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Bank Liquidity and the War:

Part I

Nature and Significance of Bank Liquidity

Part II

Banking Changes and the Liquidity Problem

Part III

Bank Liquidity in War, 1939-45

CHARLES R. WHITTLESEY

OUR ECONOMY IN WAR

Occasional Paper 22: May, 1945

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Preface

THE PARTICIPATION of the banking system in the financing of World War II has significantly affected its financial structure and functioning. Bank assets and liabilities have expanded enormously during the war period, and with this expansion there has also occurred a striking shift in the importance of component items in the totals. In addition, the banking system has had to adjust to a trebling of currency in the hands of the public, and to a huge investment by the public in federal obligations. The critical questions to which these wartime developments give rise are: Have the banks individually and as a system gained or lost in liquidity? And have they been strengthened or weakened in their capacity to perform "normal" functions upon return to peace?

Dr. Whittlesey's present paper is directed toward answering these questions. Since any answers depend upon what the words "liquidity," "strengthened" and "weakened" mean in a practical sense, the author has adopted the current working concepts of the banking community as the most useful ones for his purpose.

This paper is the third written by Dr. Whittlesey in the National Bureau Series entitled "Our Economy in War." Those studies in this series which have been prepared under the Financial Research Program, have been made possible by grants from the Association of Reserve City Bankers and from private foundations. None of these sources of financial support is to be understood as approving, by virtue of its grant, any of the statements made or conclusions reached.

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RALPH A. YOUNG

Director, Financial Research Program

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