reserve Agent, to annul and enjoin the enforcement of a condition of membership in the Federal Reserve System required by the Board of Governors of the Federal Reserve System. In an opinion dated November 17, 1944, the lower court held that it did not have jurisdiction as the indispensable party, the Board of Governors of the Federal Reserve System, was not properly before the court, and there was no action against the other defendants. An order was filed the same day, granting motions to dismiss and denying motions for summary judgment. The Judgment itself was filed January 8, 1945, dismissing the cause at plaintiff's cost. Both the Peoples Bank and Federal Reserve Bank appealed from the order of November 17, 1944, after Judgment was entered.[1]

The appellee, Henry F. Grady, and the cross-appellant, the Federal Reserve Bank, have filed motions to dismiss the appeal of the Peoples Bank. This Court is of the opinion that both appeals should be dismissed. The order of November 17, 1944, is not an appealable order within the meaning of section 128 of the Judicial Code, 28 U. S. C. A., section 225.

City and County of San Francisco v. *McLaughlin, Collector of Internal Revenue et al.* (9th Cir.) 9 F. (2d) 930

Wright v. *Gibson et al.* (9th Cir.) 128 F. (2d) 865, 866.

This rule clearly applies to the instant case, as the lower court in denying a motion to correct the order of November 17, 1944, to show that it was a final disposition of the case, said:

"* * * the Order on Motions, dated and entered herein on the 17th day of November 1944, does not contain any error therein arising from oversight or omission or otherwise, that the said Order on Motions, at the time the same was made and entered, was not regarded by the Court as a final order, judgment or decree, that the said Order on Motions was, and is, a memorandum order

[1] The Notice of Appeal of Peoples Bank was dated Dec. 16, 1944, but was not filed until Jan. 15, 1945.

only, and that the Judgment Dismissing Action on Defendants' Motions to Dismiss, Ordering Plaintiff's Motion for Summary Judgment Stricken, and Denying Motions for Summary Judgment, approved as to form by plaintiff's counsel as provided by Rule 5(d) of Rules of Practice of this Court, signed and entered herein on the 8th day of January 1945, was, and is, the final Judgment rendered by this Court in the said action."

The lower court intended to enter a memorandum order on November 17, 1944. The appellant and cross-appellant intended to and did appeal from that order of November 17, 1944. The Peoples Bank appeal is taken from "that part of the Order of the above entitled Court, Honorable Michael J. Roche, Judge, presiding, dated the 17th day of November 1944", which part grants the motions to dismiss. The fact that the Peoples Bank attempted to correct the order of November 17, 1944, is evidence of their intention to appeal from that order and not the Judgment. In appealing from that part of the order denying summary judgment, the Federal Reserve Bank, in describing the order, itself used the very same language in its Notice of Appeal as did the Peoples Bank.

No appeal was ever taken from the Judgment dated January 8, 1945.

Dismissed.

Francis A Garrecht
United States Circuit Judge

Clifton Mathews
United States Circuit Judge

Homer T. Bone
United States Circuit Judge

AGNEW v. BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

UNITED STATES COURT OF APPEALS, DISTRICT OF COLUMBIA

No. 9102.

JOHN AGNEW, F. O. FAYERWEATHER, APPELLANTS,

v.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, ET AL., APPELLEES.

Appeal from the District Court of the United States for the District of Columbia.

Argued November 14, 1945. Decided February 13, 1946.

Mr. Hugh H. Obear for appellants.

Mr. J. Leonard Townsend, Assistant General Attorney, Board of Governors of the Federal Reserve System, with whom *Mr. Edward M. Curran,* United States Attorney, was on the brief, for appellees.

Before EDGERTON, WILBUR K. MILLER and PRETTYMAN, JJ.

PRETTYMAN, J.: Appellants sought from the District Court a writ of *certiorari* to the Board of Governors of the Federal Reserve System (to which we shall refer as the Board) or, in the alternative, a mandatory injunction, seeking review of an order of the Board which had removed them from office as directors of the Paterson National Bank of Paterson, New Jersey. The District Court dismissed the complaint.

The substantive controversy revolves around the meaning of the words "primarily engaged" in the following statute:

> "No officer, director, or employee of any corporation or unincorporated association, no partner or employee of any partnership, and no individual, primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities, shall serve the same time as an officer, director, or employee of any member bank except in limited classes of cases in which the Board of Governors of the Federal Reserve System may allow such service by general regulations when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments." [1]

The Board is empowered,[2] upon certification by the Comptroller of the Currency, to remove from office a director of a member bank if it finds that he has continued to "violate any law" relating to the bank, after having been warned

[1] Act of June 16, 1933, c. 89, § 32, 48 Stat. 194 (as amended Aug. 23, 1935, c. 614, § 307, 49 Stat. 709), 12 U. S. C. A. § 78.

[2] By Section 30 of the Act (12 U. S. C. A. § 77).

by the Comptroller. A director who participates in the management of a bank after having thus been ordered removed from office, is liable to a fine of not more than $5,000 or imprisonment for not more than five years, or both.

Appellants were directors of the Paterson National Bank, one since November 27, 1934, and the other since January 13, 1925. Since March, 1941, they have been employees of Eastman, Dillon & Co., a New York concern engaged in the securities business.

After certification by the Comptroller of the Currency and after hearing, the Board made the following findings of fact in respect to Eastman, Dillon & Co.:

The company advertises its business as "Underwriters, Distributors, Dealers and Brokers in Industrial, Railroad, Public Utility and Municipal Securities." For the fiscal year 1943, its gross income from the "underwriting field" (meaning the issue, flotation, underwriting, public sale or distribution, at wholesale or retail or through syndicate participation, of stocks, bonds or other similar securities)[3] amounted to 26 per cent of its gross income from all sources; and its gross income from the brokerage business (acting as agent in buying and selling for others) amounted to 42 per cent of its gross income from all sources. For the fiscal year ending February 29, 1944, its gross income from the "underwriting field" amounted to 32 per cent of its gross income from all sources; and its gross income from the brokerage business amounted to 47 per cent of its gross income from all sources. Considering the market value of the securities which were bought and sold by the firm as agent as well as those bought and sold by it for its own account during an indefinite period prior to September 20, 1943, that part lying within the "underwriting field" would represent about 15 per cent of the total market value. If one were to classify the total number of transactions during an indefinite period prior to September 20, 1943, it would be found that those in the "underwriting field" would amount to a similar percentage (15 per cent) of the total number. During the year 1943, the firm ranked ninth among 94 leading investment bankers of the country with respect to its total participations in underwritings of bonds. Excluding municipal and railroad bonds, its participations in underwritings during 1943 amounted to $14,657,000. For a period during 1943 it ranked first among the underwriters.

Upon the basis of the foregoing findings of fact, the Board reached the following "Conclusions of Law":

> "The only substantial question, and the one upon which this matter turns, is whether Eastman, Dillon & Co. was, at the times stated in the certificate of the Comptroller of the Currency, 'primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities' within the meaning of section 32 of the Act. The Respondents contend that the use of the word 'primarily' limits the application of the statute to those cases in which the underwriting business of the securities firm is first in volume in comparison with any other business or businesses in which it engages. It is true that, under one of its definitions, the word has a quantitative meaning. This, however, is not the only accepted meaning. The word 'primary' is frequently used in another sense. For instance, red is one of the 'primary' colors but it is not the only primary color; Saturn is one of the 'primary' planets but it is neither the only nor the largest one. Standard dictionaries cite as examples of the use of the word in the latter sense expressions such as 'the primary causes of a war'

[3] The Board thus used the term "underwriting" to mean the entire operation described in the statute. We shall so use it.

> and 'a matter of primary importance.' (Merriam-Webster International Dictionary and Webster's Collegiate Dictionary.) The Board is mindful of the rules of statutory construction that, while all of the words of a statute should be considered as having meaning, where a word used in a statute is susceptible of several meanings, that meaning should be adopted which best accords with the intention of the legislature in enacting the statute. Also, a word used in a statute should not be construed to produce an absurd consequence if it is susceptible of another construction in accord with the legislative intent. Section 32 is one of several measures enacted in 1933 designed to divorce commercial banking from investment banking. To say that a securities firm ranking ninth among the leading investment bankers of the country with respect to its total participations in underwritings of bonds, and for a period ranking first, should be held to be beyond the scope of the statute is to say that Congress enacted a statute with the intention that it would apply to no one. The construction for which the Respondents contend, which is based on one accepted definition of the word 'primarily', would lead to that result. The other construction, which is based on another accepted definition of that word, would conform to the Congressional intention as established by the legislative history. Accordingly, the Board finds as a matter of law that Eastman, Dillon & Co., at the times stated, was 'primarily engaged in the issue, flotation, underwriting, public sale, or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities'."

In general terms the questions presented are: Had the District Court jurisdiction? If so, what power has the court? Should the Board's interpretation of the statute stand?

It is important that the first two questions be more precisely defined. Generalities as to judicial review serve to confuse rather than to clarify. Three features of the case at bar delimit its questions of jurisdiction and of power. First, the statute involved is a general prohibition directed to all persons whatsoever. It forbids the persons described from being directors of a member bank. The authority of the Board is statutory and extends as far as, but no further than, the acts prohibited by the statute itself. Second, the Board seeks to determine the meaning of the statute as a matter of law; it does not present as the determinative premise of its order a finding of fact that Eastman, Dillon & Co. was primarily engaged in underwriting. It is quite clear and commendably candid about its action and its objective. The facts as to Eastman, Dillon & Co. are the material from which the ruling is fashioned, but the ruling itself is a statutory construction. Third, no statutory method of appeal exists and the persons involved must, in order to test their rights, either seek the process of injunction or submit to criminal prosecution. The order of the Board is a final order.

The question of jurisdiction, therefore, is: Where an administrative agency issues a final order affecting the rights of individuals, which order is based upon a construction of a statute of general application, upon which construction the authority of the agency depends, and where, there being no statutory appeal, the individuals involved have no means of testing their rights except by civil action for injunction or by subjecting themselves to criminal liability by disobeying the order, has a Federal District Court jurisdiction to examine the order of the agency in a civil action for injunction? We think that it has.

We are not at this point considering the range of issues open to review, but merely whether, under the circumstances stated, resort can be had to the court at all. It is the right to challenge, not the extent of the remedial power, which must first be considered. We think it unnecessary to analyze the long line of cases dealing with the subject. Concurring in the *St. Joseph Stock Yards* case,[4] Mr. Justice Brandeis remarked, "The supremacy of law demands that there shall be opportunity to have some court decide whether an erroneous rule of law was applied." The factors determinative of jurisdiction *vel non* were carefully analyzed by Mr. Justice Frankfurter in the *Rochester Telephone* case.[5] The *Duquesne Warehouse* cases in this court[6] and in the Second Circuit[7] contain elaborate references to the authorities. In his dissent in the latter case, Judge Frank commented:

> "I note in passing that in this Circuit we have not believed that the Supreme Court has suggested that we submit to 'administrative absolutism,' and consequently we have not hesitated to protect the legal rights of citizens when administrative officers have acted in excess of their statutory powers."

