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Review and Outlook

by

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As 1950 begins, I want to write briefly about the record of the recent past and speculate a little about prospects for the coming year—the final one in the first half of the Twentieth Century. In attempting to put the current scene in proper focus, I am struck by the high degree of interdependence in this modern world. I am writing of developments in the international field, in the domestic economy and in banking, under separate subheadings. Actually they cannot be separated today. Certainly the record of banking must be viewed against the broad background of the entire domestic economy. And certainly one cannot consider the domestic economy as existing by itself, for international developments influence it in high degree.

One hundred years ago California came into the Union in the Compromise of 1850. That word "compromise" runs through the record of American political, economic and social history. It is a particularly appropriate word to use today when the complexity of modern life practically prohibits absolutely clear-cut decisions as to objectives. Domestic economic policy is shaped today (and probably always has been to some extent) as much by factors outside the purely economic sphere—foreign policy, sociological considerations, and others—as by economic considerations. In other words, our actual goals and the means by which we strive for them are essentially compromises of conflicting objectives. We usually must try to attain the overriding objective by sacrificing those less important or secondary.

This circumstance makes it very important that there is clear recognition and understanding of issues and objectives involved in particular problems. For example, our commitments to Western Europe result from our conviction that Europe must not fall prey to World Communism—a politico-economic system that we do not like. These commitments involve heavy expenses and high taxes, and, when added to other outlays, have led to deficit spending. None of these is particularly desirable in itself or in its consequences; we accept it as part of the price of our major objectives. And to rehabilitate Western Europe we have to help recreate a fairly strong Western Germany, which opens up all of the possibilities of future German attempts to dominate Europe. The point, of course, is that there are no simple, clear solutions to these problems and the host of others that confront us. We have to choose our solutions because they represent the best compromise, and this requires knowledge and understanding.

The people of this nation have gained tremendously in knowledge and understanding in the past few years. As a nation we are better equipped today to choose our solutions than we ever were in the past. But the problems grow more complicated and our knowledge and understanding must continue to increase if we are to deal with them intelligently.

INTERNATIONAL AFFAIRS

From the point of view of the United States the record of developments in the international field in 1949 is hardly cause for cheer. Certainly we are no closer to agreement with the Communist world than we were a year ago. Our position in China has collapsed, in Southeastern Asia and Korea it

has deteriorated dangerously, and in Japan and the Philippines it has retrograded, although perhaps not quite so dangerously. This entire area, traditionally friendly to the United States, must now be counted as, at best, indifferent to unfriendly—at worst, definitely hostile. In the Middle and Near East, the strategic position of the democracies continues precarious, although the feeling of friendship does remain fairly high.

The major bright spot in 1949 was the record of real progress in Western Europe. Western Germany began to go forward in rapid strides, and no longer seems the unbreakable bottleneck to European recovery that it was a year ago. The Marshall Plan nations moved further along the road to economic rehabilitation. Our foreign aid program, conceived jointly in altruism and self-interest, seems to be paying off well.

Two points should be stressed in this connection. First, it now appears that the so-called "dollar gap" will not be bridged completely by 1952. Western Europe will still run a deficit with us by that time. Some measures, perhaps credits rather than outright grants, will continue to be necessary to meet that deficit. To keep the deficit small, this nation should continue to search for ways to reduce trade barriers and to increase our imports.

Second, we should recognize clearly that policies designed to put the international accounts in better balance will have a somewhat adverse impact on the domestic economy of this nation. We agreed to—in fact, we more or less urged—currency devaluation by foreign nations as one means to make their exports more competitive and to force some curtailment in their imports, particularly from this country. This will have some effect upon our economy in general, and even more effect upon particular segments of it. The impact probably will be minor during 1950, however.

Since our policies in this respect are deliberately designed to achieve a major United States aim, the rehabilitation of Europe, it would not be very consistent to embrace other policies which would work against this aim. Thus, raising existing barriers to trade or creating new ones would work against our major purpose. Similarly, devaluing the dollar (raising the price of gold in terms of dollars) would put us back where we were before the foreign currency devaluation of last fall.

International affairs almost certainly will continue to occupy our thoughts and work in increasing degree during 1950. The world pre-eminence of the United States makes this inevitable. And the domestic economy will be influenced considerably by policies shaped by international events.

THE DOMESTIC ECONOMY

The United States enjoyed another very good year in 1949, despite the fact that economic activity balanced out a little lower than in 1948. Total employment in 1949 averaged close to 59 million, down less than a million from the 1948 record level. With a growing labor force, reflecting our growing population, unemployment increased a little more than employment dropped, averaging about 1.3 million more than in 1948.

Industrial production in 1949 was 8 per cent less than in 1948, and farm output was somewhat smaller than last year's record. Many lines of activity were higher—especially construction. On balance, actual output of goods and services in 1949 was as good as, perhaps better than, a year earlier. Slightly lower prices reduced the value of that output to $259 billion from the $262 billion of 1948.

These annual average figures conceal the fact that activity was moving up through most of 1948 and was moving down from late in that year through mid-1949. From the postwar high of October, 1948 to July, 1949, industrial production fell 17 per cent. Wholesale prices dropped 9 per cent from August, 1948 to August, 1949. Farm prices, which had begun their decline early in 1948, continued to slide off throughout most of 1949. At the close of the year they were 23 per cent down from their postwar peak. The gross national product was running at a peak of $270 billion in the last quarter of 1948 and was just over $256 billion in the third quarter of 1949.

These figures demonstrate beyond question that the domestic economy went through a readjustment period. But the most striking development of 1949 was that the readjustment was relatively mild, and was mainly a price-inventory adjustment in the industrial segment of the economy, plus a continued downward movement in farm prices and income. The basic strengths of the economy were illustrated by the moderate upturn that took place in the fall and early winter.

As a matter of fact, the data noted above overstate the scope of the readjustment. A year ago I wrote in this Review that the key question for the domestic economy in 1949 was what would happen to consumer buying. The answer was that it would hold up. Actually consumer expenditures averaged out just as high in 1949 as in 1948, and from the peak in the fall of 1948 to the trough in mid-1949 were down less than 2 per cent. Consumer prices dropped a little more than expenditures, indicating that physical volume of consumption probably increased slightly. Personal income

also averaged the same in 1949 as in 1948, with just a 3 per cent drop from peak to trough.

The people of this nation, with high current incomes and the large volume of liquid assets at their disposal, simply continued to buy goods and services. They used consumer credit to finance some of these purchases. The sustained demand permitted adjustments to take place serially and line by line rather than cumulatively. The drop in production reflected primarily the stopping of production for inventory accumulation (in the fourth quarter of 1948 inventory build-up was at an annual rate of $9 billion; by the second quarter of 1949, some liquidation was underway). Consumer demand was met partly out of previously acquired stocks and partly out of current production. With the inventory adjustment slowing down late this year, current production moved up to match more closely current consumption levels.

