however, at what bankers alone could provide if all became members and enough stock were sold to other businesses and individuals to permit full use of bankers' commitments to lend. Assuming member pledges would be limited to 2½ percent of their capital and surplus, the usual limit in New England, commercial banks could provide funds for industrial development purposes totaling over 23 million dollars, based on figures available for the end of 1957. The potential in each state ranges from over 2 million dollars in Mississippi to nearly 6 million dollars in Florida.

To realize such a potential, however, credit corporations established along the lines of those in New England would have to sell nearly 2.9 million dollars in stock. This would be true if the corporations were required to have one dollar of paid-in capital for every eight dollars they borrow from members. Stock sales would have to range from 264,000 dollars in Mississippi to 727,000 dollars in Florida if commercial bank resources were to be utilized to the fullest.

Limitations on borrowing in relation to capital are necessary, of course, if the risk exposure of members is to be reduced by providing a reasonable equity cushion between them and the firms who borrow, in turn, from the credit corporation. These limitations may be self-imposed or determined by the legislation granting the corporate charter. In some cases, specific dollar limitations are placed on borrowings from members.

Some banks, of course, might prefer not to commit themselves to lend to development credit corporations by becoming members. This has been the case in New England, yet in that area actual membership pledges at the end of 1957 amounted to nearly 75 percent of the potential total. Most of the large commercial banks have become members. If bankers in the Sixth District states would do as well as those in New England have done, they would provide development funds totaling about 17 million dollars.

Attention has been focused on banks as a potential source of loan funds for development credit corporations because they have been the main source in New England, providing over 60 percent of the amount pledged as of December 31, 1957. Insurance companies have been another important source of funds there, and perhaps could be expected to be so in the Sixth District states. If the experience in New England can be considered typical of what could happen in this region, life insurance companies in Sixth District states might pledge an additional 3 million dollars.

### Widespread Support Required

Experience with development credit corporations in New England suggests that any effort to divert more of a state's financial resources toward industrial development would require widespread business and public support. Naturally, the active interest and support of bankers and other financial leaders would be necessary if funds at their disposal were to be used. Yet, active support by others in providing the basic capital is a first requirement. This is also shown by the experience in New England, where lack of basic capital has presented the greatest difficulty in obtaining sufficient operating funds. In several cases, funds pledged by members cannot be fully utilized because not enough capital stock has been sold.

The problems presented, however, should not prevent interested individuals from considering the privately financed development credit corporation as a possible method of aiding industrial development in their area. Whether or not it is the best method, or even an appropriate method, depends on how well it can be adapted to the particular needs of each state.

PHILIP M. WEBSTER

# *Pulpwood Outlook Optimistic*

Income from pulpwood production in Sixth District states amounted to 182 million dollars in 1956, one-fourth as much as was received from cotton. Although that record was not matched in 1957, indications are that the industry enjoyed a good year: The volume of pulpwood harvested was only 3 percent less than the 1956 volume. Prices paid by Southeastern pulpwood manufacturers, however, were unchanged, and pulpwood producers' income for the year came to about 176.5 million dollars, according to estimates by this Bank.

The slight cut last year in pulpwood production may seem to indicate a weaker pulpwood market, yet the market can hardly be called weak when the consumption declined only 0.2 percent from the record established in 1956. Some impressive gains in pulpwood utilization were recorded in the industry nationally. Despite an overall drop in paper and board output, newsprint production increased 11.4 percent. Other individual paper grades—machine-coated papers, sanitary papers, and tissue papers—also showed increases from 1956. Consumption of wood pulp in rayon, acetate, cellophane, and plastic production was up 10.6 percent. In addition, exports increased 18.5 percent from 1956 and imports dropped almost 10 percent.

With pulpwood consumption remaining high, it is no wonder that mill buying prices remained unchanged at $15.25 a cord. District growers received between $2.50 and $6.00 a cord, stumpage, and pulpwood dealers and those logging the wood got between $9.25 and $12.75 a cord, depending on their production cost. Because mill buyers are becoming more selective, the quality of wood pulp is improving.

Mill demand for pulpwood has not increased this spring over that last year and inventories are high. Production this year, therefore, probably will not exceed the 195' volume. Nevertheless, although inventories are high, they account for only one-fifth of annual consumption, and they could quickly be consumed by an upsurge in sales.

Looking ahead we see increased incomes from the sale of pulpwood and optimism in the industry. A United States Department of Commerce report projects 1965 paper and board production 42 percent above that in 1957. According to the report, existing supplies of standing timber in the United States, together with prospective growth, appear adequate to meet those increasing demands for pulp and paper. A short supply, therefore, will not cause a sharp upward pressure on pulpwood prices, and yet producers' income from the sale of pulpwood should rise above the 1956 amount. The slight weakening in demand that began last year may bring temporary price dips.