We think it unnecessary to review the cases at length.

The pending dispute is obviously a controversy and a case. The order complained of is not an interim administrative step. The requirements of equity are met by the fact that "disregard of the Commission's adverse action entails threat of oppressive penalties." [8] The challenged power of the Board arises only when a director of a bank continues to violate a "law," in this case a statute. The content of the "law" is a subject for judicial determination. When presented under circumstances such as those just outlined, equity power exists to consider it.

A more difficult problem is the scope of the power of the court having jurisdiction. This question, like the question of jurisdiction, must be stated in terms of the case at bar, and not as an abstract generality. Most important of the limiting circumstances in this respect is that the Board has rested its order upon a construction of the statute as a matter of law. It did not evade or becloud the issue by merely making a finding of fact that, considering all the facts and circumstances Eastman, Dillon & Co. was primarily engaged in underwriting, thus seeking the protection of the doctrine of substantial evidence. Its objective is not the treatment of this concern alone. It seeks, quite properly, to establish the meaning of the statute which gives it power. With frankness and candor, which we think admirable, it poses the precise question to which it seeks an answer. Its course was to conclude that, as a matter of law, the phrase "primarily engaged" encompasses activities which, while not first or principal, are nevertheless substantial and important; and it then found that, within the meaning thus established, Eastman, Dillon & Co. was primarily engaged in underwriting.

The ultimate question before us is whether the interpretation of the statute by the Board, as the definition of a standard to be applied generally, is correct. That question is not one of fact. It is not even what one learned author calls "a particularized conclusion,"[9] *i.e.,* the exercise of judgment with respect to particular facts in determining the application of the statute.[10] The question is a matter of law.[11] We need not, therefore, attempt to thread our way through the confused and conflicting phases of the subject of judicial review which have

[4] St. Joseph Stock Yards Co. v. U. S., 298 U. S. 38, 84, 56 S. Ct. 720, 80 L. Ed. 1033 (1936).

[5] Rochester Tel. Corp. v. U. S., 307 U. S. 125, 59 S. Ct. 754, 83 L. Ed. 1147 (1939).

[6] Railroad Retirement Board v. Duquesne Warehouse Co., —— U. S. App., D. C. ——, 149 Fed. 2d 507 (1945).

[7] Duquesne Warehouse Co. v. Railroad Retirement Board, 148 F. 2d 473 (C. C. A. 2d, 1945).

[8] Language of Mr. Justice Frankfurter in the *Rochester Telephone* case, *supra,* note 5.

[9] Stern, *Review of Findings of Administrators, Judges and Juries,* 58 Harv. L. Rev. 70, 98.

[10] Board v. Hearst Publications, 322 U. S. 111, 64 S. Ct. 851, 88 L. Ed. 1170 (1944); South Chicago Co. v. Bassett, 309 U. S. 251, 60 S. Ct. 544, 84 L. Ed. 732 (1940); Parker v. Motor Boat Sales, 314 U. S. 244, 62 S. Ct. 221, 86 L. Ed. 184 (1941); Rochester Tel. Corp. v. U. S., *supra* note 5.

[11] "When the issue relates to the existence or nature of a general rule or standard which will be applicable to many cases, it is normally regarded as presenting a question of law." Stern, *supra* note 9, at 94.

puzzled both courts and students. On matters of law, unmixed, reviewing courts are free to substitute their own judgment for that of the administrator, although great weight must be given the administrative judgment. Consideration of a few recent decisions of the Supreme Court are sufficient to establish this conclusion. *Dobson* v. *Commissioner*, 320 U. S. 489, 64 S. Ct. 239, 88 L. Ed. 248 (1943);[12] *Security Mills Co.* v. *Comm'r*, 321 U. S. 281, 64 S. Ct. 596, 88 L. Ed. 725 (1944); *Medo Corp.* v. *Labor Board*, 321 U. S. 678, 681-682, n. 1, 64 S. Ct. 830, 88 L. Ed. 1007 (1944);[13] For an earlier statement see *Great Northern Railway Co.* v. *Merchants Elevator Co.*, 259 U. S. 285, 295 *et seq.*, 42 S. Ct. 477, 66 L. Ed. 943 (1922).

We conclude as to the scope of the power of the court that the construction of the statute, for violation of which the Board is authorized to remove from office directors of a bank, is essentially a judicial function, but that the construction given the statute by the Board is entitled to great weight and respect.

The Board, in contending that the interpretation of this statute is within its unreviewable authority, relies upon *Adams* v. *Nagle*, 303 U. S. 532, 58 S. Ct. 687, 82 L. Ed. 999 (1938), as controlling. We find little similarity between that case and the case at bar. The opinion in that case, by Mr. Justice Roberts, dealt with the power of the Comptroller of the Currency to determine the sufficiency of the assets of a closed national bank as a prerequisite to assessment against the stockholders. The Court found that it had been invariable administrative practice, apparently since 1864, for the Comptroller to make such determinations, that prompt liquidation of such banks was desirable, that it would be intolerable if the Comptroller's decisions were open to attack collaterally, and that Congress had confided this function to the Comptroller. The Court held that the primary object of the statute was the protection of creditors, that reimbursement of the stockholders must await possible realization upon the assets, and that the remedy of the stockholder must await that event. None of these circumstances or considerations are in the present case.

We come now to consider the meaning of the statute. The facts in the case at bar are clear and clearly found. Thereby the alternative involved in the decision is made clear. Underwriting and brokerage, although both concerned with securities, are vastly different operations. By no quantitative test shown in this record can Eastman, Dillon & Co. be held to be principally or chiefly engaged in underwriting. Whether measured by volume, by income, or by number of transactions, its business is principally brokerage.[14] On the other hand, its underwriting business is substantial, and it ranks high in the relative dollar amount of such business among concerns in the United States. So, if substantial business other than the chief or principal business be considered, the company is within the statute. Thus, the question narrows to this: Does "primarily engaged"

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[12] "It is contended that the applicable statutes and regulations properly interpreted forbid the method of calculation followed by the Tax Court. If this were true, the Tax Court's decision would not be 'in accordance with law' and the Court would be empowered to modify or reverse it. Whether it is true is a clear-cut question of law and is for decision by the courts." (Page 492.) ". . . ; when the court cannot separate the elements of a decision so as to identify a clear-cut mistake of law, the decision of the Tax Court must stand. In view of the division of functions between the Tax Court and reviewing courts it is of course the duty of the Tax Court to distinguish with clarity between what it finds as fact and what conclusion it reaches on the law. In deciding law questions courts may properly attach weight to the decision of points of law by an administrative body having special competence to deal with the subject matter." *Id.* at 502.

[13] *See* also Stern, *supra* note 9, at 97: "Such questions as to the test to be applied or the factors to be considered relevant or controlling are legal rather than factual. Though they must be determined initially by the lower court or administrative body, it is open to the reviewing court to set them aside whenever it disagrees with the decision below."

[14] These are all the quantitative measures mentioned or found by the Board, and the court is not permitted to speculate as to whether other measurements, such as net income, interest, effort or self-appraisal of importance, not found by the Board, might lead to a different result. We must assume that the Board mentioned all relevant factors, and certainly the validity of its conclusions must rest upon its findings and not upon speculations by the court as to other facts.

mean chiefly, or principally, engaged, or does it mean simply substantially, or importantly, engaged?

The Board says that the phrase "primarily engaged" has two possible meanings. Its premise is that the word "primary" has two possible meanings, one being a quantitative meaning and the other the meaning which the word has in expressions such as "the primary colors," "one of the primary planets," "the primary causes of war," and "a matter of primary importance." It says that the latter meaning accords with the legislative intent and, further, that the former leads to absurd results. It, therefore, adopts the latter meaning and concludes that, as a matter of law, Eastman, Dillon & Co. was primarily engaged in underwriting within the meaning of the statute.

It is true that the adjective "primary" has different shades of meaning, but always its basic idea is "first". It may refer to the first in order of time, and thus mean original or initial; or in order of importance, and thus mean chief or principal; or in order of derivation, and thus mean fundamental. Its synonyms are "prime" and "primeval". Its antonyms are "secondary" and "lesser". The difference which the Board senses, but does not state, is that "primary" is not restricted to the singular; it may refer to a plural. Thus, the primary colors are not one but several; and so with the planets and the causes of war. An activity may be either *a* primary activity or *the* primary activity of a given person. The adverb "primarily" has similar shades of meaning. The Board's interpretation is, in effect, that "primarily engaged" as it occurs in this statute encompasses all the important activities of a concern; that it means "a" primary activity, not merely "the" primary activity.

But "primary" when applied to a single subject always means first, or chief, or principal. A concern's "primary activity" is never one of several; it is always the first, or chief, or principal, activity. And so it is with "primarily". When applied to a single activity, as it is to underwriting in the case at bar, it always means the first, or chief, or principal, activity. One would never say that a person is "primarily concerned" or "primarily interested" or "primarily engaged" in a specified single activity, if the idea sought to be conveyed was that the named activity was a lesser among several important activities. To say that such an expression conveys that idea is, we think, clearly erroneous.

In its brief, the Board epitomizes its position by saying, "Undoubtedly, then, Eastman, Dillon & Co. are 'fundamentally' or 'primarily' engaged in both the brokerage business and the underwriting business. To put it otherwise, underwriting is one of the businesses in which the firm is 'primarily' engaged." The latter sentence makes plain the error of law of the Board. It is true that the word "primary" may be applied to a plurality of items in order to distinguish that group from still others as secondary. But this does not answer the question which is posed by the statute. That problem is to ascertain whether the designated concern is primarily engaged in a single, named activity, *i.e.,* underwriting. That problem is not solved by finding that the concern is primarily engaged in a group of several activities, in contradistinction to still other lesser activities, and then concluding that the concern is primarily engaged in each separate activity in the first group. That process would lead to the conclusion that an activity which, standing by itself, is by every standard less than another, is, nevertheless, primary. Such a conclusion is simply not true. The activity in which the concern is in fact secondarily engaged cannot be made its primary engagement by a process of reasoning which includes a fallacy of division.

The expression which Congress chose to use in this statute is an ordinary one, and in ordinary usage certainly refers to the chief or principal activity in which the company is engaged.[15] In dealing with practical matters, Congress does not consciously utilize obscure meanings of ordinary words to convey its intent. We should not impute to it either an ineptitude or a departure from its custom. So far as the ordinary and normal meaning of the words is concerned, the matter before us is clear and without difficulty. The sum of the matter is that we simply do not see how it can be said that a company is *primarily* engaged in underwriting, when underwriting is not, by any standard of measurement shown by the record, its chief or principal business. The Board strains at the language in order to achieve a result which it believes to be desirable.