The fact that the readjustment did not become cumulative in effect reflects a number of factors. Among the more important was the general postwar caution of business which made the inventory adjustment much less severe than had that caution not been exercised. Also very important was the maintenance of high consumer income and the general willingness of the American consumer to use that income, plus some previous savings and consumer credit, to maintain consumption levels. The strength of residential construction and the increase in Government expenditures also were upward forces. In addition, prompt action by the monetary authorities to remove potential barriers to recovery aided in easing the letdown.

One of the most significant developments of the war and postwar years has been the accumulation of a tremendous volume of liquid assets by individuals. The strength of this liquid asset base contributed to the willingness of consumers to maintain consumption levels during 1949. It augurs well for the immediate economic future of this country.

As 1950 opens, the economy generally would seem to be in better balance than it was a year earlier. Apparently we have come through successfully the first important readjustment of the postwar period. Assuming that international relations do not deteriorate appreciably further and that there are no major interruptions to production, the immediate outlook for 1950 seems to be quite favorable.

Two major weaknesses appear in the economy at present. Business expenditures for plant and equipment apparently will be lower in 1950. This segment of demand has been a very important force in preserving high level activity throughout the postwar period. Agriculture seems to be in for further price and income declines in 1950 despite the assurance of high price supports. A decline in farm income will have an immediate impact upon the agricultural segment of the economy and, if farm buying tapers off, that impact is likely to be translated to other parts of the economy.

I noted earlier that farm prices had been declining since early in 1948. Apparently that decline has not run its full course. At the close of the year the parity ratio for agriculture had dropped to about 100, as the costs of goods that farmers buy had fallen substantially less than the costs of goods they sell.

1949 was a year of exceptional farm output—second only to the record year, 1948. With farm prices falling, however, gross farm income dropped 10 per cent. And since farm costs declined relatively little, net farm income fell 15 per cent. The decreases, of course, were from very high levels, and farm income was high by prewar standards.

This Federal Reserve district fared worse than the nation last year in agriculture. Not only were we affected by the general decline in prices, but farm production here was off considerably more than it was nationally. The district cotton crop particularly was short—about one-fourth smaller than in 1948.

Acreage controls generally go back into effect in 1950. Production thus will be cut back, but whether in amount proportionate to the acreage cut is open to serious question—particularly if we have favorable weather. Farm prices probably will continue under pressure during 1950, and farmers' profit margins will continue to be squeezed.

I have stated often my belief that farm prosperity cannot be legislated. It is one thing to attempt a support program designed to smooth the farm marketing process and thus alleviate the feast or famine character of agriculture. Such a program must be flexible and depend ultimately upon prices at which the market can clear itself. It is something entirely different to attempt to set prices above a point at which the market will clear itself over a reasonable length of time. The result of this latter procedure is unmanageable surpluses or strict acreage and marketing controls, or both—and eventually very severe readjustments. And the problem hardly can be said to be solved by letting market forces act to set prices at which the market clears, and then make up the difference between the market price and an artificially high price out of the public treasury.

One other point with regard to the economic outlook for 1950 needs comment here. The Federal Government apparently will run a deficit through calendar 1950. The budget deficit for fiscal 1950 (ending June 30) now is estimated at $5.5 billion instead of less than $1 billion as estimated earlier. The increased deficit results from a combination of higher expenditures and lower receipts.

Generally speaking, a Government deficit can be regarded as a short-run factor of support to economic activity. It is not healthy to run a deficit in times like these, however. Every effort should be made to reduce expenditures so as to achieve at least a balance in income and outgo, and probably it would be desirable to have a surplus of income. I noted earlier that we have to compromise certain objectives to gain more important objectives. I recognize that spending for defense, foreign aid, debt service and veterans' aids takes up a large part of the budget and is hard to cut. But the very fact that we have some high and rigid expenses (to attain important objectives) makes it all the more necessary to screen our more flexible expenditure items very carefully.

In summary, the national economy had a good year in 1949 and probably can look forward to another one in 1950. The first half of the coming year looks particularly good. There are more questions about the second half since we cannot be sure at this time about such important factors as residential construction; the volume of farm output; the extent, timing and manner of financing a Government deficit and so on. This district, which is more heavily dependent upon agriculture than is the nation, probably will face somewhat less favorable circumstances than the country as a whole.

BANKING

Commercial banking experienced another highly profitable year in 1949. While loan demand declined rather sharply from early in 1949 to well past midyear, the total amount of bank credit (loans and investments) averaged higher in 1949 than in 1948. At the close of the year commercial bank loans and investments were roughly $7 billion higher than a year earlier.

During 1949 the commercial banks of this country fairly well fulfilled their obligations to businesses, agriculture and individuals in their communities. They met demand for sound loans as that demand arose. The decline in loans noted above reflected primarily a decline in demand for credit rather than curtailment in the supply of credit.

One reason why the commercial banking system was able to meet such legitimate demand for credit as existed was prompt action on the part of the Federal Reserve, assuring adequate available reserves for the banks. Reserve requirements were scaled down in two steps in the first half of the year (the last representing, of course, the expiration of the System's temporary authority to increase member bank reserves beyond the previous statutory limits). While the additional reduction in required reserves during August was utilized by the banks to purchase Government securities, it did place them in an easier position to meet the rather strong seasonal demand for loans that has taken place this fall.

Other Federal Reserve actions also reflected the System's policy of removing credit barriers to recovery insofar as it could. Margin requirements were reduced to 50 per cent, and consumer credit requirements were reduced substantially, well before System authority in this field expired.

A notable development in the field of banking and monetary policy which occurred in 1949 was the Congressional investigation of our monetary and banking system. The Joint Congressional Committee on the Economic Report obtained extensive information through questionnaires and public hearings from officials of the Federal Reserve System, the Treasury, the Federal Deposit Insurance Corporation, other Government agencies in the monetary field, and a number of leading economists, bankers and businessmen. As might be expected, some strong differences of opinion appeared in the course of the Congressional inquiry.

Worthwhile as this Joint Committee effort is, it seems to me that we need to consider the problems of the monetary system more thoroughly than the time at the disposal of the Joint Committee permits. It has been 40 years since we had a full-scale review of the banking system and of monetary policy. Meanwhile our economy has grown increasingly more complex and we have attempted to keep our monetary system functioning by a series of patches here and there. I believe it would be most useful to have a new national monetary commission created. Such a commission could calmly and impartially make a study of the monetary system, which should lead to better understanding and to many needed improvements.