N. CARSON BRANAN

**FINANCING SMALL BUSINESS**

*The first two parts of a three-part study on the financing problems of small business conducted by the Research staffs of the Board of Governors and the Federal Reserve Banks have been submitted to the Committees on Banking and Currency and the Select Committees on Small Business, United States Congress.*

*Copies of this report may be secured by addressing requests to either the Senate or House Committee, Washington, D. C.*

*The report, entitled* FINANCING SMALL BUSINESS, *includes a number of background studies and surveys of credit and capital sources.*

# *Trust Department Earnings Up in 1957*

Trust departments of Sixth District commercial banks had a better net earnings record in 1957 than they did in 1956. Information collected in a Special Survey of Trust Department Earnings and Expenses revealed that last year net earnings of the 24 banks reporting in the Survey both years, adjusted for deposit credits, amounted to 16.1 percent of total commissions and fees; in 1956 their earnings totaled 14.6 percent. The principal reason for improved earnings was the higher allowance for deposits with the banking department, which rose from 16.4 percent of total commissions and fees in 1956 to 17.8 percent in 1957. The rate allowed for these deposits increased from 1.95 percent to 2.10 percent.

The Survey also revealed that total trust assets amounted to 2,061 million dollars at the end of 1957. This was 3 percent higher than the 2,006 million a year earlier. The number of accounts increased somewhat less rapidly—from 13,596 to 13,704, a gain of one percent.

Total commissions and fees amounted to 5.7 million dollars during 1957, a gain of 10 percent from the previous year. Total expenses, on the average, exceeded total income, however, resulting in a net loss before taxes of 1.7 percent of total income. Only after allowance for deposit credit, which was somewhat larger than in 1956, were these departments able to get into the black; four remained in the red even after this adjustment.

Management of estates and personal trusts was a major source of trust income during 1957; both estates and personal trusts contributed 34.4 percent of the total. Fees for handling agency accounts supplied 21.0 percent of the total. The remainder came from pension and profit-sharing accounts and from corporate trusts.

Salaries, including insurance and retirement allowances, formed about two-thirds of total trust department expenses during 1957, the same as in 1956. Overhead charges, trust departments' share of general costs for the bank as a whole, came to 12.8 percent of total expenses.

W. M. DAVIS

NOTE: *More detailed results of the Survey may be obtained from the Research Department, Federal Reserve Bank of Atlanta, Atlanta 3, Georgia.*

**Trust Department Earnings and Expenses**

**24 Banks Reporting in Both 1956 and 1957 Surveys**

| *Percent of total commissions and fees* | *1956* | *1957* |
|---|---|---|
| Commissions and fees from: | | |
| Estates | 36.9 | 34.4 |
| Trusts | 39.2 | 39.8 |
| Personal accounts | 32.4 | 34.4 |
| Corporate accounts | 6.8 | 5.4 |
| Pension and profit-sharing trusts | 3.9 | 4.8 |
| Agencies | 20.0 | 21.0 |
| Personal accounts | 13.7 | 13.3 |
| Corporate accounts | 6.3 | 7.7 |
| Total commissions and fees | 100.0 | 100.0 |
| Total expenses | 101.3 | 101.7 |
| Net earnings before income taxes | — 1.3 | — 1.7 |
| Income tax charges (—) or credits (+) | — 0.7 | + 0.0 |
| Trust department net earnings | — 2.0 | — 1.7 |
| Allowed credits for deposits | 16.4 | 17.8 |
| Trust department net earnings (adjusted for deposit credits) | 14.6 | 16.1 |
| *Percent of total expenses* | *1956* | *1957* |
| Direct expenses: | | |
| Salaries and wages: | | |
| Officers | 35.2 | 32.9 |
| Employees | 23.9 | 26.6 |
| Pensions and retirements | 4.3 | 3.8 |
| Personnel insurance | 1.2 | 1.4 |
| Other expenses related to salaries | 1.1 | 1.0 |
| Total expenses related to salaries | 65.7 | 65.7 |
| Occupancy of quarters | 5.4 | 5.0 |
| Furniture and equipment | 2.0 | 2.2 |
| Stationery, supplies, and postage | 3.3 | 3.0 |
| Telephone and telegraph | 1.0 | 1.1 |
| Advertising | 2.6 | 2.4 |
| Directors' and trust committee fees | 0.9 | 0.9 |
| Legal and professional fees | 1.2 | 0.9 |
| Periodical and investment services | 1.9 | 1.8 |
| Examinations | 1.0 | 1.0 |
| Other direct expenses | 2.4 | 3.2 |
| Total direct expenses | 87.4 | 87.2 |
| Overhead | 12.6 | 12.8 |
| Total expenses | 100.0 | 100.0 |
| Related items: | | |
| Average rate allowed on deposit credit | 1.95 | 2.10 |
| Dollar amount of total commissions and fees (thousands) | 5,184 | 5,688 |
| Dollar amount of total expenses (thousands) | 4,799 | 5,295 |
| Average number of officers | 5.7 | 6.0 |
| Average number of employees | 16.9 | 17.5 |