It should be added that if Congress had meant to direct its prohibition to companies simply engaged in underwriting, or substantially engaged in underwriting (*i.e.*, to companies whose underwriting activities are secondary although important among several activities), it could have said so, as it has said many times in statutory enactments, and did in fact, as we shall see, so say in another section of this same Act.

But the Board says, quite properly, that legislative intent must govern statutory construction. It says that Congress intended to separate as far as possible national and member banks from securities dealers. In support, it points in its brief to the Senate Committee Report[16] on the bill which became the Act, and to Section 20[17] and Section 21[18] of the Act.

The section of the Committee Report upon which the Board relies reads:

> "The committee has, therefore, determined to present proposed legislation aimed at the following objects:
>
> "(1) To separate as far as possible national and member banks from affiliates of all kinds."

But the bill upon which the Committee was reporting contained a definition of "affiliates". When the Committee said "affiliates", it was using a term defined, not a generality. The bill, and the consequent Act[19] defined an affiliate as any corporation, etc., of which a member bank owns or controls either a majority of the voting shares or more than 50 per cent of the shares voted for the election of directors, or controls in any manner the election of a majority of directors; or of which control is held by shareholders of a member bank who own or control either a majority of the shares of the bank or more than 50 per cent of the shares voted for the election of directors of the bank; or of which a majority of its directors are directors of any one member bank. It is thus clear that the separation about which the Senate Committee was speaking in the Report relied on by the Board, was based upon a majority of shares or a majority of directors. It was not a complete dissolution of intermingled personnel; it was a dissolution of control only. It applied a quantitative test. Such were the "affiliates" to which the Senate Committee referred.

Moreover, the full text of the Committee Report does not bear out the meaning attached by the Board to the single sentence quoted. The context is:

> "(*a*) The greatest of such dangers is seen in the growth of 'bank affiliates' which devote themselves in many cases to perilous underwriting operations, stock speculation, and maintaining a market for the banks' own stock often largely with the resources of the parent bank. This situation was never

[15] It is true, as the Board says in its brief, that some dictionaries give "fundamental" as a meaning of "primary"; and some also give "essential", which, however, the Board does not mention. But these words are not synonyms of "primary", and they overlap in meaning only when the implication of "fundamental" or "essential" is "first" or "principal." Other meanings of "fundamental" and "essential" cannot be ascribed to "primary" merely because the words are in part analogous. Certainly those words, in meanings other than "principal", are not apt as descriptive of business activity.

[16] Sen. Rep. No. 77, 73rd Cong., 1st Sess. (1933).

[17] 48 Stat. 188, 12 U. S. C. A. § 377.

[18] 48 Stat. 189, 12 U. S. C. A. § 378.

contemplated by the National Banking Act, and it would, therefore, appear that the affiliate system calls for the establishment of some legislative provisions designed to deal with the situation. It has been suggested from many quarters that the affiliate system be simply, 'abolished.' This suggestion has much authority behind it, but, in addition to the manifest difficulty of enforcement, owing to the existence of well-known subterfuges to maintain control, there remains the question whether it would be of much real service so long as State legislation permits the growth of affiliates in connection with State banks and trust companies. The committee has, therefore, determined to present proposed legislation aimed at the following objects:

"(1) To separate as far as possible national and member banks from affiliates of all kinds.

"(2) To limit the amount of advances or loans which can be obtained by affiliates from the parent institutions with which they are connected.

"(3) To install a satisfactory examination of affiliates, working simultaneously with the present system of examination applicable to the parent banks." [20]

It is thus clear that the Committee, in this section of its Report, was concerned with the "bank affiliate" system, and, further, that it did not deem feasible the abolition of that system, dangerous though it was said to be. That the legislation was not designed to accomplish the total abolition of even the affiliate system, and was addressed to a described evil, lends weight to the idea that in using the word "primarily" in its description of the prohibited relationship in Section 32 of the Act, Congress intended a restricted scope rather than totality in the prescribed separation.

Referring to Section 20 of the Act, the Board says, in its brief in this court:

"One of the principal sections designed to attain these purposes is section 20 of the Act, which provides that no member bank shall be affiliated 'in any manner' with any company 'engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities.'"

But the Act does not read as the Board quotes it. It does not say "that no member bank shall be affiliated 'in any manner' with any company," etc. It says, "no member bank shall be affiliated in any manner *described in subsection (b) of section 221a of this title* with any corporation," etc. (Italics supplied.) The subsection mentioned is the definition of affiliates which we have just discussed. Thus, Section 20, in full text, prescribes dissolution of control only, and not the complete divorcement indicated by the partial quotation relied on by the Board. There is a vast difference.

Thus, it is plain that the Committee Report and the section of the Act from

[19] 48 Stat. 162, 12 U. S. C. A. § 221a. The Act said:

"As used in this chapter—

". . .

"(b) Except where otherwise specifically provided, the term 'affiliate' shall include any corporation, business trust, association, or other similar organization—

"(1) Of which a member bank, directly or indirectly, owns or controls either a majority of the voting shares or more than 50 per centum of the number of shares voted for the election of its directors, trustees, or other persons exercising similar functions at the preceding election, or controls in any manner the election of a majority of its directors, trustees, or other persons exercising similar functions; or

"(2) Of which control is held, directly or indirectly, through stock ownership or in any other manner, by the shareholders of a member bank who own or control either a majority of the shares of such bank or more than 50 per centum of the number of shares voted for the election of directors of such bank at the preceding election, or by trustees for the benefit of the shareholders of any such bank; or

"(3) Of which a majority of its directors, trustees, or other persons exercising similar functions are directors of any one member bank."

[20] *Supra* note 16, at 10.

which the Board says we must derive the intent of Congress, do not prescribe the complete divorcement which the Board urges, but, quite the contrary, direct only a dissolution of control. In each provision of the definition of the prohibited affiliation, the line is drawn at the majority. Forty-nine per cent is permissible. Fifty-one per cent is prohibited. This is a quantitative test. If, as the Board says, we are to ascertain the intent of Congress by these references, we reach the clear conclusion that Congress intended to apply a quantitative test in its prohibition.

As to Section 21 of the Act, the Board says, in its brief in this court:

> "Section 21 is complementary to section 20 and, among other things, prohibits any company which is engaged in the underwriting business from engaging 'at the same time to any extent whatever in the business of receiving deposits . . .'"

This section of the Act, prohibiting dealers in securities from engaging in the banking business, contains two expressions pertinent to the present inquiry. Congress here used the phrase "engaged in the business"—not "primarily engaged," or "principally engaged," but simply "engaged". It added the emphatic phrase "to any extent whatever". These words prescribe complete separation. When Congress meant complete separation, it said so, in this same Act, in unmistakable terms. It knew what terms to use, and used them.

We do not know why Congress, in separating member banks from outside interests, went only so far as to prohibit control. We do not know why it rested its prohibition upon the precise line of majority. We only know that it did so. And the fact that it did so seems to indicate that when it used the term "primarily engaged" in Section 32 of the Act, as contrasted with "engaged" and "engaged to any extent whatever" in Section 21, it had in mind a chief or principal business as measured by a quantitative test.

The Board says that if "primarily engaged" be construed to mean chiefly or principally engaged, absurd consequences would follow.[21] But we do not see that the consequences would be more absurd than those which ensue when Section 20 is applied. That a principality of business be requisite to a prohibition is no more absurd than that 51 per cent of stock ownership be requisite. The Board urges that to except one of the large and important concerns from this prohibition would be absurd. If the interrelationship were 49 per cent, it would be excepted from the prohibition of Section 20. One seems no more absurd than the other.

Research by the court has revealed one, and only one, previous reference by the Board to the provision here involved.[22] Our idea that the connection is too remote to be helpful seems to have been shared by the Board as that ruling was neither cited nor mentioned by it in brief or argument. On the other hand, the same phrase in other statutes has been repeatedly interpreted. For example, by Section 2(a)(3) of the Public Utility Holding Company Act of 1935,[23] the Securities and Exchange Commission was authorized to declare a company without the Act if it found certain facts, including one that the company "is primarily engaged in one or more businesses other than the business of an electric utility company," and, in another clause, if it "is engaged primarily in manufacturing"; similar phrases appear in Section 3(a)(3)[24] in relation to holding companies. The Commission has many times considered cases under the quoted language, and while we do not find that it ever defined the phrase, the findings of fact underlying its conclusions appear always to have been quantitative in nature and

[21] The Board remarks in its conclusions that if "primarily" be held to mean principally, the statute would apply to no one. So far as appears, this observation is a speculative generality, which on the record cannot be treated as a finding of fact.

[22] 27 Fed. Reserve Bull. 399 (1941).

[23] 49 Stat. 804, 15 U. S. C. A. § 79b.

[24] 49 Stat. 810, 15 U. S. C. A § 79c.

it uses the terms "principal business" and "principally engaged" as synonymous with "primarily engaged" (for example, *The Cleveland-Cliffs Iron Company,* 3 S. E. C. 326, 329, 330; *Sloss-Sheffield Steel and Iron Company,* 3 S. E. C. 460; *Aluminum Company of America et al.,* 5 S. E. C. 640, 645; *Fairbanks, Morse & Co.,* 8 S. E. C. 360, 361). In the *International Paper Company* case, 9 S. E. C. 937, 940, the Commission said:

> "After having given consideration to the circumstances surrounding the sales of electric energy by applicant, particularly that the energy sold is generated by owned or leased facilities devoted primarily to applicant's own use, as well as to the quantum and relative percentage of such sales, it appears to the Commission that International Paper Company is primarily engaged in one or more businesses other than the business of an electric utility company within the meaning of the Public Utility Holding Company Act of 1935, . . ."

The full phrase in the Public Utility Holding Company Act relating to holding companies is "only incidentally a holding company, being primarily engaged or interested in one or more businesses other than the business of a public-utility company." The Commission held in the *Cities Service Company* case, 8 S. E. C. 318, 329, that the entire phrase must be read together and that while the scope of the qualification is explained by the latter portion of the language, the "'incidentally' phrase" must also be given effect.