In conclusion, I would say that as we look back on 1949 it turned out to be a pretty good year for banks and the domestic economy. We gained ground in Western Europe—we lost extensively in the East. Economic prospects for 1950 seem to be fairly good. With reason and work we can make those prospects real.

The Eighth District and Its Income

Part Two

Income data rank high as a tool for analysis of economic well-being. Such data increase in value and usefulness as they are made to apply to smaller areas, as they are made more current, and as they cover longer periods of time. Data for the nation as a whole, important as they are, tend to mask regional differences. In broad general terms these differences have been known, but, with more precise data on a regional basis, their extent and nature show up more clearly. With this more exact knowledge, regional programs to overcome economic lags can be cast in fairly realistic terms.

Regional data, where the region is fairly large—for example, Federal Reserve districts or states—also obscure differences within those districts or states, and it becomes even more advantageous to have data on a smaller-area basis. Unfortunately, it becomes progressively more difficult to produce good income data as the size of the area decreases. This difficulty stems partly from the general dearth of small-area data which can be used to build up income figures, partly from the technical problems of making such data as exist comparable as between areas, and partly from problems of a conceptual nature. As a result income data for small areas generally are not as detailed nor quite as accurate as those for larger areas.

This section of the article on Eighth District income presents information on per capita income in 1948 and growth in total income from 1939 through 1948, for 97 areas within the Eighth District. The areas are from one to six counties in extent. On Maps I and II, each is identified by the name of the largest community (in 1940) within the area, and by a number. Neither the name nor the numbering sequence has any significance except for identification purposes. Even within these small areas, income data represent only the average for adjoining counties; in many cases this average may still conceal wide variations among neighbor communities. The different shadings on the maps represent different levels of per capita income in 1948 or differences in size of percentage increase in total income from 1939 to 1948.

METROPOLITAN AREAS AND OTHER REGIONS

Of the 97 district income areas, only three had per capita incomes in 1948 that were above the United States average. These were the St. Louis and East St. Louis areas (which together form the St. Louis industrial area) and the Louisville area (Jefferson County, Kentucky). In comparison with the $1,410 per capita income figure for the nation in 1948, per capita income in Eighth District areas ranged from $460, or less than one-third the national average, in Area 87 (Savannah, Tennessee) to $1,650 in Area 9 (St. Louis).

Generally speaking, the low-income areas of the district had income source patterns characterized by a small proportion of income coming from wages and salaries and a relatively large proportion from "other" sources which represent mainly Government transfer payments. As pointed out in Part One, such transfer payments are small in absolute amounts per capita, but look relatively large in regions where general per capita income is low.

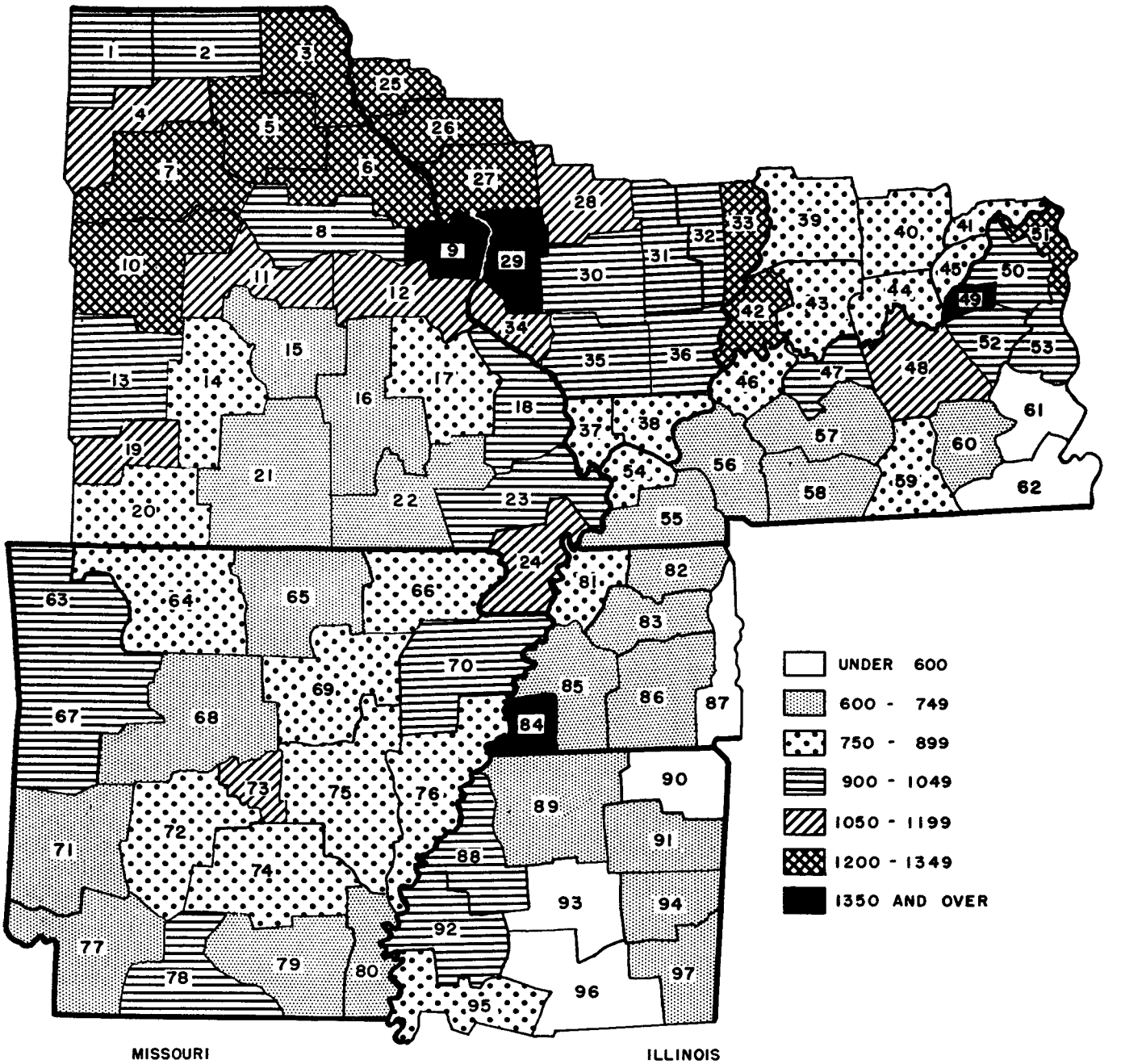
Agriculture generally accounts for a larger proportion of total income in areas where per capita income is small than it does where per capita income is large. In the main, this reflects the tendency of many low-income areas to have relatively too many people on farms. This in turn means smaller average output per man on the farm. In addition, in many low-income areas, the relatively small output of industry also is shared by relatively too many people. As a result, average productivity in industry also is relatively small. Because of these conditions, per capita income in such areas tends to remain low in spite of improvements in total income.

Any such situation calls for the development of new industries, offering the opportunity of more productive employment to workers who shift into these industries, and at the same time raising the per capita productivity of those who remain on the farms. Where the resources of the area permit, this industrial diversification can and should proceed within a given area. Where the basic resources of the local area are deficient, regional economic development may take the form of migration from areas of relatively low productivity to areas and industries in need of new people and new skills.

Per capita income in the district's six metropolitan areas combined averaged $1,467 in 1948—slightly above the national average. The high per capita income of the St. Louis metropolitan center (St. Louis plus East St. Louis) more than offset the below-national-average incomes of the four metropolitan centers of Memphis, Evansville, Little Rock

Editor's Note: Part One of this article appeared in the December, 1949 Review. In it were presented estimates of total and per capita income, sources and components of income, and expenditure patterns for the Eighth District as a whole and for the various state portions of the district. Copies of Part One, and of detailed technical notes which contain additional tables, are available upon request.

PER CAPITA INCOME - 1948
(DOLLARS)



MISSOURI

1 Trenton
2 Kirksville
3 Honnibal
4 Chillicothe
5 Moberly
6 Mexico
7 Marshall
8 Columbia
9 St. Louis
10 Sedalia
11 Jefferson City
12 Washington
13 Bolivar
14 Lebanon
15 Rolla
16 Salem
17 Flat River
18 Cape Girardeau
19 Springfield
20 Monett
21 West Plains
22 Thayer
23 Poplar Bluff
24 Caruthersville

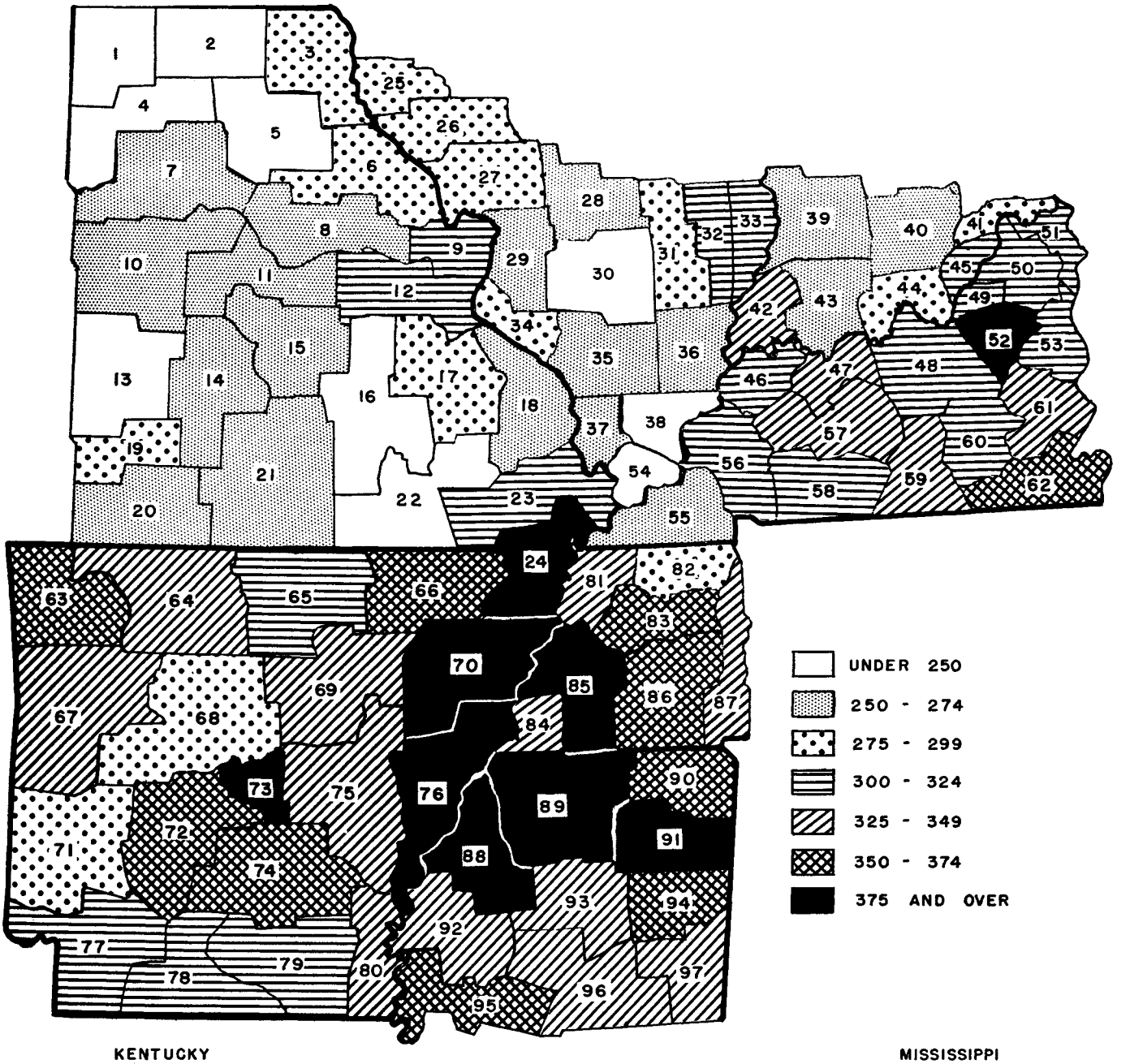
ILLINOIS

25 Quincy
26 Jacksonville
27 Carlinville
28 Litchfield
29 E. St. Louis
30 Centralia
31 Effingham
32 Olney
33 Lawrenceville
34 Chester
35 W. Frankfort
36 Harrisburg
37 Cairo
38 Metropolis

INDIANA

39 Vincennes
40 Bedford
41 Madison
42 Evansville
43 Jasper
44 Tell City
45 New Albany

TOTAL INCOME - 1948
(1939 = 100)



KENTUCKY

46 Henderson
47 Owensboro
48 Elizabethtown
49 Louisville
50 Shelbyville
51 Frankfort
52 Bardstown
53 Danville
54 Paducah
55 Mayfield
56 Princeton
57 Madisonville
58 Hopkinsville
59 Bowling Green
60 Glasgow
61 Lebanon
62 Monticello

ARKANSAS

63 Fayetteville
64 Harrison
65 Mountain Home
66 Paragould
67 Fort Smith
68 Russellville
69 Batesville
70 Jonesboro
71 Mena
72 Hot Springs
73 Little Rock
74 Pine Bluff
75 Stuttgart
76 Helena
77 Texarkana
78 El Dorado
79 Crossett
80 Mc Gehee