"Primarily engaged" also appears in the Bankruptcy Act,[25] an exemption being granted a person "primarily bona fide personally engaged" in farming. The courts have had many cases involving this definition and uniformly recite quantitative tests.[26] They have used such expressions as "'Primarily' means basically, or in such manner as to be of first importance or of principal concern";[27] "The evidence does not support the conclusion that he was engaged chiefly in farming or tillage of the soil";[28] and "His farming activities did not, we think, ever become his primary business."[29]

It is of some importance, in referring to the Public Utility Holding Company Act and the Bankruptcy Act as throwing some light upon the terminology of the Banking Act, that the three Acts were before Congress at the same time. The first was approved August 26, 1935,[30] a reenactment of the second on May 15, 1935,[31] and the third on August 23, 1935.[32]

Further in respect to the Board's statement that "primarily" should not be construed to produce an absurd consequence (with which statement we, of course, agree), in the light of the Senate Committee Report on the Banking Act, which we have discussed, we see a possible reason why Congress went only so far as to prohibit interrelationship between a bank and a security concern when the business of the latter is chiefly or principally underwriting. The evil at which this section of the statute was aimed was the possible selling of securities to the bank by its directors. Congress may well have considered that such practice is much more likely to occur where underwriting is the principal or chief business of a concern, than where underwriting is a lesser or secondary interest. So it is not wholly unreasonable, in our view, that Congress laid the prohibition at that line.

At the same time, it may be, as the Board urges, that as a matter of policy,

[25] 47 Stat. 1470, 11 U. S. C. A. § 203(r).

[26] Williams v. Great Southern Life Ins. Co., 124 F. 2d 38 (C. C. A. 5th, 1941); Benitez v. Bank of Nova Scotia, 125 F. 2d 523 (C. C. A. 1st, 1942); Swift v. Mobley, 28 F. 2d 610 (C. C. A. 5th, 1928); Skinner v. Dingwell, 134 F. 2d 391 (C. C. A. 8th, 1943).

[27] Benitez v. Bank of Nova Scotia, *supra* note 26, at 531.

[28] Swift v. Mobley, *supra* note 26.

[29] Skinner v. Dingwell, *supra* note 26, at 393.

[30] 49 Stat. 804.

[31] 49 Stat. 246.

[32] 49 Stat. 704.

the national banking system should be divorced completely from concerns engaged in underwriting. But that question is not for the courts. Our function is merely to determine what Congress actually did in the statute before us. The Board could, and, if it so feels, should, present to the Congress its views on the problem of policy.

Collateral to the substantive question involved are the contentions of the Board that viewed as a suit against the Board, the action must fail because it is in effect a suit against the United States, which has not consented to be sued, and that the District Court is without jurisdiction to issue the writ of *certiorari* for the purposes sought.

The contention that the action for injunction is in effect a suit against the United States is without merit. Appellants seek to restrain an order of the Board on the ground that it is beyond the power of the Board. We need not pass upon the contention with respect to the jurisdiction of the court to issue a writ of *certiorari,* since we regard the action for injunction as the proper action.

Reversed.

EDGERTON, J., dissenting: I think the judgment should be affirmed. Eastman, Dillon & Co. are "Underwriters, Distributors, Dealers and Brokers in Industrial, Railroad, Public Utility and Municipal Securities." It seems to me a paradox to say that these underwriters are not primarily engaged in underwriting: are they, then, only incidentally engaged in underwriting? Everyone agrees that underwriting is one of the Eastman firm's primary businesses and brokerage another. I think it is equally true that they are "primarily engaged" in each, and not merely in both, of these businesses.

I think Congress used the word "primarily" in a sense which includes "essentially" or "fundamentally" and is not limited to "chiefly" or "principally".[1] These are all recognized senses of the word. The Oxford Dictionary includes "essentially", Webster's New International Dictionary includes "fundamentally", and Funk & Wagnalls' Standard Dictionary includes both "essentially" and "fundamentally", among the meanings of "primarily".

The court argues that we should not impute obscure meanings of ordinary words to Congress. Highly obscure and even wholly unheard-of meanings of ordinary words have sometimes been imputed to Congress in order to avoid a result which Congress did not intend. Thus in *Trinity Church* v. *United States*[2] the Supreme Court, in order to shield a church from criminal liability, held that a clergyman does not perform any "labor or service". But there is nothing obscure or unusual about a meaning which is recognized, without the slightest suggestion of rarity or obsolescence, by most of the leading dictionaries. Unusual meanings of ordinary words, when they are recognized at all by these dictionaries, are marked "rare".[3] Meanings which are recognized without qualification are ordinary meanings. By ruling that "primarily" has no ordinary

[1] Since the meaning which words convey necessarily varies with their context, interpretations of the words "primarily engaged" in other statutes are only slight evidence of their meaning here. For example, it is a far cry from the premise that the International Paper Co. is "only incidentally a holding company" and is "primarily engaged" in the paper business, within the meaning of the Public Utility Holding Company Act, to the conclusion that the Eastman firm of underwriters is only incidentally and not primarily engaged in the underwriting business within the meaning of the Act before us.

[2] 143 U. S. 457.

[3] The following quotations illustrate the way in which these dictionaries distinguish between ordinary and unusual meanings of ordinary words.

"Casual . . . 1. Happening or coming to pass without design, and without being foreseen or expected . . . 5. . . . Acting at random; undependable. *Rare.*" Webster's New International Dictionary.

"Pleasant . . . 1. Giving or promoting pleasure . . . 2. Conducive to merriment or laughter; gay; lively; also (rarely), witty or facetious . . . 3. [Rare.] Excited with drink; alcoholically good-tempered." Funk & Wagnalls' New Standard Dictionary.

"Salt . . . 1. Impregnated with or containing salt; hence, having a taste like that of salt; saline . . . 5. Of speech, wit, etc.: Pungent, stinging. Now *rare.*" Oxford Dictionary.

meaning except chiefly or principally, this court overrules the editors of Webster's, the Standard, and the Oxford dictionaries on a question of fact in their field. I think the court errs in deciding that meanings which three leading dictionaries regard as ordinary are in fact so rare that they cannot have been intended by Congress. The contradiction is not reduced by the court's suggestion that the words "essentially" and "fundamentally" add nothing to the sense of the definitions in which they occur.[4] A dictionary is not a book of synonyms. It purports to give meanings of terms, not to furnish alternative terms by which a given meaning may be expressed. "Essentially" and "fundamentally" mean what they say.

Choice between dictionary meanings is a normal process of statutory construction. It does not consist in deciding which meaning is the more usual. Its normal purpose and result are to give effect, as the Board did, to the probable intention of the legislature. This court's choice of a meaning for "primarily" is extraordinary in that its result is to defeat the intention of the legislature. It deprives § 32 of rational basis and of practical effect.

It is not disputed that what Congress aimed at in § 32 was the likelihood that if a bank director is interested, in the degree which Congress undertook to define as critical, in underwriting, the director may influence the bank or its customers to buy securities. This is made clear by the section itself.[5] In determining what interest in underwriting Congress undertook to define as critical, the question what interest might reasonably be thought critical is of great importance. Congress might reasonably think that if the director's employer is essentially engaged in underwriting, the director may be tempted to sell securities to the bank or its customers. Congress could not reasonably think that although the employer is so engaged, the fact that he is even more largely engaged in the related business of brokerage removes the temptation. The Board's interpretation attributes the rational theory, and this court's interpretation the irrational one, to Congress.

The Board says, and its statement is not disputed, that restricting the application of § 32 to firms whose underwriting business is first in volume would make this section "apply to no one." The court does not suggest that this result, which is no result at all, is the one which Congress intended. If the court's position is correct, the Act of Congress requires us to defeat the purpose of Congress. This seems to me another paradox.

The court argues that if Congress meant essentially it could have said essentially. It is equally true that if Congress meant principally it could have said principally. And the court overlooks the fact that in a different section of the same Act, and with regard to engaging in exactly the same group of activities, Congress did say principally. The "affiliate" section of the Act provides that a bank shall not, through control of stock or of directors, control an organization "engaged principally in the issue, flotation, underwriting, public sale, or distribution at wholesale or retail or through syndicate participation of stocks, bonds, debentures, notes, or other securities."[6] But § 32, which defines the degree of engagement in the underwriting business that disqualifies a man as a bank director, rejects the phrase "engaged principally" which had been used in the affiliate section and uses instead the phrase "primarily engaged." It is reasonable and conventional

[4] The court's language is that essential and fundamental "are not synonyms of 'primary', and they overlap in meaning only when the implication of 'fundamental' or 'essential' is 'first' or 'principal'." This amounts to saying that "essential" and "fundamental" never "overlap in meaning" with "primary"; for the implication of "fundamental" or "essential" is never "first" or "principal." The two pairs of words convey wholly different ideas. The dictionaries include neither of the second pair in definitions of the first pair, and neither of the first pair in definitions of the second.

[5] The section authorizes the Board to make regulations which permit men within the described class to serve as directors of a bank "when in the judgment of the said Board it would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments."

[6] 48 Stat. 188 § 20; 12 U. S. C. § 377.

to suppose that Congress made this change with a purpose. If so, Congress did not intend that "primarily engaged" should be interpreted as meaning "principally engaged."[7]

From the fact that Congress made a "majority" of one sort critical in sections[8] of the Act where it used the word "majority," the court infers that Congress meant to make a majority of another sort critical in § 32 where it did not use the word. To me the opposite inference, if either, would seem to be suggested. But the contexts are so different that no inference is suggested. They are so different that the court's argument comes to this; by recognizing that majorities of *votes* control corporations, Congress implied that a man's qualification to serve as a bank director should turn upon a majority of the *business activity* in which he is engaged. The sections on which the court relies concern affiliates of banks. The purpose of Congress, in those sections, was to prevent banks from controlling underwriting corporations. Since control of a corporation depends upon control of a majority of directors, or ownership or control of a majority of voting shares or of shares voted, Congress made such majority control the measure of prohibited affiliation. In respect to the control of a corporation, 51 per cent of directors or of voting stock is a wholly different matter from 49 per cent. But in § 32 Congress did not aim at control, either of underwriters by banks or of banks by underwriters;[9] and even if Congress had aimed at control, the question whether underwriting was or was not a majority of a *firm's business* would still have been irrelevant to its purpose. Section 32 is aimed only at the likelihood that a bank director who is interested in the underwriting business may exert influence upon his bank or its customers in favor of that business. The likelihood that he will do this does not depend in any degree upon the question whether the underwriting business is 51 per cent or 49 per cent of the business in which he is interested. The fact that Congress expressly treated a majority of voting power as critical where it makes sense to do so has no tendency to show that Congress meant to treat a majority of business activity as critical where it would not make sense to do so.

The Board interpreted "primarily" as meaning "essentially" or the like. This interpretation is in accordance with the Board's rulings in other cases[10] and carries with it, as settled administrative practice always does, a strong presumption of correctness. If Congress intended to forbid this interpretation the Board made a mistake of law.[11] But it seems to me clear that this is not the case. Accordingly I do not undertake to say whether the record would support a finding that the Eastman firm are *principally* engaged in underwriting.[12]

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[7] The opinion of the court points out that in § 21 of the Act, in prohibiting underwriters from being engaged in banking, Congress used the phrase "engage . . . to any extent whatever." As the court points out, this makes it quite clear that when Congress, in § 32, prohibited bank directors from being "primarily engaged" in underwriting, Congress did not mean "engaged to any extent whatever." But no one contends that Congress meant that.