TENNESSEE

81 Dyersburg
82 Paris
83 Humboldt
84 Memphis
85 Brownsville
86 Jackson
87 Savannah

MISSISSIPPI

88 Clarksdale
89 Oxford
90 Corinth
91 Tupelo
92 Greenwood
93 Grenada
94 West Point
95 Greenville
96 Kosciusko
97 Columbus

and Springfield. Louisville per capita income was about the same as that in the nation in 1948. Average per capita income in 1948 in the remaining sections of the district was $877, or just about three-fifths as large as the average for the metropolitan centers.[1]

Most of the metropolitan area income (73 per cent) was in the form of wages and salaries, typical of a highly organized urban community. Only 4 per cent represented "other" income. Property income and nonfarm proprietors' income accounted for about 20 per cent of total income. Farm proprietors' income was 3 per cent of the total (since complete counties are included in these areas there naturally is some farm land in a so-called metropolitan region).

In contrast to the picture in the metropolitan areas, the remaining sections of the district had a distinctly smaller share of their income in labor income (37 per cent), considerably more in farm proprietors' income (32 per cent) and considerably more in "other" income (10 per cent). Nonfarm proprietors' and property income was just about the same proportion of the total as in the metropolitan sections (21 per cent). While the non-metropolitan regions of the district do contain a good many urban areas (which accounts largely for the 37 per cent of their income in labor income) they are predominantly rural. In subsequent discussion they are identified as "rural areas".

It was brought out in Part One of this article that per capita income was a resultant of two factors—total income for the area and the number of people who share that total income. Thus changes in per capita income reflect both changes in total income and changes in population. In some cases district areas have shown much more than district or national average gains in total income, but population growth has made per capita income gains about average. In other cases, total income increases have been about the same as in the entire district (or perhaps below the district average) but population losses have resulted in noteworthy increases in per capita income.

This is strikingly illustrated by the record of income growth in the metropolitan areas and in the rural areas of the Eighth District. Total income growth for the district as a whole from 1939 to 1948 was 206 per cent. There was practically no difference in the percentage gain in the combined metropolitan regions and the combined rural regions. But the district's net population growth was in the metropolitan centers—the other areas as a whole lost population. As a result per capita income in the six urban areas increased 164 per cent, just about the national average, while that in the rural areas rose 212 per cent. To put this in another way, in 1948 the metropolitan areas had 30 per cent of the district's people and 41 per cent of its income. In 1939 they had the same proportion of income, but just 26 per cent of the population. In the rural sections 74 per cent of the district's people had to share 59 per cent of the district's income in 1939. By 1948, not only was the total income triple that of 1939 and the proportion flowing to them the same, but fewer people had to share it.

It is noteworthy that when the rural areas (average per capita income $877) were combined into their state or state portion of the district, the income level shown ranged from $670 per capita in Tennessee to $1,080 in Illinois. Missouri was not quite as high as Illinois, and Mississippi showed up somewhat better than Tennessee. Even more striking was the fact that rural area per capita income in Arkansas shaded that in Kentucky and Indiana. In other words, the rich metropolitan areas of St. Louis, Louisville and Memphis tend to make the rest of the Eighth District portions of their states look better than they really are.

SMALL AREAS BY INCOME CLASS

The following table shows the 97 district areas classified by per capita income size in 1948, together with their share of district income and population in that year.

TABLE I

Per Capita Income 1948	Number of Areas	Per cent of Total District Income	Per cent of Total District Population
Under $600	6	2.1%	4.1%
$600—$749	23	11.3	17.4
$750—$899	23	14.5	18.5
$900—$1,049	21	17.0	18.6
$1,050—$1,199	9	9.2	8.6
$1,200—$1,349	11	10.9	8.9
$1,350 and over	4	35.0	23.9
Total	97	100.0	100.0

It should be noted that the distribution is skewed—that is, more areas (73) were below the district average of $1,050 than were above it. And as has been noted, 94 district areas had per capita incomes in 1948 below the national average. These facts illustrate the pervasiveness of low income within the region and the extent of the lags to be made up.

The Low Income Areas—For the purposes of this article the 73 areas with 1948 per capita incomes below the Eighth District average were classified

[1] The Eighth District contains six metropolitan areas, as defined by the Bureau of the Census—St. Louis, Louisville, Memphis, Evansville, Little Rock and Springfield. The income areas shown in this study are built up by complete counties and cannot be combined so as to coincide exactly with the Census-defined metropolitan areas, which are not complete counties or combinations of complete counties. In this article the St. Louis metropolitan area is thus defined as the St. Louis income area (Area 9) plus the East St. Louis area (Area 29). The Louisville metropolitan area is Area 49 (Louisville) plus Area 45 (New Albany, Indiana). The Memphis, Evansville, Little Rock and Springfield areas are those identified as such on the maps.

into four income groups. Almost 60 per cent of the district's people lived in these areas in 1948, but they received only 45 per cent of the district's income.

The lowest per capita income class (under $600) contained six district areas. At the low extreme, per capita income was $460 or just one-third the national average. These areas are concentrated in the highland rim of Kentucky and Tennessee and the pine regions of Mississippi. In these areas, there is very little industrialization; farm income is important, as is "other" income.

All of these areas showed high rates of growth in total income since 1939, and all but one even higher growth rates in per capita income. The latter development points to net population loss. It is significant, however, that even their high growth rates left them at the bottom of the district income classes. Actually, a number of areas surrounding them had just as high or higher rates of growth. These sections have a tremendous job on their hands if they are to improve their income status. Probably they will need considerable out-migration along with growth in total income if real progress is to be made in terms of per capita income. Most of them show a high percentage of woodland, which might make possible intensified development of this resource.

The next class ($600-$749) improved its per capita income status generally by substantial population migration as well as by increases in total income. The Tennessee areas and Rolla, Hopkinsville, and McGehee were the major exceptions to the general population loss.

In terms of income growth, the areas included in this class can be grouped in two major divisions. In one are those areas where both total income and per capita income growth was larger than the average for the state in which the areas are located. Put another way, these areas had fairly high productivity per acre but low productivity per capita. Included in this group were most of the Kentucky, Tennessee and Mississippi areas in this $600 to $749 per capita class.

The second major group of areas in this class includes those in which total income growth since 1939 generally was considerably smaller than that in the state in which the area is located. In contrast to the first group, productivity in these areas was low both on a per acre and a per capita basis. Many of the Missouri Ozark and Arkansas Ouachita sections are found in this group. Characteristically, areas in this group have very little industry. Their agricultural operations are not particularly productive and much of the land in these areas is forested. As in the areas included in the lowest income class, "other" income also is of major importance to these areas. It seems clear that to raise per capita income significantly where these conditions exist probably will require a combination of strong resource development and continued substantial population migration.