[8] 48 Stat. 162, 188; §§ 2 (b)(1), 20; 12 U. S. C. §§ 221a (b)(1), 377.

[9] The section makes no distinction between one director, who has no control, and a majority of directors. If underwriting were 100 per cent of the business of a firm, that fact would give its employee no more control of a bank of which he was a director than he would have if underwriting were a trifling and nonessential part of the firm's business, but it would subject him to more temptation to exert his influence in favor of his employer's underwriting operations. Accordingly § 32 is, as all agree, so drawn that the employee is disqualified to serve as a bank director in the first case but not in the second.

[10] 27 Federal Reserve Bulletin 399 (1941).

[11] If Congress did not intend to forbid that interpretation, it is immaterial whether Congress intended to require it or only to permit it. "Congress may have intended the agency to determine the 'sub-principle' within the statutory framework. The vital factor is the intention of Congress, not the generality of the administrative application." Stern, Review of Findings of Administrators, Judges and Juries, 58 Harv. L. Rev. 70, 107.

[12] They put "Underwriters" first in their advertising, and they get all the underwriting business they can. This suggests primacy of interest and effort, which promote sales. For all that appears, they may get a larger *net* income from underwriting than from brokerage. A man may be principally engaged in the practice of law even if his transactions on the stock exchange are more numerous and more profitable, and employ more capital, than his legal transactions.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[December 31, 1945]

	Term Expires
MARRINER S. ECCLES, of Utah, *Chairman*	January 31, 1958
RONALD RANSOM, of Georgia, *Vice Chairman*	January 31, 1956
M. S. SZYMCZAK, of Illinois	January 31, 1948
JOHN K. MCKEE, of Ohio	January 31, 1946
ERNEST G. DRAPER, of Connecticut	January 31, 1950
R. M. EVANS, of Virginia	January 31, 1954

ELLIOTT THURSTON, *Assistant to the Chairman*
CHESTER MORRILL, *Special Adviser to the Board of Governors*
S. R. CARPENTER, *Secretary*
BRAY HAMMOND, *Assistant Secretary*
WALTER WYATT, *General Counsel*
GEORGE B. VEST, *General Attorney*
J. LEONARD TOWNSEND, *Assistant General Attorney*
E. A. GOLDENWEISER, *Economic Adviser*
WOODLIEF THOMAS, *Director, Division of Research and Statistics*
HOWARD S. ELLIS, *Assistant Director, Division of Research and Statistics*
LEO H. PAULGER, *Director, Division of Examinations*
C. E. CAGLE, *Assistant Director, Division of Examinations*
WILLIAM B. POLLARD, *Assistant Director, Division of Examinations*
EDWARD L. SMEAD, *Director, Division of Bank Operations*
J. R. VAN FOSSEN, *Assistant Director, Division of Bank Operations*
J. E. HORBETT, *Assistant Director, Division of Bank Operations*
CARL E. PARRY, *Director, Division of Security Loans*
BONNAR BROWN, *Assistant Director, Division of Security Loans*
ROBERT F. LEONARD, *Director, Division of Personnel Administration*
LISTON P. BETHEA, *Director, Division of Administrative Services*
FRED A. NELSON, *Assistant Director, Division of Administrative Services*
EDWARD L. SMEAD, *Administrator, Office of Administrator for War Loans*
GARDNER L. BOOTHE, II, *Assistant Administrator, Office of Administrator for War Loans*
O. E. FOULK, *Fiscal Agent*
JOSEPHINE E. LALLY, *Deputy Fiscal Agent*

FEDERAL OPEN MARKET COMMITTEE

[December 31, 1945]

MEMBERS

MARRINER S. ECCLES, *Chairman* (Board of Governors)
ALLAN SPROUL, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
ERNEST G. DRAPER (Board of Governors)
R. M. EVANS (Board of Governors)
RAY M. GIDNEY (Elected by Federal Reserve Banks of Cleveland and Chicago)
R. R. GILBERT (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
H. G. LEEDY (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
JOHN K. MCKEE (Board of Governors)
RONALD RANSOM (Board of Governors)
M. S. SZYMCZAK (Board of Governors)
ALFRED H. WILLIAMS (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

EXECUTIVE COMMITTEE

MARRINER S. ECCLES, *Chairman*
ALLAN SPROUL, *Vice Chairman*
R. M. EVANS
M. S. SZYMCZAK
ALFRED H. WILLIAMS

AGENT

FEDERAL RESERVE BANK OF NEW YORK
R. G. ROUSE, *Manager of System Open Market Account.*

OFFICERS

CHESTER MORRILL, *Secretary*
S. R. CARPENTER, *Assistant Secretary*
WALTER WYATT, *General Counsel*
GEORGE B. VEST, *Assistant General Counsel*
E. A. GOLDENWEISER, *Economist*
C. O. HARDY, *Associate Economist*
L. MERLE HOSTETLER, *Associate Economist*
W. H. IRONS, *Associate Economist*
C. A. SIENKIEWICZ, *Associate Economist*
WOODLIEF THOMAS, *Associate Economist*
JOHN H. WILLIAMS, *Associate Economist*

FEDERAL ADVISORY COUNCIL

[December 31, 1945]

MEMBERS

District No. 1—CHARLES E. SPENCER, JR., President, The First National Bank of Boston, Boston, Massachusetts.

District No. 2—JOHN C. TRAPHAGEN, President, Bank of New York, New York, New York.

District No. 3—WILLIAM F. KURTZ, President, The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia, Pennsylvania.

District No. 4—JOHN H. MCCOY, President, The City National Bank and Trust Company, Columbus, Ohio.

District No. 5—ROBERT V. FLEMING, President, The Riggs National Bank of Washington, D. C., Washington, D. C.

District No. 6—KEEHN W. BERRY, President, Whitney National Bank of New Orleans, New Orleans, Louisiana.

District No. 7—EDWARD E. BROWN, Chairman, The First National Bank of Chicago, Chicago, Illinois.

District No. 8—RALPH C. GIFFORD, Chairman, First National Bank, Louisville, Kentucky.

District No. 9—JULIAN B. BAIRD, President, First National Bank of St. Paul, St. Paul, Minnesota.

District No. 10—A. E. BRADSHAW, President, National Bank of Tulsa, Tulsa, Oklahoma.

District No. 11—ED H. WINTON, President, Continental National Bank of Fort Worth, Fort Worth, Texas.

District No. 12—GEORGE M. WALLACE, President, Security-First National Bank of Los Angeles, Los Angeles, California.

EXECUTIVE COMMITTEE

EDWARD E. BROWN, *ex officio*
ROBERT V. FLEMING
RALPH C. GIFFORD

CHARLES E. SPENCER, JR., *ex officio*
WILLIAM F. KURTZ
JOHN C. TRAPHAGEN

OFFICERS

President, EDWARD E. BROWN
Vice President, CHARLES E. SPENCER, JR.

Secretary, WALTER LICHTENSTEIN
Acting Secretary, HERBERT V. PROCHNOW

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS

[December 31, 1945]

CHAIRMEN AND DEPUTY CHAIRMEN

Federal Reserve Bank of—	Chairman	Deputy Chairman
Boston	Albert M. Creighton	Henry S. Dennison
New York	Beardsley Ruml	William I. Myers
Philadelphia	Thomas B. McCabe	Warren F. Whittier
Cleveland	George C. Brainard	Reynold E. Klages
Richmond	Robert Lassiter	W. G. Wysor
Atlanta	Frank H. Neely	J. F. Porter
Chicago	Simeon E. Leland	W. W. Waymack
St. Louis	Wm. T. Nardin	Douglas W. Brooks
Minneapolis	W. C. Coffey	Roger B. Shepard
Kansas City	Robert B. Caldwell	Robert L. Mehornay
Dallas	Jay Taylor	J. R. Parten
San Francisco	Henry F. Grady	Harry R. Wellman

Conference of Chairmen

The Chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen which meets from time to time to consider matters of common interest, and to consult with and advise the Board of Governors.

During the first part of the year, Mr. Creighton served as Chairman of the Conference and as Chairman of the Executive Committee of the Conference. The other members of the Executive Committee were Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, and Mr. Nardin, Chairman of the Federal Reserve Bank of St. Louis.

During the latter part of the year, Mr. Caldwell, Chairman of the Federal Reserve Bank of Kansas City, served as Chairman of the Conference and as Chairman of the Executive Committee of the Conference. The other members of the Executive Committee were Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, and Mr. Grady, Chairman of the Federal Reserve Bank of San Francisco.

Conference of Presidents

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents which meets from time to time to consider matters of common interest, and to consult with and to advise the Board of Governors.

During the year Mr. Day, President of the Federal Reserve Bank of San Francisco, served as Chairman of the Conference, Mr. Sproul, President of the Federal Reserve Bank of New York, served as Vice Chairman, and Mr. Sienkiewicz, Vice President of the Federal Reserve Bank of Philadelphia, served as Secretary.

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.
PRESIDENTS AND VICE PRESIDENTS

Federal Reserve Bank of—	President / First Vice President	Vice Presidents	
Boston	Ralph E. Flanders William Willett	E. G. Hult J. C. Hunter[1]	Carl B. Pitman O. A. Schlaikjer
New York	Allan Sproul L. R. Rounds	J. W. Jones L. W. Knoke Walter S. Logan A. Phelan J. M. Rice	H. V. Roelse Robert G. Rouse John H. Williams V. Willis R. B. Wiltse
Philadelphia	Alfred H. Williams Frank J. Drinnen	W. J. Davis E. C. Hill	C. A. McIlhenny[2] C. A. Sienkiewicz
Cleveland	Ray M. Gidney Wm. H. Fletcher	J. W. Kossin A. H. Laning[2]	B. J. Lazar W. F. Taylor
Richmond	Hugh Leach J. S. Walden, Jr.	Claude L. Guthrie Geo. H. Keesee[1] E. A. Kincaid	R. W. Mercer C. B. Strathy Edw. A. Wayne
Atlanta	W. S. McLarin, Jr. Malcolm H. Bryan	V. K. Bowman L. M. Clark	H. F. Conniff S. P. Schuessler
Chicago	C. S. Young Charles B. Dunn	Allan M. Black[1] Neil B. Dawes J. H. Dillard E. C. Harris	John K. Langum O. J. Netterstrom A. L. Olson Alfred T. Sihler
St. Louis	Chester C. Davis F. Guy Hitt	O. M. Attebery Henry H. Edmiston	Wm. E. Peterson C. M. Stewart
Minneapolis	J. N. Peyton O. S. Powell	H. G. McConnell A. W. Mills[1] Otis R. Preston	E. W. Swanson Sigurd Ueland Harry I. Ziemer
Kansas City	H. G. Leedy Henry O. Koppang	O. P. Cordill L. H. Earhart C. O. Hardy	John Phillips, Jr. G. H. Pipkin D. W. Woolley[2]
Dallas	R. R. Gilbert W. D. Gentry	E. B. Austin[2] R. B. Coleman W. E. Eagle W. J. Evans	W. O. Ford W. H. Holloway L. G. Pondrom
San Francisco	Wm. A. Day Ira Clerk	C. E. Earhart J. M. Leisner[1]	H. N. Mangels H. F. Slade

[1] Cashier. [2] Also Cashier.