The first group also has a high dependence on "other" income but generally has more industry or a more productive agriculture or a combination of both. While further population migration probably is indicated, possibility of further resource development looks fairly promising, and to the extent it were attained would lessen the need for population shifts.

The next class ($750-$899) contained a varied group of areas. Some of these regions had substantial population growth, while some had substantial population loss since 1939. Half of the areas had appreciable amounts of nonagricultural activity and received a considerable portion of income in the form of wages and salaries. The other half was pretty well dependent upon farming. Many of them also received a relatively large share of income in the form of "other" income. In general, the Missouri, Arkansas, Illinois and Kentucky areas in this class lost population—the Indiana regions gained population.

The fourth income class below the district average ($900—$1,049) contained 21 areas. Several areas in this class showed good per capita income growth plus very striking gains in total income. Most of these sections lie in the southern part of the district. Contrasted with them were many of the Illinois and Missouri regions in this class which showed appreciably lower growth rates than their state averages in total income, and in most cases also in per capita income.

The High Income Areas—Three income classes containing 24 district areas had per capita incomes in 1948 that were above the district average. In these areas about two-fifths of the district's people received about 55 per cent of the district's income.

The highest income class (over $1,350) contained just four areas—St. Louis, East St. Louis, Louisville and Memphis. All are major metropolitan centers of the district, all depend mainly on wages and salaries as an income source, all had substantial population increases from 1939 to 1948.

The next highest class ($1,200—$1,349) contained some farm areas with very high per acre productivity and relatively low population density which produced a high per capita income. These areas lie mainly in northern Missouri, south-central Illi-

nois and the Kentucky Blue Grass region. Also in this class was the metropolitan center of Evansville with a very high total income growth rate.

The third highest income class ($1,050—$1,199) comprised farm areas of fairly high productivity in Missouri, Illinois and Kentucky, and the metropolitan centers of Springfield and Little Rock. The latter had the highest growth rate in total income of any metropolitan center in the Eighth District.

These data serve to identify those areas where per capita and total income have grown as the result of industrial development and diversification. Later studies will analyze in more detail the different growth patterns which follow from local efforts to utilize more effectively the basic resources of the district.

Werner Hochwald.
LaVerne Kunz.

Survey of Current Conditions

A rather optimistic tone seems to characterize business sentiment at the beginning of 1950. This tendency began early in the third quarter of 1949 and apparently gained some strength each month since that time. Even the loss of a month's production of basic steel and the equivalent of several months' output of coal has been taken in stride. In fact, one of the factors of strength pointed to for the first half of the new year is that the steel industry may require as much as six months of high-level operations to compensate for production lost during the recent strike. This estimate apparently reflects the feeling of a large number of manufacturers that their operations in the early part of 1950 will compare favorably with those in the same period in 1949.

To a large extent, the inclination to view business prospects favorably rests upon the conviction that consumers' expenditures will continue at a high level. Consumer demand is expected to be supported by continued high income and the large and widely distributed amount of liquid assets, supplemented by further expansion in the use of credit. There is not much doubt that competition for the consumers' dollar will increase during the year. But there is a feeling that as long as consumers' needs are large and purchasing power is high, aggressive merchandising can translate potential demand into effective demand.

In the field of business expenditures, some decline is anticipated in 1950. Capital outlays for new plant facilities are unlikely to total as large as in 1949. Expenditures for new equipment, however, are likely to compare more favorably with those in 1949. The pressure of increasing competition creates growing incentive to reduce production costs, particularly when wage rates remain at a high level. The liquidation of inventories during 1949 was one of the principal reasons for the decline in production and employment in the first half of the year. Year-end stocks in general were on a conservative basis. In the months ahead there may be little outright inventory accumulation but, more importantly, there is not much likelihood of additional large-scale liquidation.

While total private expenditures may drop below the early 1949 levels, much of the decline is expected to be compensated for by additional public outlays. More money in the form of expenditures will be put into the economic system during 1950 by Government than will be withdrawn in the form of revenue.

These in brief appear to provide the major part of the basis for optimism with respect to business prospects. At the same time, there are areas in which declines from 1949 levels are likely. The principal one of these is in the agricultural field. Farm income in 1950 is expected to total somewhat less than in 1949. The importance of a further reduction in farm income should not be minimized in appraising the outlook. This is the basis for an important source of total demand for goods and

PRICES

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1926=100)	Nov.,'49	Oct.,'49	Nov.,'48	Nov., '49 compared with Oct.,'49	Nov., '49 compared with Nov.,'48
All Commodities	151.6	152.2	163.9	— 0.4%	— 7.5%
Farm Products	156.8	159.6	180.8	— 1.8	—13.3
Foods	158.9	159.6	174.3	— 0.4	— 8.8
Other	145.0	145.0	153.3	- 0 -	— 5.4

RETAIL FOOD

Bureau of Labor Statistics (1935-39=100)	Nov. 15, 1949	Oct. 15, 1949	Nov. 15, 1948	Nov. 15, '49 compared with Oct. 15,'49	Nov. 15, '49 compared with Nov. 15,'48
U. S. (51 cities)	200.8	200.6	207.5	+ 0.1%	— 3.2%
St. Louis	208.6	207.5	213.1	+ 0.5	— 2.1
Little Rock	198.8	198.2	202.4	+ 0.3	— 1.8
Louisville	188.3	189.7	198.9	— 0.7	— 5.3
Memphis	210.2	209.7	219.0	+ 0.3	— 4.0

Monthly Review

FEDERAL RESERVE BANK OF ST. LOUIS

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Review and Outlook

by

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1951 was a year of achievement for the United States. This nation and its allies gained strength and position for the free world, a net result of fair progress in Western Europe and Japan, losses in the Middle East, and perhaps some small net gain in Asia. The outlook thus is a little less dark than a year earlier.

Stability was the keynote of the domestic economy in 1951. Balance resulted mainly from (1) the productive capacity and production volume of the American economy, (2) the stabilization program, and (3) a high rate of consumer saving. Financial policy contributed strongly to stability in 1951, through Federal Reserve action and through the Voluntary Credit Restraint Program.

Two primary factors will influence the course of domestic business in 1952: The scope and size of the defense program, and the extent and nature of consumer demand. In combination these could well produce more inflationary pressure. Continued restraint is the indicated policy in such a situation.

Inflation stems from imbalance between demand for and supply of goods and services. Purchasing power comes from income, savings and credit. Federal Reserve action is taken in the credit field and permits much freedom for individual lenders. Freedom of action is the cornerstone of our political system and has resulted in an efficient economic system.