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of the member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

District No. 1—Boston

		Term Expires Dec. 31
Class A:		
Leon A. Dodge	President, The First National Bank of Damariscotta, Damariscotta, Me.	1945
Allen W. Holmes	President, The Middletown National Bank, Middletown, Conn.	1946
Allan Forbes	President, State Street Trust Company, Boston, Mass.	1947
Class B:		
Laurence F. Whittemore	Assistant to President, Boston and Maine Railroad, Boston, Mass.	1945
Roy L. Patrick	President and Director, Rock of Ages Corporation, Burlington, Vt.	1946
Philip R. Allen	Director, Bird & Son, inc., E. Walpole, Mass.	1947
Class C:		
Henry S. Dennison	President, Dennison Manufacturing Company, Framingham, Mass.	1945
Henry I. Harriman	Director and Vice Chairman, New England Power Association, Boston, Mass.	1946
Albert M. Creighton	Chairman of the Board	1947

District No. 2—New York

Class A:		
Warren W. Clute, Jr.	President, Glen National Bank of Watkins Glen, Watkins Glen, N. Y.	1945
S. Sloan Colt	President, Bankers Trust Company, New York, N. Y.	1946
Harry H. Pond	President, Plainfield Trust Company, Plainfield, N. J.	1947
Class B:		
Carle C. Conway	Chairman of the Board and President, Continental Can Company, Inc., New York, N. Y.	1945
Donaldson Brown	Vice Chairman of the Board, General Motors Corporation, New York, N. Y.	1946
Charles E. Adams	Chairman, Air Reduction Company, Inc., New York, N. Y.	1947
Class C:		
William I. Myers	Dean, New York State College of Agriculture, Cornell University, Ithaca, N. Y.	1945
Robert D. Calkins	Dean, School of Business, Columbia University, New York, N. Y.	1946
Beardsley Ruml	Chairman, R. H. Macy & Company, Inc., New York, N. Y.	1947

Buffalo Branch

Appointed by Federal Reserve Bank:		
Insley B. Smith	Managing Director, Buffalo, N. Y.	1945
Lewis G. Harriman	President, Manufacturers and Traders Trust Company, Buffalo, N. Y.	1945
Elmer B. Milliman	President, Central Trust Company Rochester, N. Y., Rochester, N. Y.	1946
George H. Bangert	President, The First National Bank of Kenmore, Kenmore, N. Y.	1947
Appointed by Board of Governors:		
Gilbert A. Prole	Farmer, Batavia, N. Y.	1945
Thomas Robins, Jr.	President, Hewitt Rubber Corporation, Buffalo, N. Y.	1946
Marion B. Folsom	Treasurer, Eastman Kodak Company, Rochester, N. Y.	1947

District No. 3—Philadelphia

Class A:		
George W. Reily	President, Harrisburg National Bank, Harrisburg, Pa.	1945
John B. Henning	President, Wyoming National Bank, Tunkhannock, Pa.	1946
Howard A. Loeb	Chairman, Tradesmens National Bank & Trust Company, Philadelphia, Pa.	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

DIRECTORS—Cont.		*Term Expires Dec. 31*
Class B:		
Ward D. Kerlin	Secretary & Treasurer, Camden Forge Company, Camden, N. J.	1945
James T. Buckley	Chairman, Executive Committee, Philco Corporation, Philadelphia, Pa.	1946
Charles A. Higgins	Chairman and President, Hercules Powder Company, Wilmington, Del.	1947
Class C:		
Thomas B. McCabe	President, Scott Paper Company, Chester, Pa.	1945
Warren F. Whittier	Farmer, dairyman and cattle breeder, Chester Springs, Pa.	1946
C. Canby Balderston	Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pa.	1947

District No. 4—Cleveland

Class A:		
Ben R. Conner	President, The First National Bank of Ada, Ada, Ohio	1945
H. B. McDowell	President, The McDowell National Bank of Sharon, Sharon, Pa.	1946
F. F. Brooks	President, First National Bank at Pittsburgh, Pittsburgh, Pa.	1947
Class B:		
Thomas E. Millsop	President, Weirton Steel Company, Weirton, W. Va.	1945
R. P. Wright	Secretary-Treasurer, Reed Manufacturing Company, Erie, Pa.	1946
George D. Crabbs	Industrialist, Cincinnati, Ohio	1947
Class C:		
Reynold E. Klages	President, Columbus Auto Parts Company, Columbus, Ohio	1945
George C. Brainard	President, The General Fireproofing Company, Youngstown, Ohio	1946
A. Z. Baker	President and General Manager, The Cleveland Union Stock Yards Company, Cleveland, Ohio	1947

Cincinnati Branch

Appointed by Federal Reserve Bank:		
Frederick V. Geier	President, The Cincinnati Milling Machine Company, Cincinnati, Ohio	1945
Buckner Woodford	Vice President and Cashier, Bourbon-Agricultural Bank & Trust Company, Paris, Ky.	1945
Waldo E. Pierson	President, The First National Bank of Cincinnati, Cincinnati, Ohio	1946
Walter H. Behm	President, Winters National Bank and Trust Company of Dayton, Dayton, Ohio	1947
Appointed by Board of Governors:		
Francis H. Bird	Professor of Commerce, College of Engineering and Commerce, University of Cincinnati, Cincinnati, Ohio	1945
S. Headley Shouse	Farmer, Lexington, Ky.	1946
Paul G. Blazer	Chairman of Board, The Ashland Oil and Refining Company, Ashland, Ky.	1947

Pittsburgh Branch

Appointed by Federal Reserve Bank:		
Archie J. McFarland	President, Wheeling Steel Corporation, Wheeling, W. Va.	1945
Clarance Stanley	President, The Union Trust Company of Pittsburgh, Pittsburgh, Pa.	1945
R. E. Bowie	President, Security Trust Company, Wheeling, W. Va.	1946
T. C. Swarts	Executive Vice President, Woodlawn Trust Company, Aliquippa, Pa.	1947
Appointed by Board of Governors:		
Robert E. Doherty	President, Carnegie Institute of Technology, Pittsburgh, Pa.	1945
Howard W. Jordan	President, Pennsylvania Rubber Company, Jeannette, Pa.	1946
Vacancy		1947

District No. 5—Richmond

Class A:		
Charles E. Rieman	President, Western National Bank, Baltimore, Md.	1945
James C. Braswell	Chairman of Board, Planters National Bank & Trust Company, Rocky Mount, N. C.	1946
John A. Sydenstricker	Cashier, First National Bank in Marlinton, Marlinton, W. Va.	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

		Term Expires Dec. 31
DIRECTORS—Cont.		
Class B:		
Charles C. Reed	President, Williams & Reed, Inc., Richmond, Va.	1945
H. L. Rust, Jr.	President, H. L. Rust Company, Washington, D. C.	1946
Edwin Malloy	President & Treasurer, Cheraw Cotton Mills, Inc., Cheraw, S. C.	1947
Class C:		
W. G. Wysor	General Manager, Southern States Cooperative, Inc., Richmond, Va.	1945
Robert Lassiter	Chairman of Board, Mooresville Cotton Mills, Mooresville, N. C.	1946
Charles P. McCormick	President, McCormick & Company, Inc., Baltimore, Md.	1947

Baltimore Branch

Appointed by Federal Reserve Bank:		
W. R. Milford	Managing Director, Baltimore, Md.	1945
James C. Fenhagen	Vice Chairman of Board, Baltimore National Bank, Baltimore, Md.	1945
George M. Moore	Vice President, Union National Bank, Clarksburg, W. Va.	1946
W. Bladen Lowndes	President, Fidelity Trust Company, Baltimore, Md.	1947
Appointed by Board of Governors:		
Joseph D. Baker, Jr.	Secretary and Treasurer, The Standard Lime & Stone Company, Baltimore, Md.	1945
W. Frank Roberts	President, Standard Gas Equipment Corporation, Baltimore, Md.	1946
James F. Shriver	President, B. F. Shriver Company, Westminster, Md.	1947

Charlotte Branch

Appointed by Federal Reserve Bank:		
W. T. Clements	Managing Director, Charlotte, N. C.	1945
Angus E. Bird	Chairman of Board, The Citizens & Southern National Bank of S. C., Charleston, S. C.	1945
Allen H. Sims	Executive Vice President and Trust Officer, Citizens National Bank in Gastonia, Gastonia, N. C.	1946
N. S. Calhoun	President, Security National Bank, Greensboro, N. C.	1947
Appointed by Board of Governors:		
D. W. Watkins	Director of Extension, Clemson College, Clemson, S. C.	1945
George M. Wright	President, Republic Cotton Mills, Great Falls, S. C.	1946
Charles L. Creech	Chairman of Board, B. F. Huntley Furniture Company, Winston-Salem, N. C.	1947

District No. 6—Atlanta

Class A:		
Robert Strickland	President, Trust Company of Georgia, Atlanta, Ga.	1945
W. D. Cook	President, First National Bank in Meridian, Meridian, Miss.	1946
George J. White	President, First National Bank of Mount Dora, Mount Dora, Fla.	1947
Class B:		
J. A. McCrary	Vice President and Treasurer, J. B. McCrary Company, Inc., Atlanta, Ga.	1945
Fitzgerald Hall	President, Nashville, Chattanooga & St. Louis Railway, Nashville, Tenn.	1946
Ernest T. George	President, Seaboard Refining Company, Ltd., New Orleans, La.	1947
Class C:		
J. F. Porter	President and General Manager, Tennessee Farm Bureau Federation, Columbia, Tenn.	1945
Rufus C. Harris	President, The Tulane University of Louisiana, New Orleans, La.	1946
Frank H. Neely	Executive Vice President and Secretary, Rich's, Inc., Atlanta, Ga.	1947

Birmingham Branch

Appointed by Federal Reserve Bank:		
P. L. T. Beavers	Managing Director, Birmingham, Ala.	1945
M. B. Spragins	President, The First National Bank of Huntsville, Huntsville, Ala.	1945
James G. Hall	Executive Vice President, The First National Bank of Birmingham, Birmingham, Ala.	1946
Gordon D. Palmer	President, The First National Bank of Tuskaloosa, Tuscaloosa, Ala.	1947
Appointed by Board of Governors:		
Wm. Howard Smith	President, McQueen-Smith Farms, Prattville, Ala.	1945
Edward L. Norton	Chairman of the Board, Voice of Alabama, Inc., Birmingham, Ala.	1946
Donald Comer	Chairman of the Board, Avondale Mills, Birmingham, Ala.	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

DIRECTORS—Cont.