1951 was a year of achievement for the United States.

The beginning of a new year is traditionally a time for stock taking and for resolutions. It is a time to look back on the record of the past twelve months, to view the year's events from a vantage point which gives some perspective. It is also a time to resolve to make greater efforts during the next twelve months to overcome deficiencies and to attain desired goals.

The practice of looking back over the entire year seems particularly useful in periods of great ferment—a characteristic of these middle years of the Twentieth Century. Viewed with the perspective of time, 1951 appears as a year of great achievement for the United States. This nation gave more evidences of growing maturity in international affairs. Its military strength showed a pronounced net gain. The domestic economy grew stronger and more productive. The enervating effects of inflation were largely arrested. In January, 1951 the outlook was most somber. While the state of the world today is cause for no particular optimism, the outlook appears less dark than it did a year ago.

This is not to say that 1951 showed uninterrupted progress for the United States either in world position or in national affairs. The record shows debit entries as well as credit entries. There were errors both of commission and of omission. But on balance 1951 should go down as a good year for the nation.

This nation and its allies gained strength and position for the free world, a net result of . . .

In the international arena the gains, losses and shifts seem to have netted out to some gain in the position of the United States and the free world as a whole. Here the credits were more nearly balanced by the debits, however, than was the case in the field of national affairs.

. . . fair progress in Western Europe and Japan, . . .

In Western Europe progress was made toward strengthening that region's capacity and will for military defense. At the close of the year especially some progress also was apparent in the movement toward greater European unity both politically and economically. While the strain of rearming has been great and has put heavy pressure on the civilian economies of the Western European states, thus giving rise to a new set of problems, there seems to be little question but that this area is in better shape to contribute to the struggle against aggression than was true a year ago. In the Pacific, a new Japan gained strength in 1951 and represented a growing factor in the global position of the free nations.

. . . losses in the Middle East, . . .

The record in the Middle East was in direct contrast to that in Western Europe and Japan. The free world lost through death some strong friends there. The rising tide of nationalism kept the area in ferment and led to growing hostility toward the western world. At year end there was no cause to view the future in the Middle East with any optimism; tensions might well increase in 1952 and lead to even more serious situations than developed in 1951.

. . . and perhaps some small net gain in Asia.

The record in Asia in 1951 was mixed, and it is particularly difficult to total up developments there to a net plus or minus. As this article is written, Korean peace negotiations are still in progress and the results are still in doubt. But regardless of the outcome of the negotiations the free world position in Korea at the close of the year was better than it was twelve months earlier. In Malaya and Indo-China the British and French positions of strength had improved, although the basic problems there still seemed far from settlement. The factor of growing nationalism throughout Southeast Asia led to continued distrust of the western powers and to continued opportunity for Communist power penetration. At year end India, traditionally friendly to the United States, seemed farther away from the west than in January, 1951.

The outlook thus is a little less dark than a year earlier.

Taking all developments together, there seems to have been progress in our international position during 1951. The big question, however, still is unanswered as 1952 begins. Will there be global war between the free world and the Communist powers? Certainly the free world now is better prepared to fight if war should come than it was a year ago. A year from now its strength should be substantially greater. On balance the outlook at the beginning of 1952 seems a little less dark than it was twelve months before.

Stability was the keynote of the domestic economy in 1951.

The key fact about the domestic economy in 1951 was the remarkable stability which characterized it despite the strains of a major defense program. As the year began there was much cause for belief

that 1951 would be disrupted by shifts from non-defense to defense output and by continued strong inflationary forces. However, the production shifts were made quite smoothly and only for a short time early in the year were inflationary pressures substantial. Thus, while there was considerable diversity in important areas of demand and markets, for the bulk of the year stability and balance were the keynotes.

Various basic statistics indicate the stability which characterized the year's activity. Employment rose but average hours worked per week dropped off slightly. Total production increased enough so that the defense program take did not impinge appreciably on total civilian supply (although supplies of durables and housing declined). In fact, production probably could have been larger than it was had demand been stronger. The gross national product was at an annual rate of $319 billion in the first quarter of 1951 and about $330 billion in the last quarter. Industrial production in the second half was actually smaller than in the first half (by about 2 per cent). Farm output was larger than in 1950.

On the whole, prices were fairly stable during the year. Basic commodity prices fluctuated appreciably, but general wholesale prices and consumer prices were more stable. Wholesale prices at year end were a little lower than twelve months earlier. There was an upturn earlier in 1951, followed by a downturn, and then an almost horizontal movement. Consumer prices increased in the year by about 3 per cent, reflecting partly some earlier cost increases.

Balance resulted mainly from (1) the productive capacity and production volume of the American economy, . . .

The balance which prevailed was the product of several forces operating in the economy. First and most important, the existing productive capacity and power of the American economy was very great and very adaptable. In addition capacity was increased tremendously. This base permitted the American genius for production to come into full play. The net result was that both guns and butter were produced in volume. Actually, there was more than enough butter to take care of civilian demand when inventories were considered.

In part this situation reflected the fact that the defense program in terms of goods (as contrasted with capacity to produce) turned out to be smaller than most people visualized it would be at the beginning of 1951. In turn this reflected both conscious policy aimed at avoiding economic dislocation and unforeseen difficulties in reaching goals in terms of certain defense goods.

. . . (2) the stabilization program, . . .

Second, the general stabilization program took hold and worked reasonably well during the year. The key factors here were fiscal policy, which resulted in a cash surplus for the Treasury, and monetary policy, which resulted in restricting total credit growth and led to channeling of credit away from less essential to more essential uses. These factors, plus the adequacy of available supply of goods, permitted the direct controls over wages and prices to operate under less pressure than in World War II.

. . . and (3) a high rate of consumer saving.

Third, consumers increased savings and thus curtailed demand, a situation which made available supply more adequate. The fact of the stabilization program gave some assurances that prices would not rise rapidly, and together with the presence of large supplies of goods (and the allocations program for industry) curtailed large-scale anticipatory buying.

Financial policy contributed strongly to stability in 1951 . . .

The financial system of the United States did an excellent job in 1951. It provided needed financing for essential activities, particularly defense and defense supporting activities, and at the same time held down the growth in total credit outstanding. The factors responsible for this record of achievement were: a policy of credit restraint, both general and through selective credit regulations, carried on by the Federal Reserve System, and a complementary policy of voluntary credit restraint effectively carried out by the private financial system.

. . . through Federal Reserve action . . .

Following the Treasury-Federal Reserve accord announced early in March, the Federal Reserve System regained some primary control over the volume of reserves available to the commercial banks. Lessening of availability of reserves, and resultant increases in cost of reserves, influenced the commercial banking system to curtail further credit extension.

. . . and through the Voluntary Credit Restraint Program.

Very shortly thereafter, the financial community, including the commercial banks, acting under authority in the Defense Production Act, embarked

on a program of voluntary credit restraint which resulted in more efficient channeling of available credit into more essential uses and away from less essential uses. As a measure of the effectiveness of the two factors, total loans at commercial banks rose less than $5.8 billion in 1951, in contrast to a gain of over $9.3 billion in 1950. Essential activities were financed adequately; curtailment took place in the less essential lines.

This kind of program, combined central bank and private financial community cooperation, is in keeping with the best traditions of American life. Bankers and other financial leaders can look back on the record of 1951 with pride.

Two primary factors will influence the course of domestic business in 1952: . . .

The outlook for the domestic economy in 1952 is clouded by some major uncertainties. The two primary factors in the outlook are the scope and size of the defense program and the extent and nature of consumer demand. The first factor will be influenced by the state of international tensions and in turn will have some influence on consumer demand. Business demands also will be important, of course, but are likely to reflect actions of the key factors rather than to determine them.

. . . The scope and size of the defense program, . . .

Public statements by responsible authorities indicate that the defense program will increase sharply throughout 1952. If it proceeds as scheduled, Government expenditures for defense will rise considerably and the Treasury will run a cash deficit in 1952 instead of a surplus. Furthermore, a program of the size and scope scheduled would press much more heavily on total goods supply, reducing the total volume available to the civilian economy and changing considerably the "mix" of goods and services available. Allocations of scarce materials already announced for the first quarter of 1952 will result in further declines in output of various consumer durable goods.

Whether the defense program is carried through as presently scheduled remains to be seen. Failing a complete agreement with Russia and her satellites, a most improbable development, there is every reason for this country and its friends to keep on working toward greater military strength. But full peace in Korea and relaxation of tensions elsewhere could reduce military demand somewhat in 1952 and result in pushing the peak target date for military output further into the future. In such event the total civilian supply and the "mix" of that supply would be changed less than present plans would indicate. Thus one major factor to watch in 1952 is the size and scope of the defense program and its relation to presently announced schedules.

. . . and the extent and nature of consumer demand. In combination these could well produce more inflationary pressure.

The second key question for 1952 has to do with consumer demand, spending and saving. Again, if the defense program proceeds as announced, there will be a continued rise in consumer income without an equivalent rise in goods available. Even if the defense program were to be somewhat smaller there still would be a probable gap between consumer income and supply. And that income could be reinforced by greater use of past savings and further credit extension. If consumers maintain or increase their present rate of saving, total consumer demand can be equated roughly with total consumer supply. If the saving rate is reduced, potential inflationary forces can become real and strong.

Continued restraint is the indicated policy in such a situation.

Given the uncertainties which confront us at the present time, it would seem most unwise to proceed on any assumption other than that inflation still is a danger. This means continued efforts to "pay as we go," to maintain a policy of credit restraint, to continue the direct economic controls and to forestall any actions which would disturb the present delicate balance in the economy. With such policies consumer spending can be held down, the rate of saving maintained and inflationary pressures minimized.

Inflation stems from imbalance between purchasing power and goods supply.

In connection with this subject it seems desirable to stress certain primary facts which do not always obtain complete and widespread understanding.

First, inflationary forces result basically from a relatively more rapid increase in purchasing power than in available supply of goods and services. Thus the basic cure for inflation is to attempt to balance purchasing power with goods supply. In periods like the present and prospective future, that balance necessarily has to be achieved mainly through curtailing growth in purchasing power rather than in increasing goods supply. It is extremely difficult to increase the supply of goods appreciably over a short period when the economy is operating at close to full capacity.

Purchasing power comes from income, savings and credit.

Second, purchasing power comes from current income, from the use of past savings and from increased credit. To bring the level of purchasing power down, if it needs to be reduced, action can be taken to limit current income (through higher taxes), to inhibit the use of past savings, and perhaps to increase the savings rate (through programs aimed at promoting savings habits and practices), and to curtail credit growth (through restrictive action on the part of the monetary authorities).

Federal Reserve action is taken in the credit field and permits much freedom for individual lenders.

Third, the Federal Reserve System is charged with the responsibility of influencing the supply, cost and availability of credit in the interests of stable values, high employment and a rising standard of living. In a period of inflation or of potential inflationary danger, Federal Reserve policy aims at restricting credit growth. Basic Federal Reserve action in this field takes the form of making bank reserves less available and more costly. By so doing it sets a sort of over-all ceiling on credit expansion. Under that ceiling individual lenders determine how and where their credit flows. Ideally the credit flows to the more essential uses and the more efficient users. The important fact is that this kind of arrangement meets the basic issue and maintains a high degree of individual freedom of action.

This freedom of action is the cornerstone of our political system and has resulted in an efficient economic system.

Fourth, our democratic capitalistic system possesses two major virtues. It leads to a high degree of individual freedom, the cornerstone of our political system, and it has met the test of time as a most efficient economic system. Free choice has resulted in having more to choose from.

The major issue which divides the free nations of the world from the remainder is the degree of freedom permitted the individual. In periods of stress, individuals in free nations are willing to give up certain freedoms in the common interest, but it is of the highest importance that the maximum degree of freedom be maintained in the philosophical interest of preserving our kind of political system and in the more materialistic interest of maintaining long-run dynamic economic strength.

1952 will be a difficult year. To make it a successful year will call for continuation of the efforts which were made in 1951 and perhaps intensification of those efforts. It is vital that everyone realize that continued restraint is needed. We did a fairly good job in 1951; we should continue to do an equally good job in 1952 when the pressures may well be greater.

Survey of Current Conditions

At mid-December business activity in the Eighth District appeared to have leveled off after showing improvement in recent months. The current rate of activity remained high but, allowing for seasonal factors, no over-all improvement was displayed over a month ago. While retail trade increased moderately and production of shoes and certain garments showed signs of recovering from their recent low levels, construction volume was down and industrial production was off slightly.

To some extent early winter weather probably was responsible for the leveling off. But to a large extent the hesitation in the recovery of business activity mirrors the "wait and see" attitude of a great many people and businesses. This caution stems principally from the fact that there is a growing area of uncertainty over what is ahead. Presently the question of armistice or more and bigger war still hangs fire in Korea and the future of the Government's economic stabilization program hinges to a large degree on the solution to the steel wage negotiations. These key factors—one in the process of development for over five months, the other for almost a full month—are still unfinished business. But because solutions of one kind or another to both appear to be not far away, because the manner in which they may be settled will have an important bearing on our economic future, there has been a growing disposition on the part of consumers and most businesses to