Jacksonville Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
Geo. S. Vardeman, Jr.	Managing Director, Jacksonville, Fla.	1945
J. S. Fairchild	Cashier, The First National Bank of Winter Garden, Winter Garden, Fla.	1945
J. C. McCrocklin	President, First National Bank in Tarpon Springs, Tarpon, Springs, Fla.	1946
J. L. Dart	President, The Florida National Bank of Jacksonville, Jacksonville, Fla.	1947
Appointed by Board of Governors:		
Charles S. Lee	Farmer, Oviedo, Fla.	1945
Frank D. Jackson	President and General Manager, Jackson Grain Company, Tampa, Fla.	1946
Walter J. Matherly	Dean, College of Business Administration, University of Florida, Gainesville, Fla.	1947

Nashville Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
Joel B. Fort, Jr.	Managing Director, Nashville, Tenn.	1945
Edward Potter, Jr.	President, Commerce Union Bank, Nashville, Tenn.	1945
L. R. Driver	President, First National Bank in Bristol, Bristol, Tenn.	1946
B. L. Sadler	President, First National Bank in Harriman, Harriman, Tenn.	1947
Appointed by Board of Governors:		
W. E. McEwen	Director, County Farm Bureau, Williamsport, Tenn.	1945
W. Bratten Evans	President, Tennessee Enamel Manufacturing Company, Nashville, Tenn.	1946
Clyde B. Austin	President, Austin Company, Inc., Greeneville, Tenn.	1947

New Orleans Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
E. P. Paris	Managing Director, New Orleans, La.	1945
T. G. Nicholson	President, The First National Bank of Jefferson Parish, Gretna, La.	1945
John Legier	President, National American Bank of New Orleans, New Orleans, La.	1946
J. F. McRae	President, The Merchants National Bank of Mobile, Mobile, Ala.	1947
Appointed by Board of Governors:		
John J. Shaffer, Jr.	Farmer, Ellendale, La.	1945
E. F. Billington	Vice President, Soule Steam Feed Works, Meridian, Miss.	1946
Vacancy		1947

District No. 7—Chicago

		Term Expires Dec. 31
Class A:		
Walter J. Cummings	Chairman, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.	1945
Horace S. French	President, The Milwaukee Avenue National Bank of Chicago, Chicago, Ill.	1946
Vivian W. Johnson	President, First National Bank in Cedar Falls, Cedar Falls, Iowa	1947
Class B:		
William C. Heath	President, A. O. Smith Corporation, Milwaukee, Wis.	1945
Clarence W. Avery	President and Chairman, The Murray Corporation of America, Detroit, Mich.	1946
Nicholas H. Noyes	Vice President in Charge of Finances, Eli Lilly and Company, Indianapolis, Ind.	1947
Class C:		
W. W. Waymack	Editor and Vice President, The Register & Tribune, Des Moines, Iowa	1945
Paul G. Hoffman	President, The Studebaker Corporation, South Bend, Ind.	1946
Simeon E. Leland	Chairman, Department of Economics, and Professor of Government Finance, University of Chicago, Chicago, Ill.	1947

Detroit Branch

		Term Expires Dec. 31
Appointed by Federal Reserve Bank:		
Walter S. McLucas	Chairman, The National Bank of Detroit, Detroit, Mich.	1945
Rudolph E. Reichert	President, Ann Arbor Bank, Ann Arbor, Mich.	1946
Charles A. Kanter	President, The Manufacturers National Bank of Detroit, Detroit, Mich.	1946
Appointed by Board of Governors:		
H. L. Pierson	President, Detroit Harvester Company, Detroit, Mich.	1945
Ernest Gilbert	Farmer, Waldron, Mich.	1946

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

DIRECTORS—Cont.

District No. 8—St. Louis

		Term Expires Dec. 31
Class A:		
Max B. Nahm	Vice President, Citizens National Bank, Bowling Green, Ky.	1945
G. R. Corlis	Vice President, Anna National Bank, Anna, Ill.	1946
Tom K. Smith	President, Boatmen's National Bank, St. Louis, Mo.	1947
Class B:		
A. Wessel Shapleigh	President, Shapleigh Hardware Company, St. Louis, Mo.	1945
H. H. Tucker	President, Fones Bros. Hardware Company, Little Rock, Ark.	1946
Louis Ruthenburg	President and General Manager, Servel, Inc., Evansville, Ind.	1947
Class C:		
Wm. T. Nardin	Vice President and General Manager, Pet Milk Company, St. Louis, Mo.	1945
Russell L. Dearmont	Chief Counsel for Trustee, Missouri-Pacific Lines, St. Louis, Missouri	1946
Douglas W. Brooks	President, The Newburger Company, Memphis, Tenn.	1947

Little Rock Branch

Appointed by Federal Reserve Bank:		
A. F. Bailey	Managing Director, Little Rock, Ark.	1945
Chas. A. Gordon	Vice President, Simmons National Bank, Pine Bluff, Ark.	1945
Emmet Morris	Chairman, W. B. Worthen Company, Little Rock, Ark.	1946
Geo. S. Neal	President, Bank of Russellville, Russellville, Ark.	1947
Appointed by Board of Governors:		
R. E. Short	Farmer, Brinkley, Ark.	1945
I. N. Barnett	Manager, Barnett Bros. Mercantile Company, Batesville, Ark.	1946
S. M. Brooks	President, Brooks Advertising Agency, Little Rock, Ark.	1947

Louisville Branch

Appointed by Federal Reserve Bank:		
C. A. Schacht	Managing Director, Louisville, Ky.	1945
Lee L. Persise	President, The State Bank of Salem, Salem, Ind.	1945
Phil E. Chappell	President, Planters Bank & Trust Company, Hopkinsville, Ky.	1946
Wallace M. Davis	Vice President, Citizens Fidelity Bank and Trust Company, Louisville, Ky.	1947
Appointed by Board of Governors:		
G. O. Boomer	President, The Girdler Corporation, Louisville, Ky.	1945
Rosco Stone	Farmer, Hickman, Ky.	1946
E. J. O'Brien, Jr.	President, E. J. O'Brien & Company, Louisville, Ky.	1947

Memphis Branch

Appointed by Federal Reserve Bank:		
W. H. Glasgow	Managing Director, Memphis, Tenn.	1945
V. J. Alexander	President, Union Planters National Bank & Trust Company, Memphis, Tenn.	1945
W. W. Campbell	President, National Bank of Eastern Arkansas, Forrest City, Ark.	1946
W. P. Kretschmar	President, Commercial National Bank, Greenville, Miss.	1947
Appointed by Board of Governors:		
J. P. Norfleet	President, Sledge and Norfleet, Memphis, Tenn.	1945
Rufus C. Branch	Cotton planter and ginner, Pecan Point, Ark.	1946
J. Holmes Sherard	President, Jno. H. Sherard & Son, Sherard, Miss.	1947

District No. 9—Minneapolis

Class A:		
F. D. McCartney	Vice President, First National Bank, Oakes, N. D.	1945
Clarence E. Hill	Chairman of the Board, Northwestern National Bank, Minneapolis, Minn.	1946
J. R. McKnight	President, Pierre National Bank, Pierre, S. D.	1947
Class B:		
Ray C. Lange	President, Chippewa Canning Company, Chippewa Falls, Wis.	1945
Homer P. Clark	Chairman of the Board, West Publishing Company, St. Paul, Minn.	1946
J. E. O'Connell	President, Eddy's Bakeries, Inc., Helena, Mont.	1947
Class C:		
W. C. Coffey	President Emeritus, University of Minnesota, Minneapolis, Minn.	1945
W. D. Cochran	W. D. Cochran Freight Lines, Iron Mountain, Mich.	1946
Roger B. Shepard	President, Finch, Van Slyck & McConville, St. Paul, Minn.	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

DIRECTORS—Cont.

		Term Expires Dec. 31
Helena Branch		
Appointed by Federal Reserve Bank:		
R. E. Towle	Managing Director, Helena, Mont.	1945
Peter Pauly	President, Deer Lodge Bank & Trust Company, Deer Lodge, Mont.	1945
P. B. McClintock	Vice President, Farmers National Bank, Chinook, Mont.	1946
Appointed by Board of Governors:		
Malcolm E. Holtz	Farmer and stockman, Great Falls, Mont.	1945
R. B. Richardson	President, Western Life Insurance Company, Helena, Mont.	1946
District No. 10—Kansas City		
Class A:		
T. A. Dines	Chairman of the Board and President, United States National Bank, Denver, Colo.	1945
M. A. Limbocker	President and Chairman, Citizens National Bank, Emporia, Kan.	1946
W. L. Bunten	Vice President and Cashier, Goodland State Bank, Goodland, Kans.	1947
Class B:		
Willard D. Hosford	Vice President and General Manager, John Deere Plow Company, Omaha, Neb.	1945
J. M. Bernardin	Lumberman, Kansas City, Mo.	1946
L. C. Hutson	President and General Manager, Chickasha Cotton Oil Company, Chickasha, Okla.	1947
Class C:		
Lyle L. Hague	Farmer and stockman, Cherokee, Okla.	1945
Robert B. Caldwell	Caldwell, Downing, Noble and Garrity, Kansas City, Mo.	1946
Robert L. Mehornay	President, North-Mehornay Furniture Company, Kansas City, Mo.	1947
Denver Branch		
Appointed by Federal Reserve Bank:		
P. K. Alexander	Vice President, The First National Bank of Denver, Denver, Colo.	1945
W. C. Kurtz	President and General Manager, Independent Lumber Company, Grand Junction, Colo.	1946
Harold Kountze	President, Colorado National Bank, Denver, Colo.	1946
Appointed by Board of Governors:		
W. A. Alexander	Vice President and Assistant General Manager, The Denver Tramway Corporation, Denver, Colo.	1945
M. E. Noonen	Sheep rancher, Kremmling, Colo.	1946
Oklahoma City Branch		
Appointed by Federal Reserve Bank:		
A. E. Stephenson	Chairman of the Board, Central National Bank, Enid, Okla.	1945
D. M. Tyler	First Vice President, Dewey Portland Cement Company, Dewey, Okla.	1946
Hugh L. Harrell	Vice President, First National Bank and Trust Company, Oklahoma City, Okla.	1946
Appointed by Board of Governors:		
Lloyd Noble	President, Noble Drilling Corporation, Tulsa, Okla.	1945
Neil R. Johnson	Rancher and farmer, Norman, Okla.	1946
Omaha Branch		
Appointed by Federal Reserve Bank:		
T. L. Davis	President, First National Bank, Omaha, Neb.	1945
George A. Bible	President, First National Bank, Rawlins, Wyo.	1946
Vacancy		1946
George W. Holmes	President, First National Bank, Lincoln, Neb.	1947
Appointed by Board of Governors:		
Walter S. Byrne	General Manager, Metropolitan Utilities District of Omaha, Omaha, Neb.	1945
John D. Clark	Dean, College of Business Administration, University of Nebraska, Lincoln, Neb.	1946
L. E. Hurtz	President, Fairmont Creamery Company, Omaha, Neb.	1947
District No. 11—Dallas		
Class A:		
Walter P. Napier	President, Alamo National Bank, San Antonio, Texas	1945
Frank Turner	President, First National Bank, Decatur, Texas	1946
J. E. Woods	Chairman of Board, Temple National Bank, Temple, Texas	1947

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

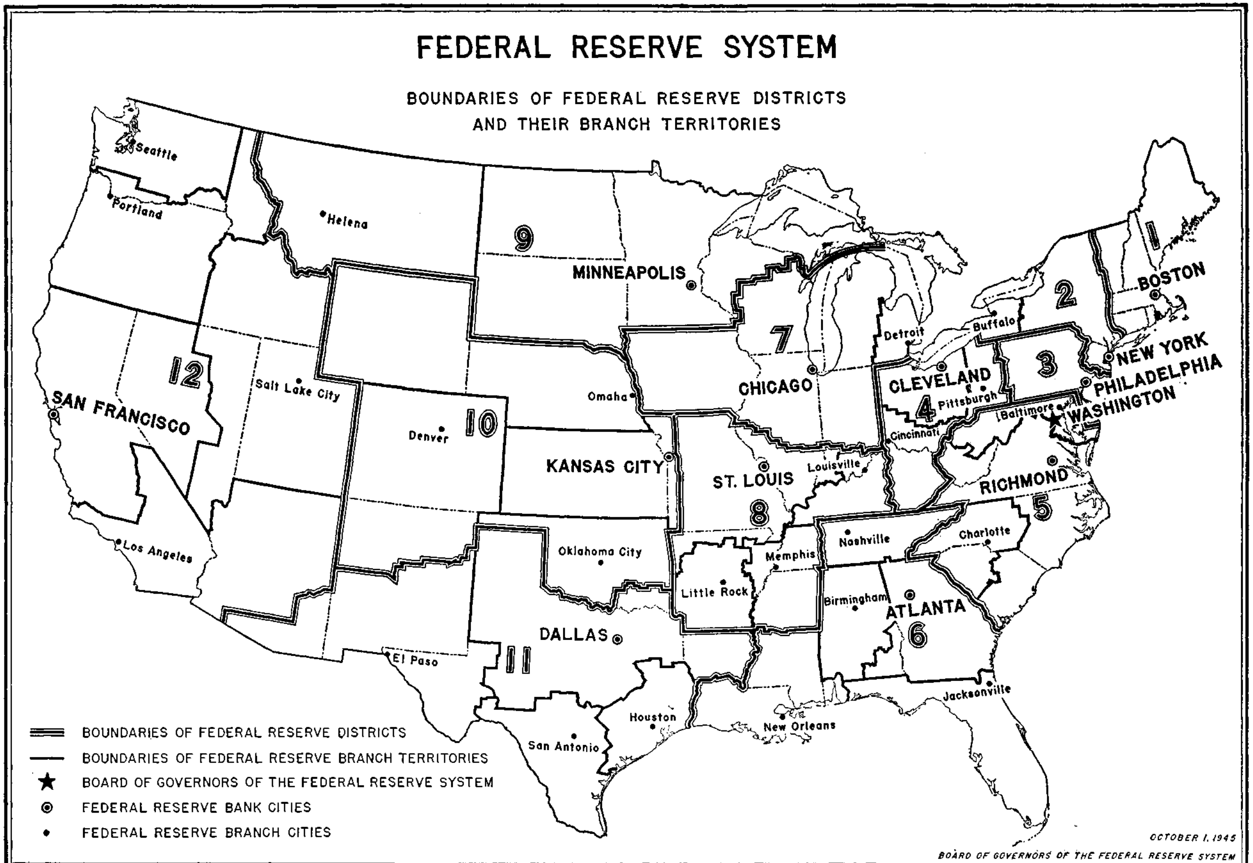
DIRECTORS—Cont.		*Term Expires Dec. 31*
Class B:		
J. R. Milam	President, The Cooper Company, Inc., Waco, Texas	1945
Geo. A. Hill, Jr.	President, Houston Oil Company of Texas, Houston, Texas	1946
E. L. Kurth	President and General Manager, Angelina County Lumber Company, Keltys, Texas	1947
Class C:		
Jay Taylor	Ranching and stockyards, Amarillo, Texas	1945
J. R. Parten	President, Woodley Petroleum Company, Houston, Texas	1946
G. A. Frierson	G. A. Frierson & Son, Planters & Merchants, Shreveport, La.	1947
El Paso Branch		
Appointed by Federal Reserve Bank:		
H. A. Jacobs	Vice President, El Paso National Bank, El Paso, Texas	1945
Vacancy		1945
R. W. McAfee	President, State National Bank, El Paso, Texas	1946
J. E. Moore	Vice President, First National Bank, Roswell, N. M.	1947
Appointed by Board of Governors:		
R. E. Sherman	Leavell and Sherman, Realtors, El Paso, Texas	1945
Jack B. Martin	President, Arizona Ice and Cold Storage Company, Tucson, Ariz.	1946
Hal Bogle	Owner, Pecos Valley Alfalfa Mill Company, Dexter, N. M.	1947
Houston Branch		
Appointed by Federal Reserve Bank:		
B. C. Roberts	President, Wharton Bank & Trust Company, Wharton, Texas	1945
James A. Elkins	President, City National Bank, Houston, Texas	1945
W. N. Greer	President, Citizens State Bank, Houston, Texas	1946
John W. McCullough	President, Hutchings-Sealy National Bank, Galveston, Texas	1947
Appointed by Board of Governors:		
J. S. Abercrombie	President, J. S. Abercrombie Company, Houston, Texas	1945
George A. Slaughter	Farming, Wharton, Texas	1946
J. E. Wheat	Attorney-at-Law, Woodville, Texas	1947
San Antonio Branch		
Appointed by Federal Reserve Bank:		
E. J. Miller	President, South Texas National Bank, San Antonio, Texas	1945
R. D. Barclay	President, National Bank of Commerce, San Antonio, Texas	1945
J. A. Walker	Executive Vice President, Del Rio National Bank, Del Rio, Texas	1946
T. C. Frost	Vice President, Frost National Bank, San Antonio, Texas	1947
Appointed by Board of Governors:		
George W. Stocking	Professor of Economics, University of Texas, Austin, Texas	1945
Holman M. Cartwright	Livestock and farming, Twin Oaks Ranch, Dinero, Texas	1946
J. M. Odom	General Contractor, Austin, Texas	1947

District No. 12—San Francisco

Class A:		
Carroll F. Byrd	Chairman of the Board and Executive Vice President, The First National Bank of Willows, Willows, Calif.	1945
C. K. McIntosh	Chairman of the Board, The Bank of California, N. A., San Francisco, Calif.	1946
Vacancy		1947
Class B:		
Reese H. Taylor	President, Union Oil Company of California, Los Angeles, Calif.	1945
Vacancy		1946
St. George Holden	St. George Holden Realty Company, San Francisco, Calif.	1947
Class C:		
Harry R. Wellman	Director, Giannini Foundation of Agricultural Economics, University of California, Berkeley, Calif.	1945
Brayton Wilbur	President, Wilbur-Ellis Company, San Francisco, Calif.	1946
Henry F. Grady	President, American President Lines, Ltd., San Francisco, Calif.	1947
Los Angeles Branch		
Appointed by Federal Reserve Bank:		
W. N. Ambrose	Managing Director, Los Angeles, Calif.	1945
F. E. Snedecor	President, The First National Bank of Corona, Corona, Calif.	1945
Herbert D. Ivey	President, Citizens National Trust & Savings Bank of Los Angeles, Los Angeles, Calif.	1946

DIRECTORS AND SENIOR OFFICERS OF FEDERAL RESERVE BANKS, Dec. 31, 1945—Cont.

DIRECTORS—Cont.		*Term Expires Dec. 31*
Appointed by Board of Governors:		
Y. Frank Freeman	Vice President, Paramount Pictures, Inc., Hollywood, Calif.	1945
C. E. Myers	Agriculturist, Covina, Calif.	1946
Portland Branch		
Appointed by Federal Reserve Bank:		
D. L. Davis	Managing Director, Portland, Ore.	1945
Chas. H. Stewart	President, Portland Trust & Savings Bank, Portland, Oregon	1945
William C. Christensen	President, The Commercial National Bank of Hillsboro, Hillsboro, Ore.	1946
Appointed by Board of Governors:		
George T. Gerlinger	President, Willamette Valley Lumber Co., Portland, Ore.	1945
William H. Steen	Livestock and farming, Milton, Ore.	1946
Salt Lake City Branch		
Appointed by Federal Reserve Bank:		
W. L. Partner	Managing Director, Salt Lake City, Utah	1945
Frederick P. Champ	President, Cache Valley Banking Company, Logan, Utah.	1945
Orval W. Adams	Executive Vice President, The Utah State National Bank of Salt Lake City, Salt Lake City, Utah	1946
Appointed by Board of Governors:		
Henry Aldous Dixon	President, Weber College, Ogden, Utah	1945
R. C. Rich	Livestock and farming, Burley, Idaho	1946
Seattle Branch		
Appointed by Federal Reserve Bank:		
C. R. Shaw	Managing Director, Seattle, Wash.	1945
Andrew Price	President, The National Bank of Commerce of Seattle, Seattle, Wash.	1945
Fred L. Stanton	President, The Washington Trust Company, Spokane, Wash.	1946
Appointed by Board of Governors:		
Charles F. Larrabee	President, Roslyn-Cascade Coal Company, Bellingham, Wash.	1945
John M. McGregor	Manager, McGregor Land & Livestock Company, Hooper, Wash.	1946



NOTE.—There has been no change in district or branch territory boundaries since the publication of the description in the *Annual Report* of the Board of Governors for 1942, pp. 138-145.

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